Email: StampDutyConsultation@finance.gov.ie

Minister Pascal Donoghue TD
Department of Finance
Government Buildings
Upper Merrion Street
Dublin 2

13th November 2017

Re: Stamp Duty Consultation

Dear Minister,

I attach for your consideration the IAIM's submission in response to the Department's Review of the Application of Stamp Duty to Stocks and Marketable Securities of Irish Incorporated Companies.

I am happy to discuss any issues that may arise

Yours sincerely

Regina Breheny
Chief Executive Officer

IAIM Stamp Duty Submission 2017

The Irish Association of Investment Managers (IAIM) is the representative organisation for asset managers in Ireland.

IAIM welcomes the opportunity to respond to the Public Consultation – Review of Stamp Duty on Share Transactions. We welcome the fact that the Department is engaging in this consultative process.

1. Introduction

The European Commission proposed that a Financial Transaction Tax should be imposed on the financial services industry at a rate of 0.1% on securities and at a rate of 0.01% on derivatives (collected by the industry from both buys and sells). The primary objective was to avoid fragmentation of the internal market for financial services and to equalise the tax treatment of industrial sectors (most financial transactions are exempt from VAT).

However, whilst this proposal displayed a strong level of simplicity and transparency, it was rejected by the bulk of member states as it would impinge on the European financial services industry's ability to compete with other regions in the world. It is clear that a widespread implementation of the FTT within and outside the EU is an important condition for effective revenue generation from the tax. Unfortunately, a fragmented regime continues to operate across Europe leading to significant competitive issues.

The evidence from successive studies on stamp duty and FTT indicates that the impact of stamp duty, despite raising funds for the Exchequer, has serious negative consequences for the economy, investment and creating jobs. In addition, the open and international nature of the Irish economy creates specific problems for Ireland.

2. Recommendation

The stamp duty regime in Ireland is in effect an FTT and is imposed at one of the highest rates in the world. IAIM believes that this tax is unsustainable and recommends that it be removed from transactions in Stocks and Marketable Securities of Irish Incorporated Companies. The reasons for this view are as follows:

2.1 Economic Impact

- Stamp Duty has a negative effect on GDP. An EU 2011 study states that a 0.1% FTT would reduce GDP by up to 2% of the growth rate. In the UK an Oxera study indicated that if the UK's stamp duty of 0.5% is abolished, there is potential for a permanent increase of between 0.25% and 0.75% of the GDP growth rate;

- Stamp Duty increases the cost of equity for issuers. Oxera's research finds that if the UK's stamp duty of 0.5% is abolished, the cost of capital could be reduced by 7-8.5%.

Ireland applies a stamp duty rate twice that of the UK and 5 times the rate of the proposed FTT. It must be assumed therefore that the impact in Ireland is much higher.

2.2 Listings – Raising Capital

- It is impossible to calculate the effect of stamp duty on the ability of Irish industry to raise capital using a stock exchange listing. However, since the introduction of FTT in France, research has shown that within the French CAC 40 there has been a) a deterioration in terms of market volume and value b) an increase in overall transaction costs c) poorer liquidity with wider spreads and d) the order book depth has seriously deteriorated as participants retreated from the market. Average trading volumes decreased by 10% and less liquid securities became even more illiquid.

- Because of the additional cost burden, investors require higher returns from Irish companies to justify the investment.

- In Ireland the growth in MSM listed companies in recent years has come from REITS where the quote after an IPO is essential. Irish industry is not well represented on the MSM. IAIM believes that the imposition of a high stamp duty on shares quoted on the MSM inhibits growth in issuers and in turnover and there is a danger that Irish companies will move their quote to a jurisdiction where tax is not levied on financial transactions.

It is not unreasonable to assume that if stamp duty is eliminated more players will use the MSM to invest and to raise equity.

2.3 Who Pays

The payment of stamp duty falls on investors, pension funds and individual savers, not the financial services industry. Everyone who has a pension fund or insurance contract is effectively bearing the burden. It impacts on companies (using securities to raise capital and hedge risk), investors such as pensioners (holding securities to save for retirement) and insurance companies (holding securities to reduce the cost and hence price of insurance contracts).
Its imposition reduces investment performance and consequently it increases the pension funding requirement.

2.4 Brexit Effect

- UK companies that are in the process of examining a change to their location/domicile are unlikely to consider Ireland while the current stamp duty regime remains. Other EU countries where there is no FTT are much more attractive e.g. Netherlands, Luxembourg, Germany etc.

- The trend towards transparency (particularly within MiFID 11) will highlight for international investors the cost of investing in Irish companies compared to companies in other jurisdictions.

- The Revenue currently relies on the Central Securities Depository, CREST, operated by Euroclear UK & Ireland, which is based in the UK, to collect stamp duty on Irish shares. Given that Euroclear UK & Ireland will no longer have an EU passport post Brexit, the Government's Tax Strategy Group acknowledged that the collection and administration of approximately 80% of Irish stamp duty needs to be reviewed.

2.5 Exemptions/Exclusions

The exemptions and exclusions in place are inequitable. A disproportionate burden falls on investors in the largest 29 companies listed in Ireland and the UK. An analysis of receipts over many years shows that consistently over 80% of total stamp duty on shares is raised from investors in these Irish listed companies.

These exemptions include:

- American Depositary Receipts (ADRs) listed and traded in the US and Canada are specifically excluded by legislation from stamp duty. ADRs although issued by financial institutions represent a specific number of shares in a company.
- As is the case in the UK, contracts for difference (CFDs) on equity (and other) securities are not subject to stamp duty. This has encouraged the growth in CFDs as an asset class according to research.
- The transfer of securities in certain sectors and corporate vehicles, for example loan capital for aircraft leasing, shares in fund structures and securitisation vehicles (section 110 companies) does not give rise to stamp duty. These exemptions were put in place to encourage the establishment of the IFSC and the financial services industry. Ireland is now the premier location for aircraft leasing worldwide and the total asset value of Irish securitisation vehicles according to statistics compiled by the Central Bank of Ireland was €402bn in Q3 2016, a multiple of the market capitalisation of Irish companies listed on the MSM.