Stamp duties/FTTs – History and Progress

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History of Stamp Duties (i)

- **Stamp duty -** tax charged on written documents requiring physical stamp -impressed. Modern versions no longer require physical stamp.
- **1624**: Most historians agree Stamp Duty, in current form, originated in the Netherlands.
- **1694**: first introduced in UK in reign of William & Mary, initially for 4 years to fund war with France - duty ranged from 1 penny to 40 shillings on documents including insurance policies, documents in court proceedings, grants of probate. **Yield: about £5,000 per annum**.
- **1765**: Attempted imposition of Stamp Duties in America met with opposition. "no taxation without representation" – rioting met ships bearing consignments of stamped papers: the Boston Tea Party.
- **1797**: In Budget speech Pitt described stamp duty as a tax "easily raised, widely diffused, pressing little on any particular class, especially the lower orders of society, and producing a revenue safely and expeditiously collected at a small expense."

History of Stamp Duties (ii)

- **During 18th/early 19th centuries**: stamp duties extended to newspapers, pamphlets, advertisements, playing cards, hats, patent medicines, perfumes, insurance policies.
- Under Stamp Act **1815** further consolidation took place, duty extended to more categories of documents. **Yield: approximately £3 1/4 m.**
- **1891**: Stamp Duties Management Act and Stamp Act still contain much of the operative law on stamp duties - inspired many Australian stamp duties
- **1946**: Stamp Duty introduced for dealing with transfers of units in unit trusts. In 1947, an exemption was introduced for the transfer of shares in government or Parliamentary stocks ie gilts.
- **Tax rate on share transactions 1% prior to 1974, 2%:1974 - 1984, 1% between 1984 and 1986.**
- **1986**: Finance Act introduced Stamp Duty Reserve Tax. Charge imposed on Stock Exchange "closing transactions and certain transactions where no document was used". Duty reduced:1%- 0.5%. **Current yield: £3 billion**

FTTs – usual or commonplace?

- Argentina, Australia, Austria, Belgium, Brazil, Chile, China, Colombia, Denmark, Ecuador, Finland, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Malaysia, Morocco, Netherlands, Pakistan, Peru, Philippines, Portugal, Russia, Singapore, South Korea, Sweden, Switzerland, Taiwan, UK, US

Country examples

- **US**: from 1914-1966 federal tax on stocks at 0.1% at issuance and 0.04% on transfers; currently has Section 31 fee: 0.0034% on stock transactions, which pays for the SEC.
- **Australia**: stamp duty levied by states at differing rates on different instruments including transfer duty on sale of land and on mortgages
- **Japan**: used to be levied on debt and equity instruments at differential rates – substantial revenue generated – in late 1980s: $12 bn pa. 1999 FTTs withdrawn as part of 'big bang' liberalisation.
- **Hong Kong**: similar to UK stamp duty relating to purchase of property and on the transfer of Stock.
- **Belgium**: has 0.17% transaction tax on stocks and a 0.07% tax on bonds. Other instruments taxed at varying rates.

Sweden

- **Sweden** – opponents use this example, a failure by most measures.

1984 introduce 0.5% tax on sale & purchase of equities. Tax only payable in case of Swedish brokerage service being used.

1989: smaller tax on fixed income securities, inc. Govt.debt and associated derivatives, such as interest rate futures and options.

Result: significant amount of trading in Swedish stocks migrated overseas. At extreme, only 23% of trading in Ericson (country's most actively traded stock) took place in Sweden in 1989.

Little evidence in fall in overall size of market. Most trading just migrated overseas in order to evade the taxes imposed on Swedish brokers. In fixed income markets, effects more dramatic: bond trading fell by 85% and bills trading fell by 20% within a week of tax being introduced.

Accompanied by sharp increase in trading in untaxed fixed income instruments such as debentures, variable rate notes, forward rate agreements and swaps – all serving as close substitutes for the taxed instruments. Ended in 1991 when all transaction taxes were abolished. Markets in fixed income and equities soon recovered to pre-tax levels.

India

- **1st Oct. 2004 STTs implemented.**
- **Market players and analysts predicted** introduction would bring Indian **financial markets to standstill** – completely wrong: the Sensex (most popular exchange) increased by 91.93 points.
- **Strong lobby of Finance Minister** by speculators, day traders, arbitrageurs and 'noise traders' caused rates to be reduced drastically
- Estimated loss of revenue through **dilution**: 25 billion rupees – Kavaljit Singh: "no-one knows how the government will fill this **revenue loss**"
- Dilution meant Indian STTs **failed** both **as a means of curbing excessive speculation** and as satisfactory revenue-raising measure

Brazil

- **CPMF** – in force from Jan.1997 to end of 2007
- **Incidence** - all financial transactions except: Federal Govt, States and Municipalities; social assistance; stock exchange; inflows/outflows of currency
- **Rates**: 1997-1999: 0.20%; 1999-2000: 0.38%; 2000-2001: 0.30%; **2001-2007: 0.38%**
- **Positives:** hard to evade (covers 'informal' economy); low admin cost; very important steady revenue source: around 4.2% of tax burden
- **Conclusion:** very successful but was voted down by 4 votes

Lessons

- **UK and Sweden** - tax on share transactions in UK incorporated companies, currently levied at ½% of purchase price of shares. Chargeable whether transaction takes place in UK or overseas, and whether either party is resident in UK or not. This is why **UK's FTT works** and Sweden's failed – **design flaws will be exploited**

- Outstanding feature of stamp duty is **cheapest** of all UK taxes **to collect**, with a collection cost of just 0.11 pence per pound raised. Corresponding figure for income tax, most important revenue raiser, 1.59 pence (Inland Revenue, 2002). In **common factor**.

- India and Brazil – **ahead of introduction** financial actors shouted that FTTs would bring ruin – **groundless fears/scare tactics**

- **Beware the lobby:** perfectly good FTT systems in Brazil, India and Japan have been removed or diluted

Responding to crisis

- **Casino-style economic model – excessive borrowing, near-collapse, money dried up –> recession**
- **Defining the cost: 1) bail-out; 2) domestic economy; 3) MDGs; 4) Financing costs of Climate Change (Copenhagen); 5) Insurance to pay for any repetition**
- **Effects of crisis in developing world:**
  foreign direct investment, remittances, capital flight, commodities harder to sell, aid reduced
- **Anger at sector for causing crash while earning disproportionate rewards - excessive profits and bonuses:**
  recoup, rebalance, re-regulate, re-write social contract
- **Relationship between Governments and finance sector profoundly changed; market could not save itself – re-evaluation**

Changing times

- **Not shall we tax the financial sector but**
  <u>how</u> shall we tax the financial sector?
- **G20 Pittsburgh – Merkel/Sarkozy - IMF tasked to explore banks paying for bailout**
- **Gordon Brown advocates FTTs at G20 Finance Ministers meeting at St.Andrews**
- **Leading Group taskforce launched in October in Paris**
- **UK tax on banker's bonuses**
- **Obama announces bank levy at 0.15%**
- **US re-regulation of banking activity**

Proposals

- **Financial Stability Contribution (FSC) – tax on balance sheets**
- **Financial Activities Tax (FAT) – tax on excessive profits and remunerations**
- **Financial Transactions Tax (FTT) - tax on transactions**
- **Possible combinations: ie Financial Market Tax**

Financial Transaction Taxes (FTTs)

- **FTTs – commonplace**:
  Stocks, Corporate Bonds, Government Bonds, Futures ie: Argentina (since 2000 at 0.6%); US: SEC; Stocks: Austria, Belgium, India, UK < 3b.pa

- **Strong growth:**
  Bonds: 1993- $20 trillion; 2005- $60 tr.
  Stocks: 1993– $7 tr.; 2005 - $51tr.

- **Currency – foreign exchange:**
  1973: $4 trillion pa; mid-80s: $40 tr. pa
  2004: $500 tr. pa = $1.9 tr. per day
  2007: $800 tr. pa = $3.2 tr. per day
  2010: more than $1,000 tr. Pa = $4 tr.per day

- **Feasibility:** Automated payment at point of settlement: RTGS/CLS Bank/SWIFT - **unilateral steps:** UNITAID – precedent

Potted history

- FTTs - **Keynes** in the 'general theory'
- **Tobin**, 1970s – 'sand in the wheels' – rate: 1% - motivation: regulation
- South-East Asian crisis – **Spahn** two-tier tax -> Monterrey 2002 – motivation: regulation and revenue – FFD strand developing
- Low rate – 0.005% - econometric modelling - **Schmidt** - $33bn.
- **Leading Group**: solidarity levies - **UNITAID**, aviation; 2009: Kouchner – the 12-country **Taskforce**/expert's group report expected now
- 2009 – tipping point year for FTT campaign - **Schulmeister**

Final word

- **Leading Group taskforce – key moment** -> public pressure – Germany, potential blocking country

- Importance of **Robin Hood Tax campaign** and **Steuer Gegen Armut, WEED**

"Now is the time to turn a crisis for the banks into an opportunity for the world"