



**University of  
Zurich<sup>UZH</sup>**

MASTER'S THESIS

Department of Banking and Finance

Chair of Prof. Dr. Marc Chesney

# **Stamp Tax and Tobin Tax in Switzerland, UK and EU**

Supervisor: Dr. oec. publ. Brigitte Maranghino-Singer

Author: Pamela Castello Matias

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## Executive Summary

Evaluations and discussions of taxes on financial transactions are usually intensified as response to a crisis. Most recently, the global financial crisis in 2008 delivered new impetus to ponder the efficacy and desirability of financial transaction taxes. Several theoretical as well as empirical analyses published since then aimed to clarify whether taxes on financial transactions are useful tools to contain the volatility of the markets or whether they induce an unwanted downfall in liquidity.

Whilst years ago the range of financial products traded was narrower when compared to today, the need for exploring the mechanisms triggered by the implementation of financial transaction taxes on market structures nowadays is even more essential for a successful design of a small tax with little or no possibility of tax avoidance schemes. Some taxation reforms including a broader scope of products targeted have already found their way into application. In 2012 France introduced an extensive financial transaction tax applying not only to the acquisition of securities but also to credit default swaps and to high-frequency trading. Italy followed in 2013 with another innovative approach by including derivatives in the tax system as well. These two implementations caused many researchers to investigate through an event study setup the possible outcomes induced by the small taxes. Nonetheless, consensus regarding the impact on some market quality indicators has hardly been achieved.

This thesis aims at contributing to this research by expanding existing frameworks in this field of study through different datasets in conjunction with multiple market quality indicators. Firstly, however, the goal was to provide a holistic overview of financial transaction taxes by outlining the evolution of them since Keynes's (1936) and Tobin's (1978) initial proposals and summarising the different specifications of today's examples of financial transaction taxes in France and Italy. Also, parallels to UK's and Switzerland's stamp duties were drawn, as these stamp taxes have proven to be successfully designed and stayed in force over decades (although with a few adjustments).

Secondly, the objective of this thesis was to outline potential impacts caused on the market liquidity due to the French and Italian taxes on securities. This was achieved by relying on a distinctive design of the corresponding taxes. Since the taxes only apply to companies headquartered in France (or Italy respectively) with a certain market capitalisation, a natural split arises thereof. The convenient feature of this split is that it enables one to divide all listed companies of the countries into a treated group, which had to pay the taxes from the introduction date onward, and into a control

group, which, on the other hand, should mimic the counterfactual. Based on the Differences in Differences econometric model with panel data, the potential impact on the market liquidity indicators was estimated for three time windows (30, 60 and 90 trading days before and after the tax entered into force) in order to capture not only short-term but also long-term effects. The market liquidity indicators were chosen to cover several dimensions of liquidity and therefore consisted of three measures of trading activity (trading value, trading volume and turnover ratio), one transaction cost measure (quoted relative spread) as well as one measure to test the price impact (Amihud's (2002) illiquidity ratio).

Regarding the empirical analysis in the French case, suggestive evidence was obtained for a decline in trading activity using as controls listed companies in France which reached a certain liquidity level but were not tax eligible. This result was validated by rerunning the experiment with Euronext 100 constituents as controls. An increased spread was also determined, although it needs to be noted that it was not robust towards the narrower control group and the alternative one containing foreign companies. Lastly, no significant impact could be retrieved for the illiquidity ratio.

When it comes to the Italian tax on securities, the estimated results in the baseline analysis were not significant regarding the trading activity and inconclusive for the illiquidity ratio. Surprisingly, the spread indicator pointed towards a decline. However, these findings did not withstand the robustness check with alternative controls consisting of Stoxx Europe Mid 200 indices. The overall lack of statistically significant and robust results might be interpreted in two ways: the tax on securities had no impact on the measured liquidity dimensions at all or the data was contaminated by political events going on before the tax imposition. Either way, further research on the subsequent rate drops in 2014 is advised to address this uncertainty.

Lastly, this thesis presents a short introduction to another approach that aims at including the financial sector in the collection of tax revenue and is currently being discussed in Switzerland. The micro tax on monetary transactions is not intended to represent one more tax but rather a revolution of the entire taxation system that is outdated and not designed for the current era of digitisation nor for the massively grown financial sector. This approach would go even further than the financial transaction taxes' reform in France and Italy and levy an uniform tax on all electronic transactions and therefore not only enhance the social responsibility of financial institutions but also boost revenues as well as create reserves thereof for future crises.