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It can't be a tax cut for fund managers because tax incidence [1]

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Hurrah for someone in government having a bright idea at last but the reporting of this is appalling [3]:

> A tax cut for City fund managers will leave the typical worker £11,000 better off on retirement, the Treasury has said. The Treasury has promised to abolish ?Schedule 19? stamp duty reserve tax, which applies to some investments sold by funds. The tax cut, worth £145 million a year to the fund management industry, is politically controversial and Labour has promised to reverse it.

That's simply ludicrous. If it's a tax cut on fund managers then fund managers will benefit. If it's actually future pensioners who will benefit then it's a tax cut on future pensioners, not fund managers.

Which brings us back to the whole subject of tax incidence again. Who nominally hands over the cheque to the Treasury can be very different from who bears the economic burden of the tax. As we can see here. Nominally the tax is on fund managers buying and selling shares. But actually, the tax falls on the pension pots of savers. It must do: otherwise how can reducing the tax increase pension pots?

Fortunately this has all been well studied. The IFS looked at exactly this question a decade ago and their report is here [4]. The conclusion is that stamp duty is, in the end, paid by pensioners in lower pension pots and also all workers in the economy as it makes capital for companies more expensive.

So, Hurrah! Investment capital becomes cheaper thus boosting the amount of it that will happen and savers gain better returns on their pensions. Hurrah! indeed.

> Ed Miliband, the Labour leader, in September suggested that Labour would reinstate the tax, describing the Coalition move as a ?tax cut on hedge funds?.

Yes, yes, I know this is a democracy and all that, the very ability to get elected meaning that you are indeed qualified to be elected. But please, can't we hope for a few more people who actually understand the real world? For example, Schedule 19 doesn't apply to hedge funds in the first place, only to unit trusts and open ended investment companies.

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