LETTER REGARDING ITALIAN FTT CHANGE - ENGLISH TRANSLATION

To the President of the Council of Ministers

To the Minister of Economy and Finance

Cc:

To the Chief of Staff of the President of the Council of Ministers

To the Deputy Minister of Economy and Finance, Maurizio Leo

To the Undersecretary of State for Economy and Finance, Federico Freni

Subject: Draft 2027 Budget Law – Increase in the Financial Transaction Tax and its consequences for the Italian capital market

Dear Prime Minister, Dear Minister,

The undersigned associations and capital market participants wish to draw the Government's attention to the significant concerns arising from the further increase in the Financial Transaction Tax (FTT) envisaged in the draft 2027 Budget Law, and to request that this measure be reconsidered.

While fully recognising the requirements of public finances, we believe that the measure risks producing counterproductive economic effects by discouraging investment in Italian companies, weakening the competitiveness of our financial market and undermining the effectiveness of the initiatives which the Government itself has rightly promoted to encourage stock market listings, strengthen market liquidity and channel a greater share of savings towards financing the productive economy.

The proposed measure would be particularly significant in terms of both its magnitude and the speed of its implementation. Following the doubling of the tax introduced by the 2026 Budget Law, the further increase would raise the standard rate on equity transactions from 0.40% to 0.80%, while the rate applicable to purchases executed on regulated markets and multilateral trading facilities would rise from 0.20% to 0.40%. The rate applicable to high-frequency trading would also double, from 0.04% to 0.08%. Over a period of just two years, the tax burden would therefore have quadrupled compared with 2025, without sufficient time having elapsed to fully assess the impact of the previous increase on investor behaviour, market liquidity and actual tax revenues.

The first area of concern relates to the protection of savings and the ability of Italian companies to attract equity capital.

The Financial Transaction Tax is not a tax on the profits of financial intermediaries, but rather an additional cost associated with the purchase of shares in Italian companies, which is ultimately borne, directly or indirectly, by end investors, including individual savers, investment funds and institutional investors.

It therefore penalises the very decision to allocate resources to the equity capital of Italian companies, compared with investments in foreign companies that are not subject to an equivalent tax. Furthermore, since the tax applies to transactions, it increases the cost of portfolio rebalancing and may influence the asset allocation decisions of professional investors, asset managers and insurance companies.

The effects are not limited to the additional costs borne by investors. Higher trading costs may reduce trading volumes, diminish the liquidity of securities and widen bid-ask spreads, with potentially more significant consequences for mid-cap companies, whose shares typically trade in less deep and liquid markets.

Over the medium term, reduced liquidity may translate into higher returns required by investors and, consequently, an increase in companies' cost of capital, making stock market listings less attractive and reducing the equity market's ability to support investment and growth.

The second area of concern relates to the international competitiveness of the Italian financial market.

Within the European Union, Italy, France and Spain are among the few countries that impose a specific transaction tax on purchases of shares in domestic companies. However, any comparison between their respective regimes must take into account not only nominal tax rates but also the scope of application and the characteristics of the markets concerned.

In France and Spain, the tax applies to shares in companies with a market capitalisation exceeding EUR 1 billion, whereas in Italy the threshold is set at EUR 500 million. The Italian tax therefore also affects smaller companies, for which market liquidity is particularly important.

The Italian regime also includes taxes on derivatives and high-frequency trading, further broadening the overall scope of the tax.

The proposed further increase would therefore exacerbate the competitive disadvantage faced by Italian companies and the domestic financial marketplace compared with markets that do not impose equivalent taxation. This is particularly relevant given the still relatively limited size of the Italian equity market and the need to enhance its attractiveness to domestic and international investors.

Moreover, the measure appears difficult to reconcile with the objectives of the European Savings and Investments Union, which seeks to encourage greater mobilisation of savings towards productive investment, strengthen the integration of financial markets and improve companies' access to equity capital.

In the absence of a harmonised tax framework at European level, further unilateral increases in transaction taxes risk exacerbating competitive distortions between national markets rather than promoting their integration.

The third and particularly significant area of concern relates to the consistency of the proposed measure with the Government's policies to develop the capital market.

In recent years, important legislative and regulatory initiatives have been introduced to facilitate companies' access to equity markets, simplify the obligations imposed on listed companies and encourage the investment of savings in the Italian economy.

These initiatives include the reform of the Consolidated Law on Finance (Testo Unico della Finanza), simplification measures for new listings and listed SMEs, tax incentives for stock market listings, measures concerning Individual Savings Plans (Piani Individuali di Risparmio, or PIRs), and the proposal for new tax-advantaged savings and investment accounts, currently under discussion with the Ministry of Economy and Finance.

The increase in the Financial Transaction Tax would risk undermining the effectiveness of these initiatives, creating a clear inconsistency between the measures designed to promote equity investment and the tax treatment imposed on investors who choose to purchase shares in Italian companies.

The same contradiction arises in relation to the National Indirect Strategic Fund (Fondo Nazionale Strategico Indiretto), promoted by the Ministry of Economy and Finance together with Cassa Depositi e Prestiti (CDP), to support, through participating investment funds, investments primarily in listed companies outside the FTSE MIB index.

Some of the companies targeted by these investments have a market capitalisation exceeding the EUR 500 million threshold and therefore fall within the scope of the tax. As a result, purchases made by funds supported through public intervention may be subject to a tax charge that reduces the resources effectively available for investment.

This creates a situation in which, on the one hand, the State mobilises public resources to strengthen the liquidity and financing capacity of Italian listed companies while, on the other, increasing the tax cost of the very transactions through which those objectives are pursued.

The fourth and final area of concern relates to the proportionality of the measure in relation to its expected benefits for public finances.

The available empirical evidence on the application of financial transaction taxes suggests that caution is warranted when assessing their effects. Several studies have highlighted potential adverse consequences for liquidity and trading costs, as well as changes in market participants' behaviour that may reduce actual tax revenues compared with initial forecasts.

Before the doubling introduced for 2026, annual revenue from the Italian tax amounted to approximately EUR 546 million. It is therefore important to assess whether the additional revenue expected from further rate increases is proportionate to the potential economic costs, taking into account not only the direct costs borne by investors but also the consequences for market liquidity, companies' cost of capital and the compliance obligations imposed on financial intermediaries.

We therefore believe that any further measure should be preceded by an assessment of the effects of the increase already introduced, the tax revenue actually collected and investors' likely responses to a further increase in the tax burden.

The immediate benefit to public finances should also be assessed in the light of the longer-term interest in developing a broader, more liquid and competitive capital market, capable of attracting investment, supporting business growth and expanding opportunities for the investment of domestic savings.

In light of these considerations, the undersigned associations call on the Government to reconsider the further increase in the Financial Transaction Tax envisaged in the draft 2027 Budget Law.

We firmly believe that strengthening the capital market is a strategic priority for the Italian economy, for business growth and for the more effective mobilisation of savings towards productive investment.

From this perspective, tax policy and capital market development policies should pursue consistent objectives, avoiding a situation in which short-term revenue requirements undermine structural initiatives aimed at enhancing the competitiveness and financing capacity of the productive economy.

We trust that the Government will give due consideration to the concerns outlined above. We remain available for any further discussion or technical exchange that may be useful.

Yours sincerely,