

Time to take action - Finally supporting employee share ownership

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In early 2014, the former Commissioner Barnier and the European Parliament already called on the political authorities of the EU member states to put more emphasis on the dissemination of employee share ownership. According to these politicians in Brussels, enabling employees to participate in the company's capital can improve the competitiveness and corporate governance of companies and contributes to overcoming the economic and financial crisis.

Unfortunately, so far this wake-up call from Brussels did not lead to reactions in the political field of Germany. This is even more incomprehensible as both governmental parties promised in their election campaigns to encourage employee share ownership in the next legislature.

In the opinion of Deutsches Aktieninstitut e.V., German politics finally needs to act. The continuing phase of low interest rates leaves a deep mark on wealth formation and retirement plans of German citizens, which are known to preferably invest their funds in low-yielding assets like saving accounts. High-yielding asset classes, such as shares, still lead a rather shadowy existence among German retail investors. However, recently citizens can only increase their wealth or at least maintain their savings in the long run by investing in shares. Employee share ownership presents a good opportunity in order to get a first insight into saving with shares.

While employees participate in the profits and success of their company, broad share based compensation plans can increase motivation as well as productivity. At the same time, providing employee share ownership firms become more attractive as employers. Therefore, employee share ownership presents a real benefit for both, employees and companies.

The number of employee shareholders is declining

Despite these obvious benefits, the number of employee shareholders in Germany has been declining since the turn of the millennium (compare figure below). This development reflects the general trend in the number of all direct shareholders and owners of equity funds. Indeed shareholder numbers reached their peak with almost 13 million (1.6 million employee shareholders) during the “new economy era” at the start of the new millennium. However, not only stock prices went down after the dotcom bubble burst, but also shareholder numbers. The insolvency of Lehman Brothers and the financial crisis reduced confidence of

German retail investors in shares further. Even though share prices in stock increased since 2009 and moved from one record to the next lately, most retail investors continue avoiding stock markets. In 2014, shareholder numbers are almost back to the same low level as in 1999. Moreover, we have never counted as few employee shareholders with just around 800,000 as in 2014.



Number of shareholders and employee shareholders in million (source: Deutsches Aktieninstitut)

What are the reasons? Why is the number of employee shareholders decreasing continuously and how can this trend be stopped? Unfortunately, especially the legal and fiscal framework in Germany does not at all increase the attractiveness of employee share ownership. On the contrary, the current conditions render it even more difficult for companies to implement employee share plans or to convince employees of the benefits involved.

Implementation of employee share ownership should be simplified

The administrative expenses of introducing employee share plans should not be underestimated. A striking example is the custody of the shares. Anyone who has ever opened a securities account in Germany knows how much time it costs to fulfill and conduct the formalities connected with that. An employee, who only applies for a handful of shares of the company each year, quickly loses interest in this time consuming process.

Due to this, it already exists the possibility for companies to undertake the paperwork for opening a securities account on behalf of their employees. However, whether and in which extend this is allowed, has to be evaluated individually by the German Federal Financial Supervisory Authority (BaFin). This approach is extremely time consuming. Consequently, it is necessary to clarify the requirements under which a company can open securities accounts for its employees. Yet these requirements should be kept as short as possible.

Legal uncertainties increase even further, if companies intend to include employees working abroad. Different labor laws, tax regimes etc. usually render cross border share plans very complex and cost-intensive. In this context international harmonization efforts become even more important, as already demanded by the Parliament of the European Union.

Expansion of fiscal support required

Besides legal difficulties, fiscal aspects play a major role for the dissemination of employee share ownership. The recent allowances regarding taxes and social contributions on the discount granted by the employer is limited in Germany to 360 euros per year. In comparison, the comparable allowances amount in Great Britain up to around 3,500 euros, to 2,066 euros in Italy, and to 1,460 euros in Austria. If Germany really wants to promote employee share ownership, it needs to adapt its allowances to common international levels and to increase it to at least 1,000 euros.

Besides specific legislative and fiscal issues of employee share ownership, the fiscal discrimination of equity in relation to fixed-income instruments, presents an impediment for share investments in general. The tax burden on stock returns in Germany, which is imposed without restrictions at company and investor level, sums up to around 50 percent. In contrast, taxation on interest returns only occurs at investor level and amounts with around 25 percent.

Moreover, the lack of financial literacy among German citizens certainly contributes to the fear of German retail investors regarding shares. Therefore, companies have to spend a lot of resources to convince their employees to participate in their share capital. The government should promote financial literacy in the population by e.g. introducing a mandatory school subject "economy".

The German federal government should finally follow the call from Brussels to support employee share ownership. Legal impediments need to be removed, nationally and internationally, fiscal incentives adapted to international levels, and financial literacy of citizens improved. If more companies enable their employees to participate in their share capital, long term wealth formation as well as the equity culture in Germany will be stimulated. Politics should prepare the ground for this indispensable development.