The influence of financial regulation on the tax treatment of retail investment in Belgium

Ward Willems (ward.willems@kuleuven.be)
Supervisor: Prof. dr. Niels Bammens

The research looks at the interplay of financial law and tax law for the differentiation and treatment of retail financial instruments. Do the tax rules lead to unintended consequences and how to solve these issues based on the normative ideals of financial regulation (which are often shared with taxation)?

Goals of (retail) financial regulation

- Investor protection
- Market integrity
- Preventing financial crime
- Economic Efficiency
- Financial independence of households (e.g. long-term saving)
- Other (e.g. sustainability)
- Raising revenue
- Redistribution
- Specific non-fiscal goals

Goals of (retail investment) taxation

- Economic efficiency issues and risk of undermining (other goals of) financial regulation

Multiple challenges

- Highly fragmented tax landscape (significant differentiation and types of taxes/tax rules)
  - Difficulty of comparison of financial instruments
  - Existing differentiations are not always expressly intended
  ➔ Economic efficiency issues and risk of undermining (other goals of) financial regulation

- Inadequate drafting, targeting or flexibility of tax rules
  - Financial engineering and emergence of new types of investments (e.g. crypto-instruments)
  - Inadequate targeting of (new) tax rules (under- or over-inclusion)
  ➔ Economic efficiency issues and risk of undermining (other goals of) financial regulation

- Harmonisation (EU financial regulation) vs. fragmentation (primarily domestic tax laws)
  - Different legislators – different goals or same goals pursued differently
  ➔ Domestic tax rules may undermine goals and/or useful effect of EU financial regulation

Example: complex high-risk financial instrument

Financial spectrum

- Investor protection
  Disclosure rules
  (e.g. PRIIPs, Belgian FSMA moratorium on complex retail financial instruments)

- Product intervention
  MiFID ban/restriction on distribution to retail investors
  (e.g. Belgian FSMA 2014 ban on CFDs, binary options, instruments linked to crypto-currencies; ESMA 2018 restrictions on CFDs and ban on binary options)

Tax spectrum

- Non-differentiated tax treatment (compared to less complex lower risk products)
- Beneficial tax treatment (compared to less complex lower risk products)
- Complex tax treatment

Interplay

- Investor protection rules can have full effect
  A priori no efficiency issues
- Investor protection may be undermined by beneficial tax treatment
  + Possible efficiency issues
- Investor protection may be undermined by tax complexity
  + Possible efficiency issues