Incentivise Investment: Tax Policy for Market Participation and Economic Expansion

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Summary

Capital markets are essential to economic growth, innovation, and job creation. However, poorly designed tax regimes can deter participation and undermine the broader benefits of capital markets.

This paper outlines policy recommendations aimed at fostering investment, enhancing capital formation, and supporting economic development. A well-calibrated tax system should reduce barriers to market access, incentivise productive investment, and simplify compliance for both issuers and investors.

Key recommendations include:

1. **Eliminate Financial Transaction Taxes (FTTs):** FTTs increase trading costs, reduce liquidity, and deter both investment and issuance. Evidence shows they harm market efficiency and ultimately fail to achieve their intended policy outcomes.
2. **Provide Tax Relief for Investors:** Tax incentives for pension savings and retail investment accounts, as well as reducing withholding taxes on dividends, can boost long-term savings, support equity investment, and promote financial inclusion.
3. **Eliminate Taxes on Listings:** Removing levies on public listings makes it more affordable for companies—especially SMEs—to access public markets. Further, tax incentives for first-time listings and deductions for listing and IPO-related expenses can stimulate new issuance and capital raising.
4. **Incentivise Clearing:** Taxes on clearing activities undermine financial stability and deter central clearing—an internationally recognised risk-mitigation tool. Ensuring tax neutrality between cleared and non-cleared trades supports safe and efficient markets.
5. **Simplify Tax Reporting:** Complex and inconsistent tax requirements discourage investment, particularly cross-border. Automation, clear guidance, and exemptions for small investors can reduce compliance burdens and expand participation.
6. **Remove Cross-Border Tax Barriers:** Harmonising reporting requirements, strengthening double taxation treaties, and aligning treatment of domestic and foreign investors can boost global investment flows, particularly to emerging markets.

By adopting these measures, policymakers can create an investment-friendly tax environment that strengthens capital markets, supports sustainable growth, and enhances international competitiveness.

Capital markets play an essential role in supporting economic growth, innovation and job creation. Exchanges facilitate access to capital, enable risk management and provide a place for investors capital to accumulate. In other words, well-functioning markets contribute to broader economic development.

Taxation significantly influences investment decisions. A well-designed tax system should incentivise productive investment, promote risk management and reduce unnecessary frictions for both issuers and investors. Tax policies that achieve this reduce barriers to capital formation and foster wealth creation. Conversely, tax burdens on market participation – whether in the form of levies on listings, taxes on transactions or complex cross-border issues – deter investment and undermine the public interest.

A tax regime that supports market participation aligns with the broader public interest by ensuring that businesses, particularly small and medium-sized enterprises (SMEs), can access the capital they need to expand and innovate. Moreover, both retail and institutional investors benefit from a tax system that incentivises long-term participation and reduces compliance costs.

Exchanges are at the centre of capital formation. They connect issuers seeking funding with investors looking for opportunities to deploy capital. As an industry we consider it our responsibility to advocate for a tax framework that promotes investment, enables capital formation and contributes to broader economic growth. This paper sets out a series of recommendations designed to do just that, namely:

1. Eliminate Financial Transactions Taxes
2. Provide Tax Relief for Investors to Encourage Market Participation
3. Eliminate Taxes on Listings to Facilitate Access to Capital
4. Incentivise Clearing
5. Simplify Tax Reporting to Encourage Investment
6. Remove Tax Barriers to Cross-Border Investment

By implementing these measures, policymakers can create a more attractive investment environment, support capital market growth, and enhance the global competitiveness of financial markets. The following sections explore these proposals in detail, outlining their benefits for issuers, investors, and the broader economy.

Policy Recommendations

Recommendation 1: Eliminate Financial Transaction Taxes (FTTs)

Where they exist, FTTs should be eliminated. Numerous studies have shown that taxing transactions harms investors and issuers by increasing costs.[1] We have also written about the subject recently[2] and

[1] https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Taxing-Financial-Transactions-Issues-and-Evidence-24702

[2] https://www.world-exchanges.org/our-work/articles/counting-losses-adverse-impacts-financial-transaction-taxes-companies-investors-and-market

found FTTs pose significant challenges for investors, companies, and financial markets, creating a ripple effect that ultimately hinders market efficiency, economic growth and employment. FTTs are often enacted for laudable reasons but it is a sad fact that they do not achieve these goals and ultimately harm investors, issuers and society at large. FTTs can include VAT where that is charged on transactions, something which we recently wrote about in a response to the UK Government.[3]

Recommendation 2: Provide Tax Relief for Investors to Encourage Market Participation

Investors – both retail and institutional – provide the lifeblood of the financial system. By providing capital to businesses, investors accelerate economic growth and create jobs. Not only that but investing creates a virtuous cycle where gains can be re-invested to boost supply side growth, spent to demand side growth, or saved for long-term goals like retirement. Naturally, investment decisions are influenced by tax considerations, namely the cost and complexity of paying that tax.

Recommendation 2.1: Provide Tax Relief to Pensions

Tax relief on pensions is widely recognised by policymakers as a beneficial measure. All OECD countries provide some form of tax incentive to increase pension savings.[4] Incentives for funded pension plans can be introduced by policymakers to increase total savings, redistribute savings into retirement savings plans, expand the role of funded pensions in providing retirement income, or simply treating all retirement savings, whether in public or private schemes, equally.

This is not just an issue for developed countries. Developed economies generally have ageing populations and can no longer afford to cover the cost of pensioners from the public purse. Therefore, they are increasingly turning to private pensions. Developing economies and emerging markets can avoid the mistakes made by others and encourage individual savings before it becomes a problem.

In the long-term, providing tax relief on pensions is a saving measure. Individuals become less reliant on government-funded pensions, alleviating fiscal pressure on social security systems, and governments can often tax withdrawals as income.

Recommendation 2.2: Provide Tax Advantaged Investment Accounts to Retail Investors

Building on the above, tax advantaged investment accounts can further encourage individuals to save. Tax advantaged accounts enable savings by permitting investments to grow free from taxation or at reduced rates. Benefits can include tax deferral, tax exemptions, or tax credits on contributions, growth, or withdrawals.

Savings can be used to build wealth, for large purchases (like purchasing a home) or continually reinvested to provide a supplementary income. By incentivising retail participation in capital markets, these accounts democratise financial markets and increase financial inclusion.

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[3] https://www.world-exchanges.org/our-work/articles/wfe-response-department-energy-security-net-zero-consultation-voluntary-carbon-and-nature-markets-raising-integrity

[4] https://www.oecd.org/content/dam/oecd/en/publications/reports/2018/12/financial-incentives-and-retirement-savings_g1g96ed9/9789264306929-en.pdf

Examples include the US ROTH IRA, Canadian TFSA, or UK ISA. In Sweden, the ISK is widely considered to have been incredibly successful in enabling retail investment in Swedish equities which is amongst the highest in Europe. According to the OECD, “at the end of 2023, there were 3.8 million unique dedicated investment savings account (ISK) holders, in a total population of 10.6 million.”

Similarly, Governments could consider introducing or expanding specific incentives by linking long-term savings products to other tax benefits. For example, granting preferential capital gains tax treatment for investments held within designated savings vehicles could promote sustained retail participation in public markets and support broader financial inclusion objectives.

Recommendation 2.3: Reduce or Eliminate Withholding Taxes

Reducing or eliminating withholding taxes on dividends increases the return on equity, making stocks more attractive to investors. This, in turn, reduces the cost of capital for businesses, leading to higher investment and economic growth. Various research supports this notion,[5] most recently Martin Jacob found that taxation on dividends prevent businesses from making effective investments. His research suggested that reduced taxation may lead to increased labour and capital inputs and, consequently, increased productivity.[6]

Recommendation 3: Eliminate Taxes on Listings to Facilitate Access to Capital

Public markets serve as a critical avenue for businesses to raise capital, expand operations, and drive economic growth. Taxation on listings can come in the form of stamp duties, levies, or administrative fees and creates unnecessary barriers to market entry, discouraging companies from seeking public financing. Reducing or eliminating such taxes can enhance market access, particularly for small and medium-sized enterprises (SMEs), and improve overall capital formation.

Recommendation 3.1: Eliminate Stamp Duties and Listing Taxes on Equity Issuance

Taxing listings, whether through general sales tax (GST)/value added tax (VAT) or through a specific levy, deters initial public offerings (IPOs). For example, in Australia there is a 10% Goods and Services Tax on Listing Fees. This disproportionately impacts small and medium sized enterprises as they are particularly sensitive to cost. This is a regrettable outcome as SMEs could be the biggest beneficiaries of access to more capital.

In contrast, SMEs and other companies would generally not pay tax on a business loan from a bank. Nor would the company generally pay tax on the issuance of new shares to private equity investors Taxing the public issuance of shares therefore reduces the attractiveness of equity financing in comparison to alternatives. This disadvantages retail investors in particular who do not have access to private equity channels that so often kickstart unicorns.

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[5] For example, Harberger, Arnold C. (1962). “The Incidence of the Corporation Income Tax.” Journal of Political Economy, 70, 215-240; or, Poterba, James M. and Lawrence H. Summers. (1983). “Dividend Taxes, Corporate Investment, and ‘Q.’” Journal of Public Economics, 22(2), 135-167.

[6] https://econpapers.repec.org/article/eeecorfin/v_3a69_3ay_3a2021_3ai_3ac_3as0929119921001620.htm

Recommendation 3.2: Introduce Tax Incentives for First-Time Listings and SME Markets

Rather than discouraging listing, countries should be doing everything they can to encourage listings and thereby enable ownership by the public. Introducing tax incentives for first time listings would encourage business leaders to list, get access to capital and grow their companies and the economy overall. In Singapore, the government has recognised this and recently announced measures that include a 20% corporate income tax rebate for new primary listings and a 10% tax rebate for new secondary listings with share issuance.[7]

Encouraging listings is particularly important for SMEs. In the UK, there are several tax reliefs that apply to the SME Growth Market.[8] There have even been calls to extend these for a limited period when advancing to the main market to prevent cliff edge effects.[9]

Recommendation 3.3: Provide Tax Deductions for Listings Fees and IPO-Related Costs

Allowing companies to deduct expenses related to listings and IPOs from their taxable income could lower the effective cost of going public making capital markets a more attractive and viable option for companies seeking to raise funds for growth and innovation.

Allowing listing fees to be written off against tax would serve as a powerful incentive to encourage more companies to list on public markets and is current practice in countries like Greece. This policy could enhance the attractiveness of capital markets by reducing the financial burden associated with going public, particularly for SMEs. By lowering the effective cost of listing, it would promote greater market participation, support capital formation, and contribute to broader economic growth.

Going further could also encourage listing. Currently, the costs associated with an IPO, such as underwriting fees, legal and advisory costs and regulatory filing expenses, represent a significant financial burden for issuers. Many of these costs are non-deductible under existing tax regimes, effectively increasing the overall cost of accessing public capital markets.

Recommendation 4: Incentivise Clearing

Clearing plays a fundamental role in ensuring that the safety and stability of financial markets remains. By acting as a central counterparty to transactions, clearinghouses mitigate counterparty risk via novation, margin requirements, and a default waterfall of resources. CCPs also minimise macroprudential risk, by netting, monitoring exposures, conducting stress testing, and maintaining robust default management and loss allocation arrangements.

Taxing clearing disincentivises something which international standard setters effectively mandated in response to the 2008 global financial crisis. Furthermore, taxes imposed on clearing and settlement processes create unnecessary frictions - discouraging, and increasing the cost of, central clearing. This

[7] https://www.mas.gov.sg/news/media-releases/2025/a-comprehensive-set-of-measures-to-strengthen-singapores-equities-market
[8] https://docs.londonstockexchange.com/sites/default/files/documents/aimuktaxguide.pdf
[9] https://home.barclays/content/dam/home-barclays/documents/news/Insights/Graduating%20from%20a%20Junior%20Stock%20Market%20in%20the%20UK%20FINAL.pdf

has an effect on aspects of the real economy, as increased costs borne by clearing clients are passed on to consumers in the form of higher prices for goods and services, particularly in areas such as food and energy. Alternatively, removing these taxes can support financial stability and encourage efficient risk management.

Recommendation 4.1: Remove Taxes on Clearing

Taxation on clearing discourages its use by introducing extra costs. This undermines the goal of financial stability. A well-functioning clearing system is designed to reduce financial instability. Taxes on clearing also make trading more expensive, reducing market liquidity and efficiency.

Recommendation 4.2: Ensure Tax Neutrality Between Cleared and Non-Cleared Transactions

Tax frameworks should not discourage central clearing by making it more expensive than non-cleared trades. Ensuring that clearing is tax-neutral encourages best practices in risk management.

Recommendation 5: Simplify Tax Reporting to Encourage Investment

Complex and burdensome tax reporting systems are further barriers to investment, particularly for retail and cross border investors. Numerous issues such as high compliance costs, uncertainty over liabilities and inefficient refund mechanisms discourage participation and engagement in capital markets. Introducing simplification can make investing more accessible which brings further capital to companies.

Recommendation 5.1: Digitalise and Automate Tax Reporting Processes

Digitalisation and automation of tax returns could significantly improve investors by reducing manual input, minimising errors, and saving time. AI and machine learning could further enhance tax services by analysing financial data, detecting inconsistencies, and providing personalised guidance. Secure data sharing between tax authorities and financial institutions would eliminate the need for manual tracking, benefiting investors with diverse portfolios.

In the last ten years, e-filing of tax returns has significantly increased. 95% of the 52 jurisdictions surveyed by the OECD in 2023 use e-filing on corporate income tax. That number is similarly high for personal income tax returns but more often than not, the pre-filled information does not include interest, dividends or capital gains.[10]

Recommendation 5.2: Provide Clear and Accessible Tax Guidance for Investors

Many investors struggle to navigate complex tax obligations due to unclear, inconsistent, or frequently changing regulations. Ambiguities in tax guidance, differences in interpretation between jurisdictions, and a lack of user-friendly resources can lead to confusion, errors, or even unintentional non-compliance. This is especially true for individuals managing investments across multiple asset classes or international borders, where tax treatment may vary significantly.

[10] https://www.oecd.org/en/publications/2023/09/tax-administration-2023_87655bc9.html

To address this challenge, governments should ensure that tax rules are well-defined and easily accessible to all investors, regardless of their financial expertise. Clear guidelines should be published in plain language, supplemented with real-world examples and practical case studies. Additionally, tax authorities should provide online resources, interactive tools, and helplines to assist investors in understanding their obligations.

Recommendation 5.3: Consider Tax Reporting Exemptions for Small Investors

Smaller and retail investors face disproportionate taxation and compliance costs relative to their investment size. Exemptions or simplified reporting for low-volume investors could encourage broader participation in the market leading to increased capital and increased economic growth.

As covered above, tax advantaged accounts for retail investors and pensions are one common way to do this. Other methods could include exempting smaller dividend incomes or capital gains or for reduced taxation for education, homeownership, or health savings.

Recommendation 6: Remove Tax Barriers to Cross-Border Investment

Cross border investment is an important component for economic growth in many parts of the world. Emerging markets in particular need cross-border investment in order to increase liquidity on their markets and attract companies to list there. Moreover, many markets do not have dedicated exchanges for derivatives trading so require access to foreign derivatives markets in order to enable risk management. However, various tax-related barriers exist to cross-border investment which could be removed.

Recommendation 5.1: Harmonise and Standardise Tax Reporting Requirements

Differing tax reporting requirements across different jurisdictions increase complexity for investors. Increased complexity increases costs of compliance as investors spend time and money to seek to comply. Alternatively, investors will just not engage in overseas activities.

Harmonising and standardising taxation and reporting requirements could help facilitate investment. Standardising tax forms, classifications and reporting requirements can reduce administrative burdens for investors. For this reason, the WFE is supportive of the OECD's Common Reporting Standards (CRS) which aim to harmonise international tax reporting.

Recommendation 5.2: Strengthen and Expand Double Taxation Treaties (DTTs)

With potentially taxable events occurring in two jurisdictions or as part of an international trade, double taxation is a real risk that prevents investors from undertaking cross-border activities. Double taxation treaties can remove this barrier to investment leading to enhanced market competitiveness. The OECD Model Tax Convention provides a valuable framework for reducing double taxation, which has been widely adopted in bilateral tax treaties.

Recommendation 5.3: Align Tax Treatment for Domestic and Foreign Investors

Discriminatory treatment of foreign investors deters their involvement in financial markets. Foreign investors are often seen as low risk way of governments raising revenue as the parties paying the tax cannot express their dissatisfaction. However, in an economic sense, the companies that fail to get investment are also 'paying' that tax. Creating a level playing field for international investors can help improve liquidity and improve investment conditions in a jurisdiction.

Conclusion and Call to Action

A growth-focused tax system should aim to minimise barriers to economic expansion. This also means that tax policies should avoid disincentivising risk-taking. The recommendations set out above and below in the annex should be considered by all governments wishing to encourage investment and responsible savings in their jurisdiction.

Annex – Full List of Recommendations

Recommendation 1: Eliminate Financial Transactions Taxes

Recommendation 2: Provide Tax Relief for Investors to Encourage Market Participation

- Recommendation 2.1: Provide Tax Relief to Pensions
- Recommendation 2.2: Provide Tax Advantaged Investment Accounts to Retail Investors
- Recommendation 2.3: Reduce or Eliminate Withholding Taxes

Recommendation 3: Eliminate Taxes on Listings to Facilitate Access to Capital

- Recommendation 3.1: Eliminate Stamp Duties and Listing Taxes on Equity Issuance
- Recommendation 3.2: Introduce Tax Incentives for First-Time Listings and SME Markets
- Recommendation 3.3: Provide Tax Deductions for IPO-Related Costs

Recommendation 4: Incentivise Clearing

- Recommendation 4.1: Remove Taxes on Clearing
- Recommendation 4.2: Ensure Tax Neutrality Between Cleared and Non-Cleared Transactions

Recommendation 5: Simplify Tax Reporting to Encourage Investment

- Recommendation 5.1: Digitalise and Automate Tax Reporting Processes
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- Recommendation 5.3: Consider Tax Reporting Exemptions for Small Investors

Recommendation 6: Remove Tax Barriers to Cross-Border Investment

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- Recommendation 6.2: Strengthen and Expand Double Taxation Treaties (DTTs)
- Recommendation 6.3: Align Tax Treatment for Domestic and Foreign Investors

Background

Established in 1961, the WFE is the global industry association for exchanges and clearing houses.

Headquartered in London, it represents the providers of over 250 pieces of market infrastructure, including standalone CCPs that are not part of exchange groups. Of our members, 36% are in Asia Pacific, 43% in EMEA and 21% in the Americas. The WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some $1.3 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. The exchanges covered by WFE data are home to over 55,000 listed companies, and the market capitalization of these entities is over $111tr; around $124tr in trading annually passes through WFE members (at end-2023).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back more than 40 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

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