

# Discussion of Benefits and Challenges In Implementing Securities Transaction Taxes

Jones Adjei Ntiamoah

School of Business and Management Studies, Department of Accountancy, PO box 561, Accra, Ghana  
Tel: +233-262264727 E-mail: [jantiamoah@yahoo.co.uk](mailto:jantiamoah@yahoo.co.uk)

Gorkel Obro-Adibo

School of Business and Management Studies, Department of Accountancy, PO box 561, Accra, Ghana  
Tel: +233-244689895 E-mail: [gorkeladibo@gmail.com](mailto:gorkeladibo@gmail.com)

## Abstract

This paper examines the views of financial market practitioners and academic researchers on whether or not to impose taxes on security transactions (STTs). The debate on whether to impose such taxes has recently been revived due to the urgent need for all governments both developed and developing to find new sources of income in the face of the unprecedented ongoing financial constraints they face. The paper uses the two main schools of thought one which is favour of STTs and the other which is opposed to such taxes.

Those in favour of STTs argue with empirical evidence that such taxes have and could continue to raise substantial tax revenue to the tune of around \$10 billion per annum in the US to augment existing tax revenues. They also argue that STTs are necessary weapons in any financial market to curtail the activities of speculators and 'noise traders' whose trading activities cause security prices to move away from their intrinsic values by diluting the quality of information revealed by market prices

Those who oppose the imposition of STTs also argue that the cost of administering and implementing such taxes could far outweigh the revenue it could raise. They argue that imposing such taxes has the potential to increase the cost of capital for trading, reduce market efficiency and liquidity which could lead to reduction in security prices. They also argue that imposing STTs could affect the prices of various classes of securities differently which could ultimately affect the structure and volume of investment portfolios. The opponents also contend that imposing STTs could move security trading from countries where such taxes are in existence to countries where they non existing using the case of Sweden where in 1984 a 1% security transaction tax led to over 50% movement of trading volume to the London security market

Comparing the two views, the authors conclude using the case of bail out strategies adopted by the US and the austerity measures being adopted by some European countries that imposing taxes on security transactions could be counter-productive which could ultimately affect growth that is so critically important to move countries out of recession. By adopting the bail-out strategy, the US is officially out of recession judging by the figures for the third quarter of 2013 released by the US Government, while their European counterparts which adopted the austerity measures are still grappling high unemployment rates and unmet growth targets. In line with the authors' view, many countries notably India have either reduced their STTs rates or eliminated completely. Where STTs are still being administered or intended to be administered, the authors' recommend that for STTs to aid in growth targets, the tax rates should not be more than 0.5% based on empirical evidence otherwise it could lead to higher cost of trading which could affect trading volumes and ultimately reduce tax revenue for which the STTs are supposed to avoid

Additionally, developing economies such as Ghana, might have to consider factors such as the size of the security market, the tax rate applicable, capacity of existing tax collection agencies, the capacity of the Securities and Exchange Commission and other related regulatory agencies if such taxes can work.

**Key words:** Securities Transaction Tax, derivatives, stock markets, tax benefits, challenges.

## INTRODUCTION

Since the global financial crisis began in 2007 many Governments both developed and developing countries have had to deal with dwindling budgets and decline in growth. Two main ideas have been considered as a panacea to the economic crisis. Other countries notably the United States of America have introduced the concept of bail out to save the economy from further decline. In the early part of Mr. Obama's administration, a whopping \$789 billion was approved by Congress to bail out certain strategically placed privately owned firm to save them from collapse which many economists agreed was a "necessary evil". Other developed economies notably the United Kingdom have rather embarked on massive austerity measures aimed at cutting down public expenditure and to reduce waste. In all these the emphasis has either been on reduction in public expenditure or pursuit of additional sources of income or both

Even though Securities Transaction Taxes (STTs) were considered many years ago, the idea of using it to boost tax revenue during the recent economic crises has received considerable support especially from government economic advisors and finance ministers. Reviving the debate however, the UK and other European governments have seriously considered whether or not to impose or in some cases increase taxes on security transactions. This paper discusses the empirical evidence of benefits and potential challenges that can be encountered when implementing and administering STTs in both developed and developing economies

### **PROPONENTS AND OPPONENTS VIEWS ON STTs**

Opponents of STTs claims that it can cause an increase in the price of financial asset. They posit that required rates of return (RRRs) are positively related to risk and negatively related to the price of a financial asset such as options and futures. Therefore when a financial asset is subject to risk - reducing tax, it should reduce required rates of return (RRR) and increase financial asset prices.

However other researchers like Kupiec, White and Duffee, cited in (Schwert and Segium, 1993) argue that a tax on financial asset should rather lead to a decline in financial asset prices. According to them, two reasons account for the decline. One reason is that according to the basic micro economic principles, the imposition of a tax on any good reduces its equilibrium price and so an imposition of a tax on transactions would increase the total cost of transacting in the secondary market. Kupiec, White and Duffee have given sample empirical evidence that suggest that 'RRRs' are related to transaction cost and therefore a tax related increase in transaction cost would increase 'RRRs' and reduce financial asset prices

Schwert and Segium, (1993) argue that a tax on a financial asset could affect volume in at least three ways.

Firstly they observed that an STT could reduce "excess churning and trading". According to them, Kiefer estimates that a 0.5% broad-based STT could reduce volume by 8%. Secondly, the researchers argue that an STT would induce distortions in the sense that since short term financing is likely to be rotted over. G. Wilhem Schwert and Paul J. Segium (1993)

The authors envisage that when derivatives are traded in Ghana a developing nation, the Securities and Exchange Commission (SEC) and the banks are likely to be major players in the new industry. The Banking industry in Ghana has variously been described as inefficient and non- competitive. With over 30 banks in Ghana, consumers of banking services do not enjoy the benefits of competition. With the benefit of hindsight, one can expect a tax on securities to result in an increase in the prices of those securities. Due to inefficiencies, non-competition and lack of innovation in the banking sector, any tax on securities traded in by the banks could easily be passed to those customers the banks will be dealing on their behalf. This could come in the form of reduced profits to the customers of those banks.

Since the securities market is young and relatively small, any tax on those assets traded could seriously affect trading volume in Ghana

Chief proponents of STTs are Joseph Stiglitz, Lawrence Summers and Lloyd Bentsen all U.S prominent economists are in support of imposing STT on securities. Various reasons have been given to support the case for STTs. Prominent among these reasons is the ability to generate large amount of revenue to support public expenditure. For example, in 1994 the President Clinton's administration budgeted to raise \$290m over five (5) years by imposing a fee of \$14 cents on each contract bought and sold on an organized futures exchange (Schwert and Segium, 1993)

Proponents of a broad-based STT have argued that if imposed, it could raise an estimated \$10m per a year in tax revenue each year and as a by-product, would reduce "excess speculation" by "throwing sand in the gears" of financial market (Schwert and Segium, 1993)

However opponents of STTs like Robert Rubin an American Economist and Banking executive have kicked against such taxes for the following reasons;

Firstly, they observed that STTs will increase transaction cost which in turn would reduce value of securities, Secondly, they contended that increased transaction cost of securities would reduce liquidity and decrease market efficiency.

Thirdly, opponents say STTs could drive away securities trading to countries where similar securities are not taxed.

Other reasons cited by the opponents include their scepticism of the estimates of revenue that can be generated through an imposition of STTs claiming that it is not certain that such revenues could be realized. Additionally they claim that there could be substantial implementation problems across different types of securities.

Security transaction taxes around the world

COUNTRY DETAILS	STOCKS	CORPORATE BONDS	GOVERNMENT BONDS	FUTURES	
Argentina	0.60%	0.60%	0.60%	0.60%	tax of 0.6% on all financial transactions approved by legislature march 2000
Australia	0.30%	0.15%	-	-	Reduced twice in 1990s; currently 0.15 each on buyer and seller
Austria	0.15%	0.15%	-	-	Present
Belgium	0.17%	0.07%	0.07%	-	Present
Brazil	0.3% (0.38%)	0.3% (0.38%)	0.3% (0.38%)	-	Tax on foreign-exchange transactions reduced from 2% to 0.5% 1999. Tax on stocks increased and on bonds reduced June 1999
Chile	18% VAT on trade costs	18% VAT on trade cost	-	-	Present
China	0.5% or 0.8%	(0.1%)	0	-	Tax on bonds eliminated 2001, higher rate on stock transactions applies to Shanghai exchange
Colombia	1.50%	1.5%	1.5%	-	Introduced June 2000
Denmark	(0.5%)	(0.5%)	-	-	Reduced in 1995, 1998, Abolished effective Oct. 1999
Ecuador (0.1%)	1.0%	-	-	-	Tax on stocks introduced 1999, abolished 2001; tax on bonds introduced 1999
Finland	1.60%	-	-	-	Introduced January 1997; applies only to trade off HEX (main electronic Exchange)
France	0.15%	see note -	-	-	Present
Germany	(0.5%)	0.4%	0.2%	-	Removed 1991
Greece	0.60%	0.60%	-	-	Imposed 1998; doubled in 1999
Guatemala	3.00%	3.00%	see note -	-	Present
Hong Kong	.3%+\$5 Stamp fee	(0.1%)	(0.1%)	-	Tax on stock transactions reduced from 0.6% 1993; tax on bonds eliminated Feb. 1999
India	0.50%	0.5%	-	-	Present
Indonesia	0.14% + 10% VAT on commissions	0.03%	0.03%	-	Introduced 1995
Ireland	1.00%	-	-	-	Present
Italy	(1.12%)	-	-	-	Stamp duties eliminated 1998
Japan	(.1%),(0.3%)	(0.16%)	-	-	Removed April 1999
Korea	0.30%	-	-	-	Present
Malaysia	0.50%	0.5%	.015%(.03%)	0.0005%	Present
Morocco	0.14%+7% VAT on trade costs	7%VAT on trade costs	7% VAT on trade costs	-	Present

Netherlands	(0.12%)	(0.12%)	0	-	1970-1990
Pakistan	0.15%	0.15%	-	-	Present
Panama	-	-	-	-	Stamp duties eliminated jan2000
Peru	18% VAT on trade costs	18% VAT on trade costs	-	-	Present
Philippines	(0.5%) + 10% VAT on trade costs	-	-	-	VAT present
Portugal	(0.08%)	(0.04%)	(0.008%)	-	Removed 1996
Russia	0.8% on secondary offerings + 20% VAT on trade costs	-	-	-	Present
Singapore	0.05%+3% VAT on trade costs	-	-	-	Reduced 1994, eliminated 1998; VAT present
South Korea	.3%(.45%)	.3%(.45%)	-	-	Reduced 1996
Sweden	(1%)	-	-	-	Removed 1991
Switzerland	0.15%	0.15%	0.15%	-	Present; 0.3% on foreign securities, 1% on new issues
Taiwan	.3%(.6%)	0.1%	-	0.05%	Reduced 1993
United Kingdom	0.50%	-	-	-	Present
Venezuela	0.5%(1%)	-	-	-	Reduced may 2000
Zimbabwe	0.45% VAT on trade costs	-	-	-	Present

Source: Reproduced from Pollen et al. (2002)

## DISCUSSION OF THE TWO VIEWS EFFECTS ON TAX REVENUE

The arguments in favour and against the imposition of STTs have gained momentum due to serious budget constraints imposed on countries by the global financial crisis. It is therefore not surprising that many of the proponents of STTs are Government economic advisors whose advice may be coloured by their desire to raise revenue to support government expenditure. However empirical evidence suggest that STTs imposition have led to a slump in trading activities which in the long term affected tax revenue the STT was meant to raise. For example when the Swedish Government imposed 50 basis point levy on the sale and purchase of equities in January 1984, the All-share equity index in Sweden fell by 2.2% when the legislation was announced on October 24, 1983 (Campbell and Froot 1994). The reason for the drop in the All-share index was attributed to increased offshore trading and other traders switching to local substitutes that were not taxed.

In the same study by Campbell and Froot , they concluded that traders in the UK could not avoid the STT imposed on them by moving trading abroad but observed however that there were reported cases where investors traded in untaxed substitutes assets. Even with this contrasting evidence, trading volume was affected negatively in the UK.

## EFFECTS OF VOLATILITY

Generally, the higher the volatility, the riskier the security, In other words volatility refers to the amount of uncertainty or risk about the changes in a security's value. Excess volatility means that the price of the security can change dramatically over relatively short period of time either downwards or upwards. Excess volatility results in considerable uncertainty about the value of a security. In contrast, lower volatility signifies low fluctuations over a steady pace over a period of time.

Proponents of STTs argue that such taxes can reduce market volatility, help to prevent financial crisis and reduce excessive trading (Karl Harbermeier and Andrei Kirilenko, 2001)

However available literature on market micro-structure describes a different position on market volatility suggesting that much of the volatility experienced in financial markets is rather caused by informed traders as their information is aggregated into transaction prices. Contrary to the proponents view that there are "noise"

traders but various studies on the effects of STTs on volatility failed to establish the direct relationship between the two. For example in 1989, Roll in his study to establish the effect of STT on stock return volatility found no evidence to support the notion that volatility is reliably related to transaction taxes. His study, the first of its kind, examined 23 countries from 1987 to 1989 and this amply suggests that his evidence is overwhelming.

In a similar vein, Umlauf (1993) studying the behavior of Swedish equity returns before and during the imposition of transaction taxes on brokerage service providers from 1980-1987, discovered significant increases in volatility. Umlauf found greater daily volatility during periods when taxes were highest. This study contradicts earlier studies. However it can be deduced that the effects of the STTs after the imposition was not mentioned. The study did not also examine the effects if the STT was rather imposed on the investors and not the brokers and did not also look at the possibility of the brokers passing the STTs on to the investors and its effects on volatility.

A similar study, Saporta and Ken (1997) found no significant effect on volatility using the case of the UK stamp duty.

Hu (1998) as cited in Phylaktis and Aristidou, found no significant effects of transaction taxes on volatility using the cases of Hong Kong, Japan, Korea and Taiwan from 1975 to 1994.

Trade for other reasons apart from seeking market information about underlying security values, empirical evidence exist to point to the fact that the activities of these so called "noise" traders do not have much impact on volatility.

Referring to an example of the opponents view, Eichengreen, Tobin and Wyplosz (1995) have argued that an STT is one way of throwing sand in the wheels of super-efficient financial vehicles.

Other opponents like Karl Habermeier and Andrew Kirilenko have strongly argued that STTs can have negative effects on price discovery, volatility and market liquidity and these may lead to increased volatility.

The proponent's view that an STT can reduce excess volatility has also been attacked by other researchers, claiming that it remains unclear whether volatility is or has ever been excessive. They claim that excess volatility does not exist and any attempt to use STT to cure it is fruitless.

Moreover, since an STT affects all traders no matter their situation, then instead of targeting only 'noise' traders, it can end up affecting informed or regular traders as well. So unless an STT is structured to discriminate against only 'noise' traders, its effect remains uncertain.

#### **EFFECTS ON TRADING VOLUME**

Proponents on security transaction taxes have also argued among other things that such taxes can help to reduce excessive trading. They claim that once they are imposed, it could affect the trading activities of "uninformed" or 'noise' traders. These traders create "unreal" increases in trading volume. Once STTs are imposed, proponents claim that the activities of noise traders would decline thereby creating real increases in trading volume

However this view has been sharply criticized by other researchers who claim that once an STT is imposed, it can affect the activities of both informed and noise traders unless selective methods are adopted to target only noise traders which are seen as operationally difficult to implement.

Opponents of STTs have provided empirical evidence to suggest that STTs can lead to migration of trading activities to other financial markets that have either no such taxes or lower taxes. In a study by Schwert and Segium (1993), they argued that STTs could affect trading volume in three different ways. First, an STT could reduce excess churning and trading. In their study, Kiefer also a researcher estimated that if a 0.5% broad-based STT could reduce volume by 8%. Secondly, an STT would induce distribution by hitting harder on short-term financing than long-term financing. This could lead to a situation where investment managers switch short-term portfolios to long-term portfolios, reduce or curtail short-term portfolios altogether which could eventually lead to a reduction in volume of trading.

Finally opponents argue that an STT imposition could lead to volume falling to zero if traders and issuers move trading to countries with lower transaction cost. Referring to previous cases such as Eurodollars, Nikkei index put options and American Depository Receipts, opponents have suggested that with STTs in place, traders can easily substitute securities traded in one country for those traded in another. Therefore international markets with the lowest taxes attract more trading volume than those with high taxes. For example, Ericson and Lindgren have analyzed using cross-sectional data of 23 exchanges in 22 countries and have estimated that if a transaction tax is increased by 100% (say from 1% to 2%) the average turnover of trading volume/shares would fall to zero. They have estimated the elasticity of trading volume with respect to price is about -1.00.

Using the case of Sweden, Schwert and Segium (1993), showed that with a 1% tax on financial transactions introduced in 1984 and increased to 2% two years later, by the year 1990, 50% of trading volume in Swedish shares had migrated to London. The same time, the Swedish interest rate options market was completely wiped out of existence. Having looked at these empirical cases, it is quite clear that where traders have a close

substitute available whether local or abroad, with an imposition of an STT, they can migrate electronically to other more favourable markets to avoid being taxed.

### **EFFECTS ON FINANCIAL ASSET PRICES**

Proponents of STTs have also pointed out an additional benefit of such taxes. They propose that the imposition of STTs might increase the average price of financial assets. Schwert and Segium, (1993) have suggested that because financial asset prices are cash flows discounted by required rates of return, then if required rates of return are positively related to risk, then the introduction of risk-reducing tax, should reduce required rates of return and increase financial asset price. Those who support STTs believe that some players in the financial market are 'noise makers' and that when prices of assets increase as a result of the STT, then these 'uninformed, traders would be forced out of the market.

Schwert and Segium in their study also contrasted this position with other researchers who rather argued that STTs could rather lead to a decline in the price of financial assets. It has been estimated by these researchers that a 0.5% broad-based STT would result in price reduction ranging from 1.2% to 7.7% for all New York stock exchange stocks.

Notable among these researchers are Kupiec, White and Duffee who argue that two factors account for the decline in financial asset prices which are, firstly they referred to a basic microeconomic principle that states that the imposition of a tax on any good reduces its equilibrium prices. Therefore when financial securities are taxed every time they change hands, their fall in value would equal the discounted perpetuity of tax payments.

Secondly, they claim that an imposition of transaction tax would increase the total cost of transacting in the secondary market. They argue ample empirical evidence exist that suggest that required rates of return are positively related to transaction cost and therefore a tax-related increase in transaction cost would call for an increased required rates of return which would then lead to reduction in asset prices. Borrowing from their reasoning, it can then be deduced that any time required rates of return increases, as a result of increases in transaction cost, and then all things being equal, financial securities affected shall command higher prices to support the increases in their returns.

However, they further noted that the decline in the prices of financial assets as a result of the STTs would be greater in liquid and actively traded securities because such securities have higher turnover leading to greater effect on transaction cost.

### **DISCUSSION OF POTENTIAL IMPLEMENTATION CHALLENGES**

#### **EFFECTS ON COST OF CAPITAL**

As already pointed out, an imposition of STT can raise the cost of buying and selling securities. This is so because once security transaction cost increases due to an imposition of STT, it would require higher rates of return which would in turn increase in the cost of capital.

According to G. William Schwert and Paul J. Segium, 1993, an increase in the cost of capital has many potentially negative ramifications. First, it would reduce the flow of profitable projects, reducing levels of real production, expansion, capital investment and eventually employment. If this happens, then it would not be prudent for Government to introduce STTs to raise tax revenue which may have the potential to impact negatively on growth. Judging from this, it may be counterproductive to impose STTs especially in the economies where growth is seen as the only way out of recession. It would appear that in short term, tax revenues could increase, but in the long term, the economy could shrink as a result of discouraging profitable investments which could eventually affect tax revenues. In the words of Schwert and Segium "the imposition of a supposedly revenue-enhancing tax could conceivably have exactly the opposite outcome."

It is worthy to also note that proponents of STTs agree that its imposition could increase cost of capital; they argue that certain features of STTs would help mitigate the increase. They suggest that once tax revenues increase from the imposition of STTs, revenues generated by Government would increase which could lead to a reduction in fiscal deficit. Once deficit reduces, Central Government borrowing levels will decrease which all things being equal could lead to drop in interest rates from banks. Investors can then borrow at cheap rates for profitable investments leading to growth and eventual increase in tax revenue.

Also once government debt decreases, capital will be available for corporate investment. If an economy is in dire straight, taxation appears to be the easy option, but like the recent signs of recovery of the U.S economy due largely to the bail-out plan by the Obama administration, it is becoming increasingly evident that in time of financial distress, investments into critical areas of the economy could help revive the economy. It is comparison to the issue of bail out verses austerity, using STTs to raise tax revenue during economic downturn could rather

hurt growth as is being experienced in the U.K. As the global economy is in distress, imposing an STT is surely not the way to go.

### **THE TAX BURDEN OF AN STT**

According to Campbell and Froot (1994), a tax gives the payer an incentive to change their behavior in order to reduce their tax liability. Accordingly, this change in behavior can manifest in the following:

Firstly Investors can change the location of trading by moving transactions off-exchange or abroad.

Secondly, investors can trade in substitute's securities that are untaxed but which generate similar payoffs similar to those whose transactions have been taxed.

And thirdly, investors can choose to stop trading altogether and accept a change in the payoffs they receive in order to reduce their STT liability. All these potential actions of investors and traders could reduce trading volume and, tax revenues could adversely be affected.

However proponents of STTs argue that once an STT is progressive it will be fair and beneficial to the society as a whole. Joseph Eugene Stiglitz, an American Economist has argued extensively that, because a transaction tax would fall almost heavily on those who overinvest in speculation and engage excessive trading, its imposition will be fair and will benefit the larger society. Some proponents also argue that an STT would affect only those who deal directly in financial assets. Opponents of STTs however disagree with this view. They posit that an STT burden will be felt by a larger proportion of the public than just speculators and noise traders, using the 1998 New York stock Exchange fact book, Schwert and Segium (1993) quoted 47 million direct owners and 133 million indirect owners of equities as at 1980. They claim any imposition of an STT would hit both direct and indirect owners twice as they would suffer loss in value of assets as well as pay tax on liquidation of their portfolios.

### **EFFECTS ON CAPITAL STRUCTURE AND PORTFOLIO**

As already discussed in this paper, empirical evidence available suggest that an STT hits harder on investors with short investments than investors with long term investments using the 1990 U.S Budget, Schwert and Segium argue that the 0.5% broad-based tax flat rate, would not affect all securities equally and that the relative costs of holding and issuing various classes of securities would change. Because short term commercial paper market have short maturities and trade frequently, an STT imposition could affect them disproportionately. Because the commercial paper market is a close substitute to the tax free treasury securities, the required rates of return on commercial paper could rise drastically and this could even lead to the disappearance of the short term commercial paper market. As a result, the price of commercial paper would rise thereby making it unattractive to corporate investment portfolio and capital structure.

### **IMPLEMENTATION AND COMPLIANCE ISSUES**

Like any tax regime, introducing a security transaction tax would require certain structures to be in place. It is generally accepted that any new tax would require administration and monitoring, auditing and compliance as well as collection and investigative units. All these structure would require planning and resources to put in place. Even if they are already in place as the case may be for many tax regimes, implementing an STT would require special training of personnel. Efficiency is one of the cardinal principles of taxation so the cost incurred in collecting taxes should be reasonable compared to the revenue it is intended to generate.

Another issue to resolve in the implementation of an STT according to Schwert and Segium (1993) is the tax base on which to apply the tax. For example, should an option be taxed on its exercise price, current price of the underlying asset or on the price of the option itself? Other researchers like Harbermeier and Kirilenko (2001) argue that the tax base must be defined as a function of the final payoff rather than the asset employed. In other words, applying this to the options, an STT should be based on the premium charged by the seller and or on the gain made by the buyer.

### **EFFECTS ON MARKET EFFICIENCY AND LIQUIDITY**

A market is said to be efficient where prices of assets traded in the market reflect their true economic value. Liquidity is also a feature of a market in which transactions can be quickly executed with little impact on prices.

Schwert and Segium (1993) confirm that an imposition of an STT would directly affect the cost of transacting in securities which would also indirectly affect market liquidity. Using the components of the bid-ask spread, they were able to deduce that an STT would increase the cost of transactions thereby increasing order processing cost, a fixed cost to the market-maker. Once transaction cost increases, trading volume could drop leading to higher fixed order cost per unit increases, it can reduce market efficiency and liquidity.

Secondly, they deduced that an imposition of an STT would increase the market-maker's cost of insuring against risky inventory positions. As the cost of insurance increases, the market-maker will pass it on in the form of increased transaction cost. Once this happens, trading volume could be adversely affected thereby affecting market efficiency and liquidity.

Using the last component of the bid-ask spread, Schwert and Segium pointed out that as an STT reduces the activities of 'noise' traders more than it does to 'informed' traders, then the probability of a market-maker dealing with an 'informed' trader is high which means market information asymmetry could be affected leading to an increased bid-ask spread.

### **CONCLUSION**

Using case studies and empirical evidence available, this paper is able deduce that even though STTs can contribute substantial tax revenue to support government expenditure, the rate of tax applied on security transactions is very central to the revenue that can be generated. Generally a rate of 0.5% is considered desirable and manageable which may not lead to security transactions migrating from one market to another where such taxes are either absent or lower.

Additionally, the notion that STTs can reduce the activities of speculators also called "noise traders" has been debunked. Opponents of STTs believe that unless the taxes can be made to hit only noise traders, it can affect normal or regular traders as well which in the long term can affect the volume of trading negatively. Once trading reduces as a result of the taxes, the tax revenue which an STT is meant to boost will eventually decline. Therefore in implementing an STT regime, attention should be paid to ensuring that such taxes are made to affect only the activities of noise traders so that regular traders can expect to trade in the intrinsic values of security assets

Opponents of STTs have also made a strong case that an STT can adversely affect economic growth and some countries notably India has recently made proposals to either scrap it or reduce the rate of tax. They claim that STTs can raise the cost of trading in securities and where such extra cost cannot be absolved conveniently or passed on, economic activities may dwindle which will have serious impact on growth.

Researchers on STTs also agree that for it to be implemented successfully, countries trading in securities must work together to ensure common policies are implemented to deter traders from moving from one place to another to avoid taxes on their transactions. This is especially true for developing nations where weak financial markets will it unattractive to financial capital inflows

### **RECOMMENDATIONS**

Empirical evidence available attest to an overwhelming contribution of transactions in the global financial market. Trading in securities in the US alone has a notional value of approximately over \$600 trillion far higher than their GDP. Therefore any policy aimed at regulating the activities of traders in the securities markets must be thought through carefully so that only the activities of what has come to be known as "excessive speculative activities" can be reversed. Additionally, developing economies such as Ghana, might have to consider factors such as the size of the security market, the tax rate applicable, capacity of existing tax collection agencies, the capacity of the Securities and Exchange Commission and other related regulatory agencies if such taxes can work.

Even though security transactions may be desirable, implementing it in an economic crises regime may prove to be a bad economic tool. In an economic crisis like the one we are experiencing, the US bail out strategy appears to be a realistic solution than the European austerity measures which so far has not worked to return them to the path of growth. Therefore instead of introducing additional taxes to increase tax revenues which may turn out to be counter-productive, increased public expenditure through targeted growth led programs might be a better strategy even though it may be too early to conclude

Moreover, it is now very obvious that the main objective of an STT is to increase tax revenue which has worked in most cases, concerted efforts and structures must be put in to ensure that the cost involved in administering an STT program will not outweigh the revenue generated from it. Thus where there are existing tax collection structures in place, they only need to be strengthened to make them work better. In developing economies where the tax revenue that can be generated is small, the recommendation of using existing structures cannot be over emphasized.



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