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topic: cum-ex deals
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explainity explains: Cum-ex deals

Cum-ex-what? Okay: first, let's briefly explain the word. In this case, we're talking about share deals that take place on the day of dividend payouts, as well as shortly **BEFORE** (cum) and **AFTERWARDS** (ex).
For investors, a dividend is a sort of share in the profits of the company in which they are shareholders. In Germany it is taxed at 25%.

Cum-ex deals became popular in the early 90s and were part of the largest tax scandal in German history. A game of deliberately creating confusion between banks, investors, lawyers and the government.
But what's it all about? Here's an example.

3 investors join forces: Adam Apple, Boris Branson and Carmen Clifford. Adam holds shares in a large corporation worth 2 million euros. One day before dividend payouts, Carmen also buys shares for 2 million of the same company, but she buys them from Boris.
Confusingly tough, he does net yet own them at all. This is called short-selling.
Then, the corporation distributes its dividend payouts. Let's say, in this case, it's 100,000 euros for Adam. But he only receives 75% of the money. The remaining 25,000 euros go into the German treasury as capital gains tax, for which he receives a tax certificate.
The shares' ex-dividend worth is now only 1.9 million euros.

The next day, Adam sells his shares to Boris. Boris pays with the money he's already received from Carmen. He then hands the shares directly over to Carmen, who's already purchased the shares through short-selling – but remember, it was 2 million euros that day. This means Carmen receives an additional 75,000 euros from Boris and, on top of that, a tax certificate in the amount of 25,000 euros.
Then, Carmen sells her shares back to Adam. Now, everything's almost like it was before, except...

In this scenario, the tax office has only collected capital gains tax from once, from Adam. However, Adam **AND** Carmen can **BOTH** receive tax refunds from the government under certain circumstances – in total 50,000 euros. The three investors divide the money among themselves. Because of the cum-ex deals, the German treasury is suffering a multi-billion-euro loss. How is this possible?

The title of a share is already transferred to a buyer upon purchase. Because of the short-selling between Carmen and Boris, at the time of the dividend payouts, there were two shareholders. Plus, finance and supervisory authorities – thanks to outdated systems – could not retrace who held the shares at what time.

Banks, lawyers and investors claim to have conducted legal trading and that they only made use of tax loopholes. German politicians, however, had long neglected to close those loopholes. Only after a while was legislation adapted on a regular basis and a new financial system created to stop cum-ex trading.

Legal proceedings are now supposed to determine whether cum-ex deals are punishable offenses. If the answer is yes, Adam, Carmen, and Boris from our example would have to return the tax refunds they received.