



# TAX ON SECURITIES TRANSACTIONS: FISCAL AND REGULATORY CAPACITY IN UKRAINE

**Humentnyy A.A.,**

*PhD student of the Department of Financial Markets, National University of State Tax Service of Ukraine*

**А** *The article is devoted to the problems of implementation of fiscal and regulatory capacity of taxation of securities in Ukraine. The evaluation of advantages and disadvantages of implementation of the special tax on securities transactions in Ukraine was given. The value of optimal rates of the tax on securities transactions were determined. The impact of the tax on consolidation of the stock market of Ukraine was substantiated.*

## ПОДАТОК НА ОПЕРАЦІЇ З ЦІННИМИ ПАПЕРАМИ: ФІСКАЛЬНИЙ І РЕГУЛЯТОРНИЙ ПОТЕНЦІАЛ В УКРАЇНІ

**Гуменний А.А.,**

*аспірант кафедри фінансових ринків, Національний університет ДПС України*

**А** *Стаття присвячена проблемам реалізації фіскального і регуляторного потенціалу оподаткування цінних паперів в Україні. Дано оцінку перевагам і недолікам запровадження спеціального податку на операції з цінними паперами в Україні. Визначено величину оптимальних ставок податку на операції з цінними паперами. Обґрунтовано вплив податку на консолідацію фондового ринку України.*

## НАЛОГ НА ОПЕРАЦИИ С ЦЕННЫМИ БУМАГАМИ: ФИСКАЛЬНЫЙ И РЕГУЛЯТОРНЫЙ ПОТЕНЦИАЛ В УКРАИНЕ

**Гуменный А.А.,**

*аспирант кафедры финансовых рынков, Национальный университет ГНС Украины*

**А** *Статья посвящена проблемам реализации фискального и регуляторного потенциала налогообложения ценных бумаг в Украине. Дана оценка преимуществ и недостаткам введения специального налога на операции с ценными бумагами в Украине. Определена величина оптимальных ставок налога на операции с ценными бумагами. Обосновано влияние налога на консолидацию фондового рынка Украины.*

### Actuality

Implementation of the special tax on dispossession of securities (or on financial transactions) became one of the most debatable questions among economists after the global crisis in 2008. Economists of a great number of countries were inclined to think that implementation of this tax could give more benefits than damage.

However, there are serious arguments against the usage of such taxation. It should be noted, that elements of taxation of transactions with securities were selectively applied in different countries of Western Europe. The results of implementation of the tax were ambiguous. The attempt of implementation of the special tax on the disposal of securities was also done in Ukraine. The tax existed for two years and was canceled due to the poor fiscal performance, though, in our opinion, its regulatory impact was not appreciated.

### Problem definition.

Different aspects of taxation of transactions with securities are presented in works of western economists. One should note investigations of R. Roll, S. Umlauf, V. Saport and K. Kan, Ch. Dzhons and P. Sehuin. They paid their attention to the impact of the tax on financial transactions on inconstancy of the market of securities. The impact of taxation of transactions with securities on the structure of trading on the market and mobility of transference of securities between markets was investigated in works of J. Campbell and F. Kennet. In Ukrainian publications one can meet mainly criticism of low fiscal efficiency of special tax on disposal of securities in Ukraine. However, according to the international experience, taxation of transactions with securities may become the lever that provides consolidation of the Ukrainian stock market and the gradual decline of ex-pit transactions.

**The goal of the article** is evaluation of fiscal and regulatory capacity of the tax on transactions with securities in Ukraine.

**Presentation of the basic material.**

Implementation of the tax on transactions with securities may have a number of unpleasant consequences. Among one of the major risks one should name that fact, that the implementation of this tax on the certain financial market means that its operations will move to those markets where this tax is absent. That is, the effective functioning of this tax provides for implementation of cross-taxation of transactions with securities on different markets. This effect can be achieved only in that case, when fiscal authorities will gain access to information on transactions with securities of residents on foreign markets. The alternative version is the experience of Chile. This country imposes tax on input financial flows [4, c. 165-180]. However, this experience for Ukraine is unacceptable, as it will create additional obstacles for foreign investors.

The second problem is that the taxation of every transaction with securities may be qualified as additional taxation of the capital. In order to avoid this effect, one should not impose taxes on all transactions with securities. It will be reasonable to impose taxes only on the final result of their realization. However, this variant of taxation is effective only on the developed markets of securities. It will not have the impact on the rest of markets. For example, it will not have the impact on the volumes of transactions carried out outside stock exchanges or on the volumes of speculative transactions.

According to the foreign experts, the tax on transactions with securities can be neutral if it does not affect an investor's decision regarding the formation of portfolio of investments on account of various assets. In case of implementation of the special tax on transactions with securities, investors may prefer selling those securities that are not taxed. This can have a negative impact on the trends of the formation of financial provision of economic agents [4]. However, exactly this characteristic can be used to regulate the processes of formation of portfolios of securities.

Taking above-mentioned into account, implementation of this tax in Ukraine has sense from the point of view of regulation of volumes of transactions on stock exchanges and beyond them. In other words, one of the major problems - achieving neutrality of the special tax on transactions with securities is not so important for Ukraine, as regulation of transactions on the stock market. However, a number of questions remain topical. In particular, it is important to clarify what transactions are taxable and according to what rates. In addition, it is important to figure out how it will influence the price of securities and their trading volumes.

According to the results of investigations of foreign experts, which were conducted in Sweden and the Great Britain, implementation of special tax on operations with securities had no effect on the price volatility on the market of securities. Particularly, this was noted in works of R. Roll [7], S. Umlauf [9], V. Saporta and K. Kan [8], Ch. Jones and P. Seguin [6]. In addition, the great number of investigations was devoted to the problem of influence of special tax on transactions with securities on volumes of trading of securities. According to the research of S. Umlauf [9], after the tax rate in Sweden was raised from 1 to 2%, 60% of sales of shares of 11 most popular companies moved to the London Stock Exchange. In general, more than 30% of trading of securities moved to the London Stock Exchange, and in 1990 this figure reached 50%. According to the research of J. Campbell and F. Kenneth [3], only 27% of trading of Ericson (the most active stock market of Sweden) were done in Sweden. At the same time, the results of the research of S. Hu showed that there was no effects of changes in taxation on volumes of securities trading in Asia [5].

In addition, economists examined the impact of implementation of a special taxation on dynamics of security prices. The results of the research of S. Umlauf [9] shows, that the Swedish stock index fell by 2.2% during one day when the introduction of the tax on securities transactions was announced, but the next day it rose again by 2%. The UK stock index fell by 3.3% after increasing the tax rate from 1 to 2% [8].

In almost all countries, which were investigated, revenues from the special tax on transactions with securities were low. Thus, in Sweden revenues from this tax were equal to 820 million Swedish kronas in 1984, 1,17 billion Swedish kronas in 1985, 2,63 billions Swedish kronas in 1986. It was equal to 0,37%, 0,45% and 0,96% from tax revenues of appropriate years. After increasing of the tax rate in two times revenues increased to 3,74 billion Swedish kronas in 1987 and to 4,01 billion Swedish kronas in 1988. It was equal respectively 1,17% and 1,21% from the total volume of tax revenues [4]. In fact, increasing the tax rate by 100% resulted to the improvement of its fiscal efficiency only by 22%. Thus, as international experience shows, one should not have expectations of the high fiscal efficiency from the implementation of such a tax (in fact, it was confirmed by the experience of Ukraine), but regulatory properties of this tax should not be underestimated.

Another one major problem of implementation of this tax is the easy way to avoid it if the neighboring countries do not have such a tax. For example, foreign investors can easily avoid paying this tax by making transactions with securities on stock exchanges of London or New York, and domestic investors have the opportunity to avoid paying tax by making their transactions through the offshore

companies. However, this problem can be avoided in case of taxation of only that part of transactions with securities, which requires regulation. All transactions with securities should not be taxed. It should be noted, that fiscal effectiveness of collection of the special tax on disposal of securities in Ukraine was low, but its regulatory effect was obvious – the process of determination of the stock rate of securities was regulated, the volumes of securities trading on the stock exchange increased etc.

One of the main problems of formation and implementation of the tax capacity of the stock market is its isolation from the development of the real sector of economy. It manifests itself primarily in insufficient active participation of the securities market in formation and accumulation of capital of domestic enterprises. This situation happened due to the dominance of speculative transactions on the securities market versus investment ones. Speculative transactions are one of the reasons of spreading and deepening of the crisis in Ukraine. That is why we believe that the implementation of taxation of transactions with securities should be directed at minimizing of volumes of speculative transactions. Implementation of such taxation requires division of participants of the market of securities on speculators and investors.

The need for the presence of speculators on the financial market was grounded by J. Keynes [2]. Later, theories on absolute self-regulation of financial markets became dominant. This helped to legitimize speculative transactions. This can be vividly illustrated on the example of post-soviet countries, where after the long period of strict regulation of markets and criminal responsibility for implementation of speculative transactions, the development of the financial market as a whole, and the market of securities in particular was done mainly in speculative direction. This had a negative impact on investment activity, since speculative transactions provide a faster return on investment.

Substantiation of directions of taxation of financial transactions in general and transactions with securities in particular, requires a clear delineation of the nature of investment and speculative transactions. It should be noted, that the Ukrainian legislation does not provide a separate definition of speculators, and thus recognizes them in the capacity of rightful investors. Speculative transactions are aimed at making profit by reselling securities at a higher price compared to the purchase price. At that, the time of the future selling of securities is not determined at the moment of their purchasing, as their holder will be expecting for a better price for himself. If the transaction has an investment nature, then the holder of securities receives income due to reception of all cash flows provided by such securities (for example, relatively for bonds, these are payments of interests and principal repayments).

Speculative type of transactions certainly brings more benefits for the speculator in comparison with investment transactions since he receives income much faster. Experts often call high risk as one of characteristics of speculative transactions, justifying this way the implementation of speculative activity. Indeed, speculative transactions are characterized by the high risk, and high profitability compensates the loss from such risk. However, in conditions of the Ukrainian economy implementation of investment transactions can be characterized by the same level of risk. At the same time, even if the return from them compensates these risks, it happens not so fast as during implementation of speculative transactions. The sense of the investment activity is being lost in such a situation.

In case of assessing the situation, then the implementation of the speculation transactions in itself does not have a negative impact on the economy. The negative impact occurs when accumulated speculative capital does not transform into investment capital in that country, where it has been accumulated. Negative effects are obvious when accumulated speculative capital transforms into investment capital abroad. If this phenomenon becomes widespread, then the gap between the financial and the real sector of the economy that is growing is being formed, the deficit of investment resources is being created. These things have a negative impact both on the formation of tax capacity of securities market, and on the economy as a whole. Risks of speculative transactions in the market of securities for formation and realization of its tax capacity are systematized in the table 1.

As it can be seen from the table 1, speculative development of the market of securities in long-term perspective has a negative impact primarily on investment trends. This has a negative impact on formation and implementation of tax capacity of both the market of securities and the economy. Therefore, we propose do not tax such transactions, when shares are sold more than in a year. Remaining sales within a year must be taxed in order to increase investment trends in the economy and to reduce speculative ones.

Nowadays, it is important to increase volumes of transactions with securities that take place on the stock exchange. Also, it is important to ensure consolidation of the market, which will be the place of operating of few (or even one) strong stock exchanges. In order to achieve this goal, we propose to organize a State stock exchange. It is supposed, that transactions with securities (whose exchange rate was calculated) will not be taxed. We propose to tax transactions that will take place on existing stock exchanges. But the tax rate should be lower than that one, which will be applied to transactions with securities that have place outside the stock exchange. It should be noted, that the tax on disposal of securities should not

## RISKS OF SPECULATIVE TRANSACTIONS IN THE SECURITIES MARKET

Table 1

CRITERION	INVESTMENT	SPECULATIVE	RISKS
Priorities	Orientation toward getting a stable income for a long time	Expectation of getting income due to rapid changing of prices	High market volatility, lack of liquidity, rapid spread of the crisis
Assets that often act in the capacity of objects of operations	Treasury bonds, assets with fixed income or low volatility	Derivative securities, foreign currency, other assets with high volatility	Formation of «bubbles» in the securities market, increasing of risk of rapid spread of crises
Field of accumulation	Bank institutions, nongovernmental pension funds, insurance companies	Mutual funds, other trust funds created by individuals	Formation of deficit of long-term investment resources in economy
Nature of making the decision	Fundamental analysis, rating assessments	Technical Analysis	Reducing the quality of analysis of trends in the securities market, low trust to ratings
Attitude to risk	Risk management with the usage of instruments of hedging and insurance	Acceptance of risk as an integral part of transactions	Growing the risk of volatility on the market of securities, its unattractiveness for investors because of low development of instruments of hedging

Source: developed by the author

be classified as excise, because according to its economic content, it is a tax on financial transactions.

A major problem of returning to the practice of levying a special tax on the disposal of securities is determination of its optimum rate. Basing on information on the receptions of the special tax on the disposal of securities and volumes of shares traded on the exchange stock and outside it, we have calculated coefficient of elasticity of volumes of trading to the amount of paid tax (Table. 2).

As it can be seen from the calculations, the coefficient of elasticity is greater than one. This indicates the regulatory effectiveness of the special tax on disposal of securities. Basing on the values of coefficient of elasticity there is a capacity to increase rates of special tax on disposal of securities approximately in 1.4 times (basing on coefficients of elasticity in 2014). Since the goal of the special taxation of transactions with securities in Ukraine is to reduce the volumes of OTC trading and to increase, respectively, volumes of stock exchange trading, OTC transactions must be under the maximum tax burden. It should be noted that the rate of 0.1%, which operated in Ukraine and was applied to transactions on sales outside of the stock exchange of securities that are in stock register, had low both fiscal and regulatory efficiency. According to foreign experience, the rate of such tax must be not less than 0,5% of the volume of transactions with securities. It should be noted, that the tax regulation of circulation of securities in Poland made it possible

to ensure the share of sales of securities on the stock exchange at the level of 90%. The feasibility of taxing transactions with securities that take place on the OTC market is described in the article of V. Bondaruk [1]. This economist accents that such taxation will help to activate trading on the exchange.

Special tax on disposal of securities must also be recovered from derivatives. Since the derivative is a contract that at the moment of conclusion has no value, then it is impossible to apply the tax rate that was set in percentage to the size of the transaction. According to the previous edition of the Tax Code, the rate was set basing on the size of non-taxable income of citizens (17 UAH, value, which is essentially artificial and is taken from the old legislation). In our opinion, the usage of such value in the capacity of the base rate for the tax charge is incorrect. Firstly, the value has long lost its relevance. Secondly, its usage puts on the agenda the order of indexing tax rates. Considering this, we believe that the tax rate of derivatives, which were concluded outside the stock exchange, must be tied to the value of the minimum wage. Since derivatives are often used not only to hedge risks, but also for the purpose of speculation, the tax rate must be high enough (at least 50% of the minimum wage, set on 01.01 of current year) for derivatives, which were concluded outside the stock exchange. Summing up, we propose to set the rates of the special tax on transactions of disposal of securities as follows (Table. 3).

## THE ELASTICITY OF SECURITY TRADING ON THE STOCK EXCHANGE TO THE AMOUNT OF SPECIAL TAX ON SECURITY DISPOSAL

Table 2

PERIOD	1 QUARTER	2 QUARTER	3 QUARTER	4 QUARTER
2013	1,05	1,1	1,12	1,3
2014	1,2	1,4	1,5	1,54

Source: calculated by the author

## RATES OF SECURITY DISPOSAL TAX

Table 3

RATE	TRANSACTION
0%	from the amount of transaction of the sale of securities on State Stock Exchange. The stock price of these securities is calculated in accordance with the requirements established by the National Commission on Securities and Stock Market, in coordination with the central executive body. This guarantees formation and implementation of national, tax and customs policies
0%	from the amount of transaction with derivatives on the stock exchange (public and private)
0,5%	percent from the amount of transaction of the sale of securities on private stock exchanges that are presented in the stock register
1,5%	from the amount of transaction of the sale of securities on private stock exchanges that are not presented in the stock register
2%	from the amount of transaction of the sale of securities outside the stock exchange
50% minimum wages, that was valid on 01.01 of current year	for negotiated derivative (contract) outside the stock exchange

Source: developed by the author

### Conclusions.

Implementation of a special tax on security transactions in Ukraine offers small fiscal capacity, but provides a strong regulatory capacity. Successful implementation of this regulatory capacity will contribute to a gradual organization and development of the domestic securities market. A return to the practice of collecting taxes on the disposal of securities will increase trading volumes at stock exchanges and reduce trading in unorganized markets. Implementation of a special tax on security transactions will contribute to a reducing of speculative transactions and their redirection into the investment sector. In the long-term, the fiscal capacity of security transaction taxes will grow at the expense of a consolidation of the stock market and its development.

1. Бондарчук В.М. Податкові новації та проблеми розвитку фондового ринку [Електронний ресурс] / В.М. Бондарчук // Україна фінансова / Українське агентство фінансового розвитку. – Доступний з: <[http://www.ufin.com.ua/analit\\_mat/rzp/161.htm](http://www.ufin.com.ua/analit_mat/rzp/161.htm)>.
2. Кейнс Дж. Общая теория занятости, процента и денег / Дж. Кейнс. – М.: Изд-во «Прогресс», 1978. – 548 с.
3. Campbell, John Y., and Kenneth A. Froot, 1995, "Securities Transaction Taxes: What About International Experiences and Migrating Markets," in Securities Transaction Taxes: False Hopes and Unintended Consequences, ed. by Suzanne Hammond (Chicago: Catalyst Institute).
4. Habermeier K. and Kirilenko A. Securities Transaction Taxes and Financial Markets. IMF Staff Papers. Vol. 50, Special Issue. PP. 165-180.
5. Hu, Shing-yang, 1998, "The Effects of the Stock Transaction Tax on the Stock Market—Experiences from Asian Markets," Pacific-Basin Finance Journal, Vol. 6, pp. 347–64.
6. Jones, Charles M., and Paul J. Seguin, 1997, "Transaction Costs and Price Volatility: Evidence from Commission Deregulation," American Economic Review, Vol. 87, pp. 728–37
7. Roll, Richard, 1989, "Price Volatility, International Market Links, and Their Implications for Regulatory Policies," Journal of Financial Services Research, Vol. 3, pp. 211–46.
8. Saporta, Victoria, and Kamhon Kan, 1997, "The Effects of Stamp Duty on the Level and Volatility of U.K. Equity Prices," Working Paper (London: Bank of England).
9. Umlauf, Steven R., 1993, "Transaction Taxes and the Behavior of the Swedish Stock Market," Journal of Financial Economics, Vol. 33, pp. 227–40

1. Bondarchuk V.M. Tax innovations and problems of the development of stock market [Electronic resource] / V.M. Bondarchuk // Financial Ukraine / Ukrainian agency of financial development. – Available at: <[http://www.ufin.com.ua/analit\\_mat/rzp/161.htm](http://www.ufin.com.ua/analit_mat/rzp/161.htm)>.
2. Keynes J. General theory of employment, interest and money. Moscow, Progress, 1978. – 548 p.
3. Campbell, John Y., and Kenneth A. Froot, 1995, "Securities Transaction Taxes: What About International Experiences and Migrating Markets," in Securities Transaction Taxes: False Hopes and Unintended Consequences, ed. by Suzanne Hammond (Chicago: Catalyst Institute).
4. Habermeier K. and Kirilenko A. Securities Transaction Taxes and Financial Markets. IMF Staff Papers. Vol. 50, Special Issue. PP. 165-180.
5. Hu, Shing-yang, 1998, "The Effects of the Stock Transaction Tax on the Stock Market—Experiences from Asian Markets," Pacific-Basin Finance Journal, Vol. 6, pp. 347–64.
6. Jones, Charles M., and Paul J. Seguin, 1997, "Transaction Costs and Price Volatility: Evidence from Commission Deregulation," American Economic Review, Vol. 87, pp. 728–37
7. Roll, Richard, 1989, "Price Volatility, International Market Links, and Their Implications for Regulatory Policies," Journal of Financial Services Research, Vol. 3, pp. 211–46.
8. Saporta, Victoria, and Kamhon Kan, 1997, "The Effects of Stamp Duty on the Level and Volatility of U.K. Equity Prices," Working Paper (London: Bank of England).
9. Umlauf, Steven R., 1993, "Transaction Taxes and the Behavior of the Swedish Stock Market," Journal of Financial Economics, Vol. 33, pp. 227–40.

Submitted: 18.08.2015