



MEDIA RELEASE

Government Right to Reject Transactions Tax

2 December 2011

The Australian Financial Markets Association (AFMA) supports the position of the Treasurer, Wayne Swan, and Assistant Treasurer, Bill Shorten, in rejecting a call for the introduction of a financial transactions tax made at the ALP's National Conference today.

A financial transactions tax would impose a significant cost on the Australian community, adversely affecting many ordinary Australians and the businesses that employ them.

The Henry Tax Review rejected the financial transactions tax option because it is an inefficient tax that would pose a risk to financial stability and impede economic activity.

A financial transactions tax would reduce the value of shares and other traded securities held by Australian investors. The impact would be significant and widespread, as 43% of the adult population own shares. Older Australians would be disproportionately affected, as they typically have accumulated shares and other financial assets to help fund their retirement.

A financial transactions tax would increase the cost of transacting on our financial markets and increase the cost of capital for Australian businesses. This would put Australia at a competitive disadvantage to our neighbours, threatening income and jobs.

A financial transactions tax would reduce the liquidity premium that Commonwealth and State Governments bonds benefit from in their pricing, meaning governments would have to pay more to service their debt on an ongoing basis. This would absorb tax revenue, already reduced by lower capital gains tax receipts and less economic activity due to the tax.

The International Monetary Fund in its report to the G20 Ministers in June 2010 cautioned that "The argument that a financial transactions tax would cause little distortion because it would be levied at a very low rate on a very broad base is not persuasive".

A financial transactions tax would make financial markets less effective in achieving what they are designed to do – to provide low cost finance and price signals that lead to the most productive allocation of our capital resources.

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Notes for Editors:

The Australian Financial Markets Association (AFMA) is the leading industry association promoting efficiency, integrity and professionalism in Australia's financial markets and provides leadership in advancing the interests of all market participants. These markets are an integral feature of the economy and perform the vital function of facilitating the efficient use of capital and management of risk. Market participants perform a range of important roles within these markets, including financial intermediation and market making.

AFMA represents over 130 members, including Australian and international banks, leading brokers, securities companies, state government treasury corporations, fund managers, traders in electricity and other specialised markets and industry service providers.