OLIVER WYMAN

Deutsches Aktieninstitut

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The Financial Transaction Tax – A Wrong Track? Private investors and the real economy face costs of billions of Euros

Private investors and the real economy in Germany would be charged with costs ranging from 5.0 to 7.3 billion Euros if the financial transaction tax entered into force. This is the key-finding of an impact study conducted by Deutsches Aktieninstitut and Oliver Wyman which was published in Frankfurt on 18 July. The analysis is based on the European Commission's legislative proposal from February 2013.

„Our analysis shows that both private investors and the real economy will face a heavy burden of costs if the financial transaction tax was implemented. This clearly runs counter the political intention of the tax", says Werner Baumann, President of Deutsches Aktieninstitut. „It is an illusion to assume that the tax burden will remain within the financial sector." Similar to the VAT prices for financial instruments used by private investors and the real economy will increase by the tax-rate. Mr Baumann stressed that the cost-assessment contained in the study is conservative: „It must be assumed that the actual burden ranges much higher."

The financial transaction tax affects almost all products used for old age provisions and pension schemes as well as long term investment such as shares, bonds, investment funds and life insurances. According to the study an annual tax burden of 2.6 to 3.6 billion Euros will be imposed on private investors.

The impact on the attractiveness of government sponsored retirement schemes are tremendous. Finja Carolin Kütz, Managing Director of Oliver Wyman Germany, provides an example: „The financial transaction tax easily outweighs supplementary allowances granted by the government for retirement schemes based on investment funds." A severe cut of pensions is the practical result.

Enterprises of the real economy have to expect an extra tax burden ranging from 2.4 to 3.7 billion Euros. „The smaller figure already amounts to the equivalent of about 15 percent of the total corporation tax paid in the year of 2012“, mentions Werner Baumann. Derivatives that are used for mitigating risks stemming from fluctuations of currency prices and interest rates are especially affected. These types of derivatives are not only used by large companies but typically also by the German Mittelstand. Furthermore, occupational pension schemes will lose attractiveness.

In addition, the financial transaction tax reduces the liquidity of capital markets and as a result increases securities trading costs. This effect drastically applies to securities with little liquidity such as shares of midcap companies and bonds. The financial transaction tax thus contradicts the political intention of simplifying the access to capital markets for the small and medium sizes enterprises (SMEs).

Furthermore, markets for short-term finance, e.g. the market for commercial papers, can be expected to disappear completely once the financial transaction tax is introduced. „Consequently, industrial companies will lose an important source of finance“, warns Werner Baumann.

All in all the financial transaction tax will enormously harm the real economy and the formation of wealth among private investors. „Policy makers must refrain from this undertaking“, claims Werner Baumann.

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