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The Facts of the Matter Distilled

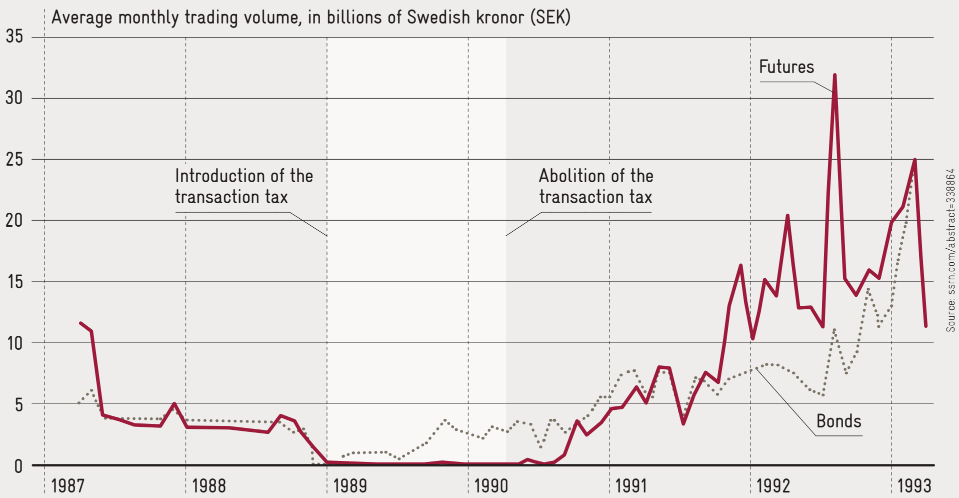
# An Insidious Financial Transaction Tax

*Many consider the financial transaction tax, whether to finance pension provision or avoid austerity measures. However, in reality the results are not convincing, as it generates high costs and limits benefits.*

## Situation

The idea of a tax on financial transactions is not new. It had already emerged during the debate on the unconditional basic income. A few years ago, the initiative on a micro-tax on electronic payments failed at the signature-gathering stage. While the initiative aimed to tax all cashless payment transactions, the current proposals aim to tax securities transactions. Such ideas seem attractive at first: low tax rates and a supposedly broad base promise high returns. However, previous experience shows that taxes on financial transactions often have considerable side-effects, which far outweigh the hoped-for benefits.

## That Time When a Tax Almost Wiped out the Bond Market




*The figure shows how the tax virtually paralyzed the bond and futures market in Sweden in 1989. Soon after its abolition in 1990, trading resumed.*

## 43%

The introduction of a transaction tax has failed in most countries. The volume of the securities transactions concerned fell drastically after the tax was introduced. Revenues were also much lower than expected. In France and Sweden, the tax brought in respectively 43 and 3 percent of the hoped-for revenues.

## Facts

■ **Currently in force:** Switzerland already levies a stamp duty on certain securities transactions (0.15–0.3 percent), which increases the amount of capital.

■ **Weakened financial center:** In the digital age, financial transactions in particular can easily be carried out in countries without equivalent taxes. The example of Sweden shows that this risk of relocation is real, and that a tax on transactions could weaken the financial center in the long run.

■ **Unequal burden:** Transaction taxes do not respect the ability-to-pay principle of taxation, as there is no direct link between transaction volume and value creation.

■ **High (hidden) costs:** To limit the above-mentioned circumventions, bureaucracy would have to be extended. Furthermore, transaction taxes entail hidden costs: capital allocation becomes more expensive and, to optimize taxation, an increasing number of transactions risk being conducted in the shadow banking system, thereby threatening financial stability.

## Recommendations

Introducing a new tax on financial transactions entails considerable **risks for Switzerland's economy.** It would therefore be preferable to focus on more efficient taxes, and to reform existing taxes, such as the **stamp duty.** Studies show that such a reform could boost Swiss **GDP by 1.4 percent over ten years.** Switzerland does not need a new financial transactions tax.



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