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Europe Wants Citizens to Invest. So Why Does the Tax System Punish Them?

Europe wants its citizens to invest more of their savings in capital markets. Yet across Europe, tax systems can make investing unnecessarily complex, favour certain savings products over others and even tax returns that exist only on paper once inflation is taken into account.

A new BETTER FINANCE report examining retail investment taxation across seven European countries reveals a patchwork of national systems that can significantly influence where ordinary citizens put their money, often for tax reasons rather than because an investment is best suited to their needs.

The contradictions are striking. Some systems favour insurance, pension or other tax-advantaged products over direct investment. Others offer simplicity but calculate tax in ways that can diverge from actual investment performance. In Sweden, for example, the simplicity of the ISK comes with a trade-off: its annual account-value taxation can apply even in years when investment performance is weak or negative.

And there is another largely overlooked problem: inflation.

Investment returns are generally taxed in nominal terms. This means that part of what appears to be a “gain” may simply reflect the declining purchasing power of money. Across the seven countries examined, BETTER FINANCE found no convincing and comprehensive mechanism that systematically adjusts taxable investment returns for inflation.

At a time when Europe’s Savings and Investments Union aims to encourage millions more citizens to become long-term investors, this matters.

BETTER FINANCE calls on policymakers to stop looking at tax incentives in isolation. Successful savings and investment accounts need simple administration, broad investment choice, portability, policy stability and a tax framework that does not unnecessarily distort investors’ decisions.

In the longer term, Europe should work towards interoperable national investment accounts and consider a genuinely portable pan-European investment account.

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Europe cannot ask its citizens to become investors while its tax systems keep giving them reasons not to.