

The Financial Transaction Tax

A Wrong Track? Impact on Households and Companies in Germany

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6th Annual bwf/ICMA Capital Markets Conference

1 October 2013

Frankfurt



Agenda

- ▣ Financial Transaction Tax
 - ▣ EU Proposal
 - ▣ Political Objectives

- ▣ Impact Study of Deutsches Aktieninstitut and Oliver Wyman
 - ▣ Design of the Study
 - ▣ Examples
 - ▣ Macroeconomic Impact
 - ▣ Additional Thoughts

- ▣ Conclusion



Financial Transaction Tax – EU Proposal

- End of 2012: 11 EU member states decide to introduce a financial transaction tax (FTT) via enhanced cooperation
- February 2013: EU Commission's Proposal
 - all transactions in all financial instruments
 - issuance principle and principle of establishment
 - tax rates
 - 0.1% of the market value of shares, bonds, ...
 - 0.01% of the national value of derivative instruments
 - tax cascades (FTT will become due several times in one economic transaction)
 - little exemptions (CCPs, issuance of financial instruments)



Financial Transaction Tax – Political Objectives

- Objectives of the EU Commission's proposal
 - fair and substantial contribution of financial institutions covering the costs of the recent financial crisis
 - disincentives für transactions which do not enhance the efficiency of the financial markets

- Agreement between the German government and parts of the opposition (June 2012)
 - „At the same time, the effects of the tax on old age provisions, private investors and the real economy needs to be evaluated and a negative impact needs to be avoided.“ (own translation)



Impact Study – Motivation und Key Assumptions

▣ Motivation

- ▣ broad impact study for Germany
- ▣ estimating the 1st round impact on private households and the real economy

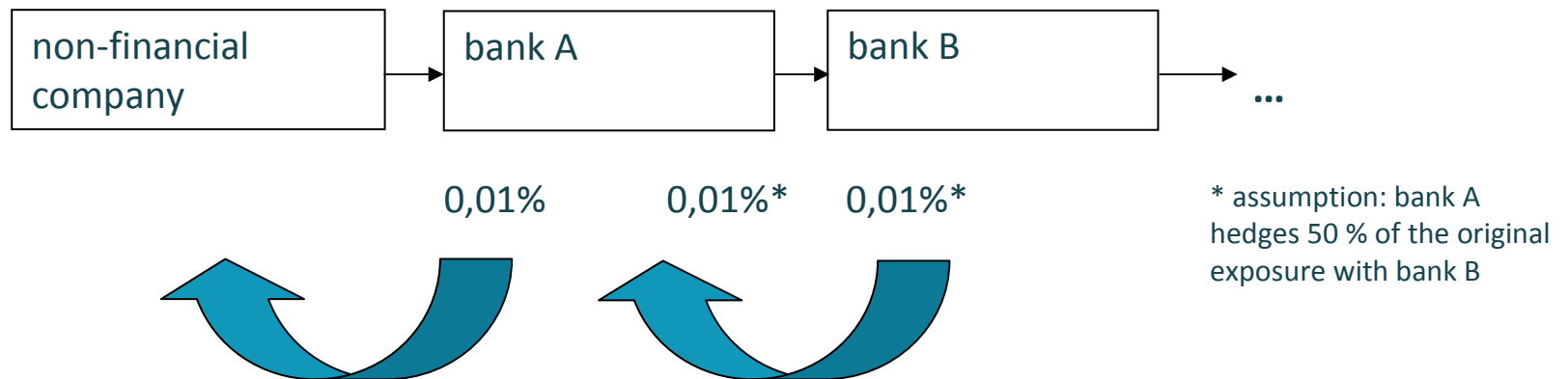
▣ Key assumptions

- ▣ FTT costs will be passed on to end users
 - ▣ immobility of private investors and companies of the real economy
 - ▣ contractual obligations
- ▣ given demand for financial services
- ▣ conservative assumptions
 - ▣ number of FTT events (short tax cascades)
 - ▣ turnover ratio of financial assets

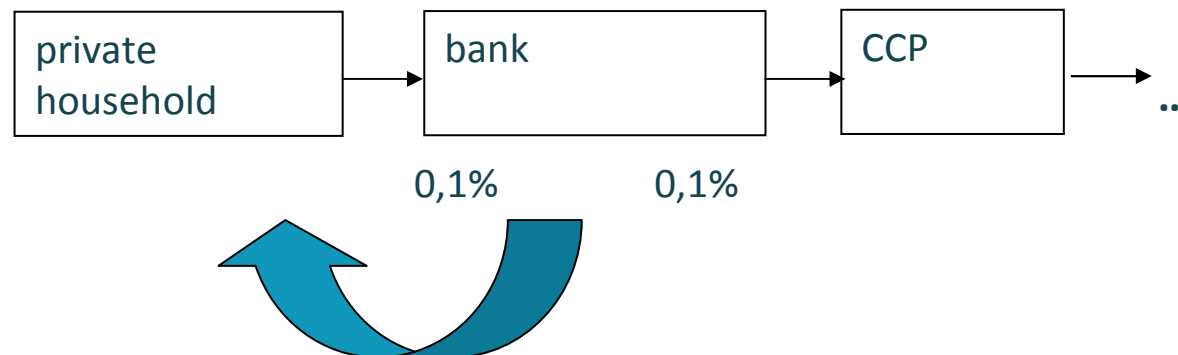


FTT Impact Study – Examples

▣ non-financial company hedges currency risks

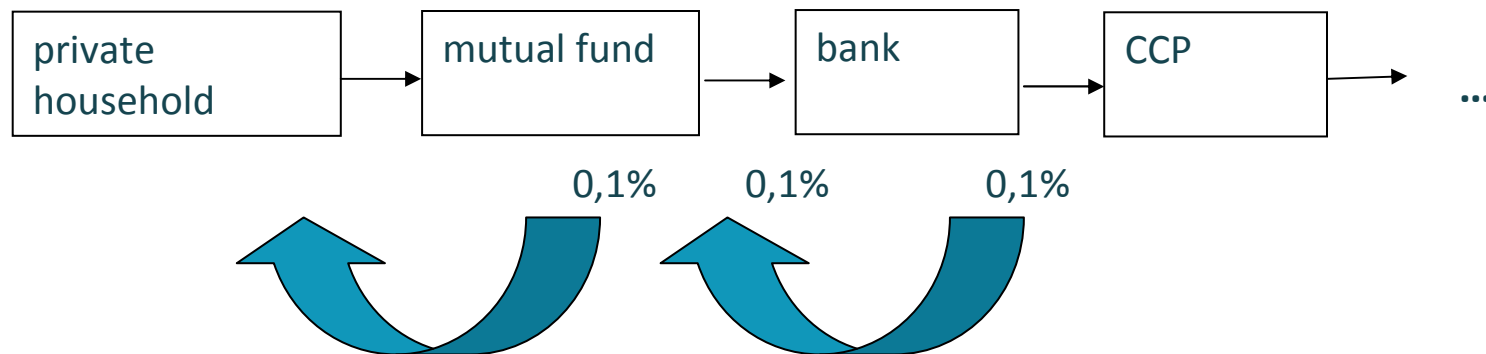


▣ private investor buys a share on the market

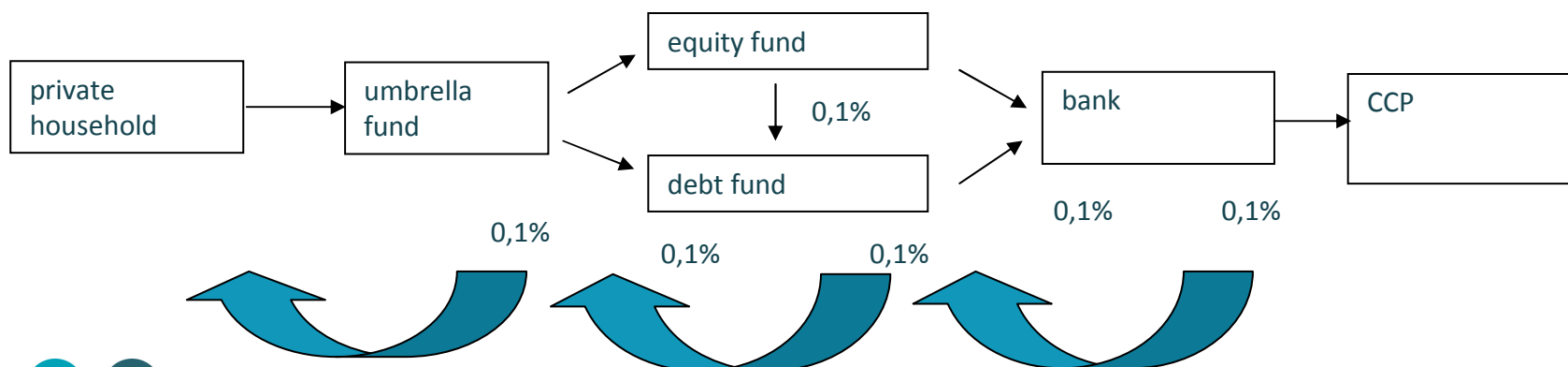


FTT Impact Study – Examples (2)

- private household invests indirectly in shares



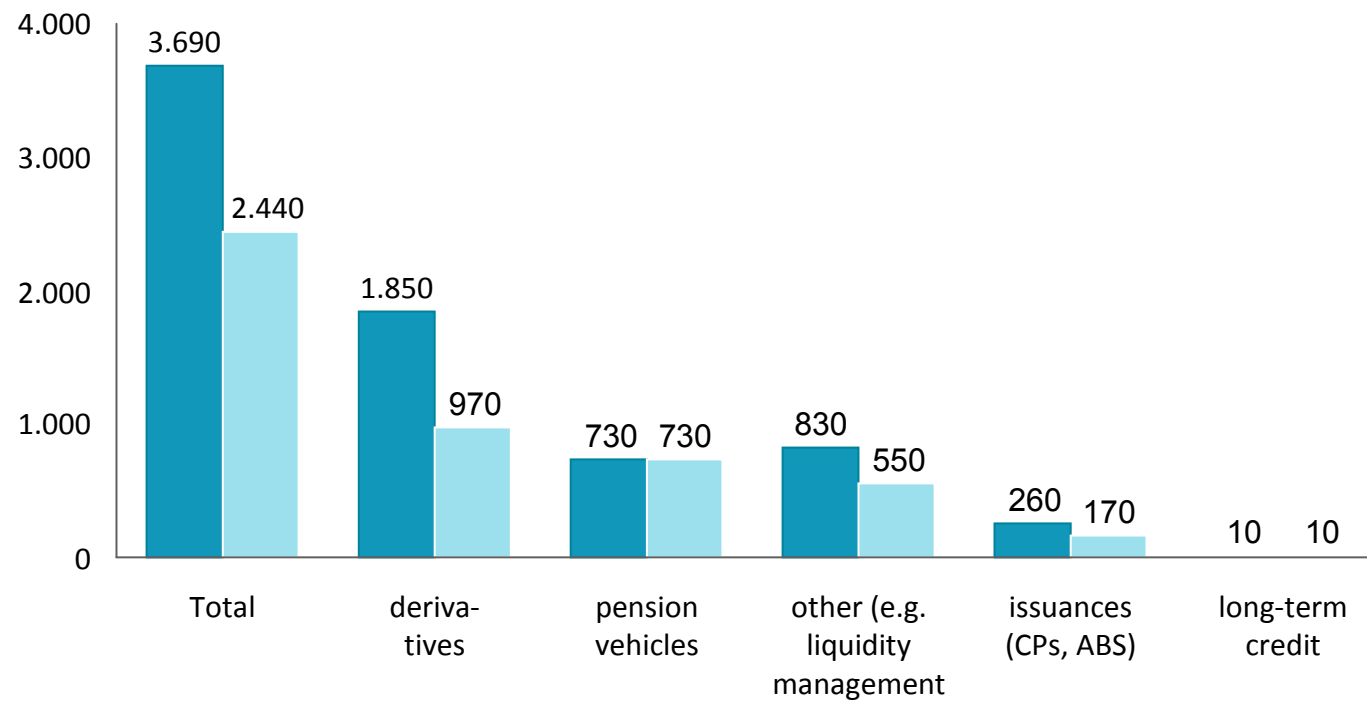
- private household invests indirectly in an umbrella fund



FTT Impact Study – Results (1)

Companies of the real economy

Total costs p.a. in € million, 2011/2012



The FTT impact depends on whether or not companies will be regarded as "financial institutions" under the FTT regime

■ FTT costs if companies will be regarded as "financial institutions" .

■ FTT costs if companies will not be regarded as "financial institutions"

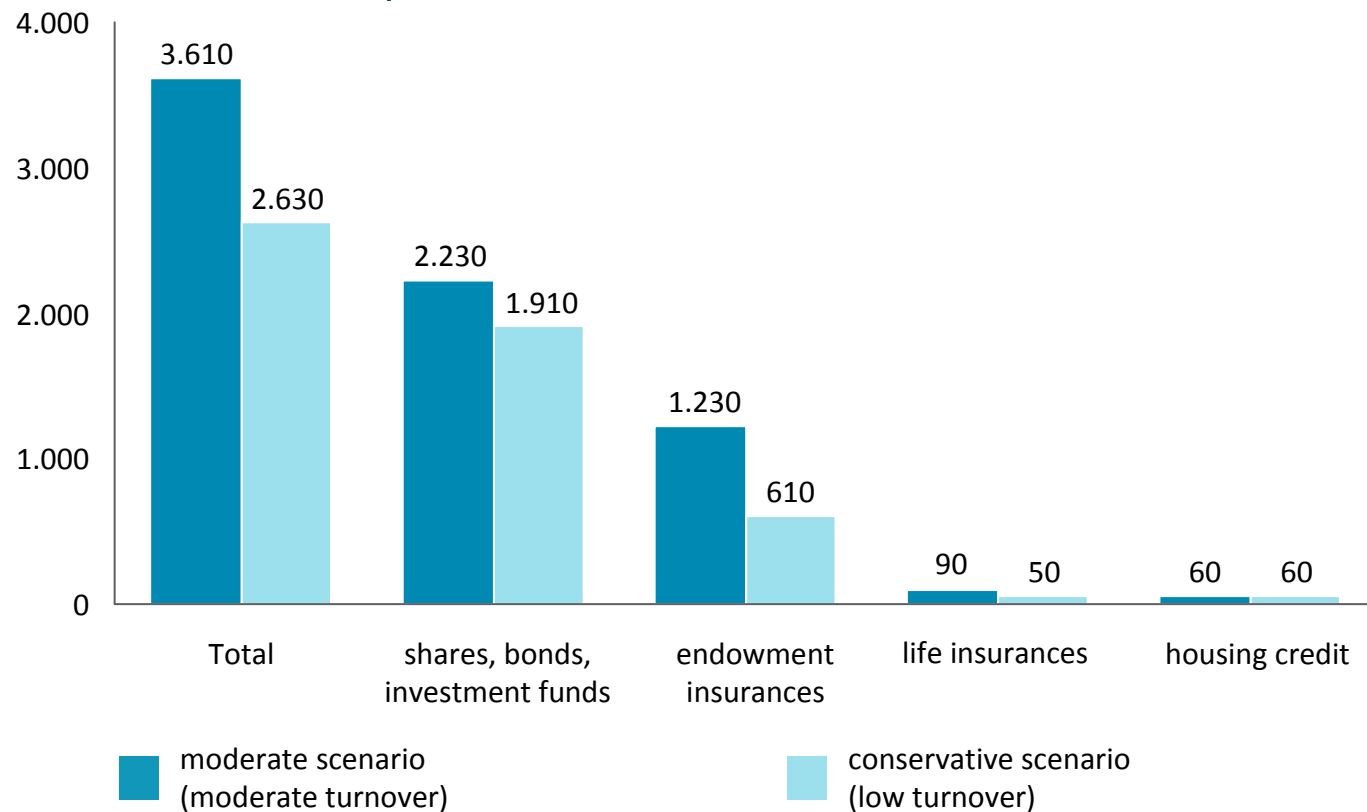
Source: DAI and Oliver Wyman



FTT Impact Study – Results (2)

Private households

Total costs p.a. in € million, 2011/2012

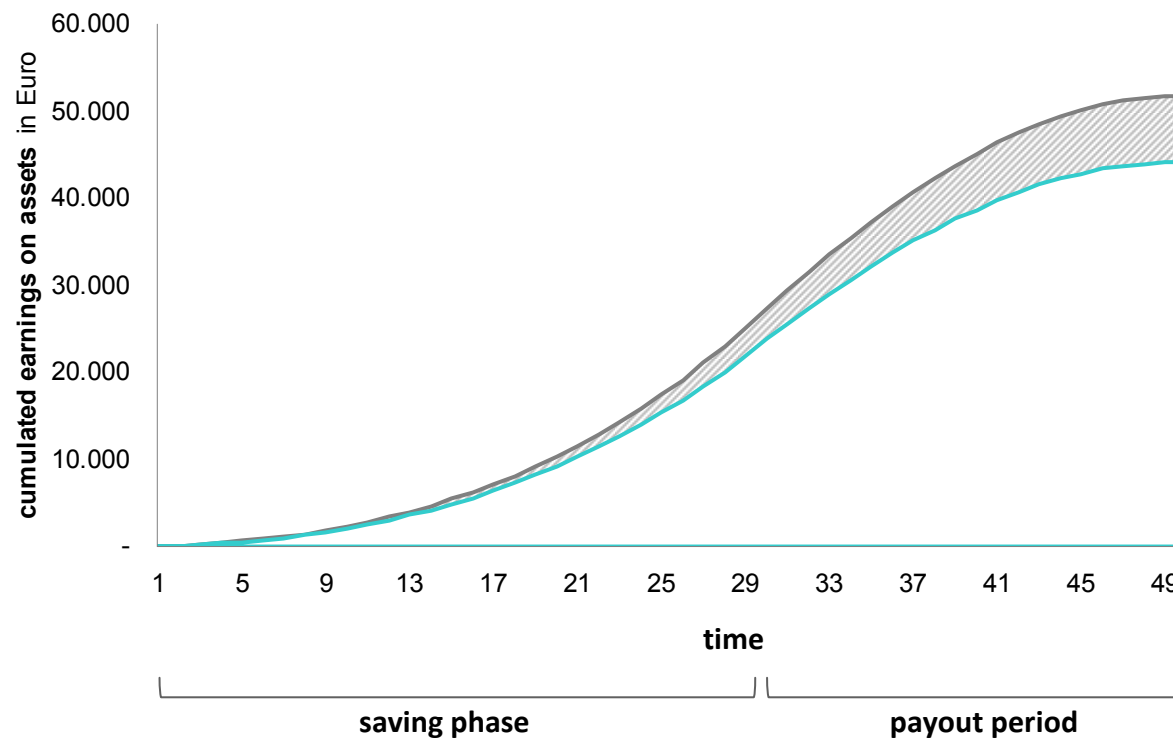


The FTT costs for private households depend on

- turnover of financial assets
- number of tax events (cascades)

FTT Impact Study – “Riester”-Savings Plan

FTT impact on an average “Riester”-Savings Plan



Cumulated earnings on assets without FTT :
€51.720

FTT effect¹:
€7.600

Cumulated earnings on assets after FTT
€44.120

The **average annual pension** is **reduced** from € 3,790 by € 380 per year (**by 10 percent**) to just € 3,410.

In addition, the maximum state Riester-allowance of € 4,620 (without allowances for children) is completely consumed by the FTT.

Source: DAI und Oliver.

Main assumptions: average savings: €803 p.a. (incl. Riester allowances), saving phase/payout period: 30/20 years, average yield on assets invested: 4.53%

² total tax effect: tax payments and lost revenues on tax payments.



Summary and Additional Effects

- ▣ FTT will be passed on to private households and non-financial companies
 - ▣ massive additional burden (5 to 7.3 bn Euros p.a.)
 - ▣ clear contradiction with the explained political objectives

- ▣ Additional negative effects
 - ▣ loss of market liquidity and those that provide liquidity (market makers/specialists) => higher volatility, higher risks
 - ▣ drying up of market segments (e.g. commercial paper market) => less supply of capital market finance



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The full text of the Study “**Die Finanztransaktionssteuer – ein politischer Irrweg?**” can be downloaded from www.dai.de

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