AFBS Comment: Parliamentary Initiative to abolish Stamp Duty Tax

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Introduction

The Swiss Parliament debates an initiative on the abolition of stamp duty tax. The initiative is divided into three parts:

- Abolition on the issuance of own capital
  Upon suggestion by the Federal Council the proposal is suspended in Parliament.
- step 2: Abolition on Swiss securities and foreign bonds with remaining duration of maximum one year and on life insuance policies
- step 3: Abolition on other foreign securities and insurance policies

The Parliamentary Commission in charge of the preparation of the draft legislation has invited the industry representatives to express their view on its proposal.

The full text is available in DE and FR upon request from wuergler@afbs.ch .

SBA Proposals

The SBA welcomes the abolition of stamp duty tax on Swiss securities but insists on the point that it would be preferrable for the international financial centre to lighten the burden on trading in foreign securities because

- foreign clients suffer the duty most, and they mainly trade in foreign securities
- the rate applied on foreign securities is twice as high as the rate for Swiss securities
- a growing number of foreign countries introduce a financial transaction tax upon the issuer principle which leads to a double taxation
- no competition financial centre levies duties on the trade in foreign securities

The SBA criticises the proposal for not sufficiently taking into account the international investors who make up a large share of the trading volume in Switzerland and who are particularly hard hit by the stamp duty tax. It therefore drafts three different proposals:

1

- immediate implementation of step 2
- step by step implementation of step 3 by
- **either** reducing the rate on foreign securities by 0.05% per annum over six years
- **or** restricting scope on foreign securities step by step by exempting securities, bonds, funds
- **or** restricting the scope on persons by exempting first the foreign residents and then the Swiss residents

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Pros & Cons The option benefits from broad support by different trade associations as it offers immediate rewards. HOWEVER, its full implementation of exemption of foreign securities is not seured; a referendum can be called; avoidance of double taxation with EU FTT possible if both steps are implemented.

2

- **either** phasing out of rates over six years by reducing the rate on foreign securities to the rate on Swiss securities by 0.05% per year over three years and reducing the rate on all securities to 0 by 0.05% per year over three years
- **or** by exempting product categories step by step in three year intervals: exempting foreign and Swiss bonds; exempting foreign and Swiss shares; exempting foreign and Swiss funds shares.
- **or** by exempting investor groups step by step in three year intervals: exempting foreign securities held by foreign investors; exempting foreign securities held by Swiss investors; exempting Swiss securities.

Pros & Cons Realistic opportunities for full abolition; avoidance of double taxation with EU FTT possible if both steps are implemented. HOWEVER, differing interests from domestic and international banks as well as different stakeholders in Switzerland (cantons, FDF, economy) and Swiss trade associations which prefer exemption of Swiss securities.

3

Replace the stamp duty tax by a Financial Transaction Tax on listed Swiss shares such as stamp duty tax is due merely on transactions of listed Swiss shares (exemption of SME).

This brings simplifications on the Swiss trading venue and avoids double taxation with foreign transaction taxes. It furthermore sets foreign and Swiss trading firms at the same level through extraterritorial applicability of the financial transaction tax.

Pros & Cons Only proposal that offers compensation and real possibility of exemption, including automatic avoidance of double taxation with EU FTT and competitive advantage through definition of rates. HOWEVER, differing interests from domestic and international banks as well as different stakeholders in Switzerland and Swiss trade associations which prefer exemption of Swiss securities.

Attached is a draft set of answers to the questions the Parliamentary Commission submits for comments. Please let us know if you would like to discuss the topic in an AFBS Roundtable or on a telephone conference. Please also let us know if you have any comments on the draft responses to the Parliamentary questionnaire.

Please be aware that this is in a very early stage of teh legislative process as Parliament will have to adopt a proposal and hten mandate the Federal Council with drafting a legislative proposal – to be published for comments prior to being submitted to Parliament for debate.

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