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TESTIMONY IN OPPOSITION TO HF 677 and SF 552 PROPOSING EXPANSION OF THE SALES ON FINANCIAL SERVICES

On behalf of the Securities Industry and Financial Markets Association (SIFMA), I appreciate the opportunity to provide comments on the tax legislation (HR 677 and SF 552) under your consideration. SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. In addition, SIFMA Foundation, an affiliate of SIFMA, is dedicated to fostering knowledge and understanding of the financial markets for individuals of all backgrounds. SIFMA's Minnesota-based members include: Allianz, Ameriprise, Piper Jaffray & Co., RBC Capital Markets, Thrivent Financial, and US Bancorp. However, many of our members with clients in the state are also affected by this legislation.

SIFMA and its member firms oppose the imposition of the sales tax on financial services. For our members the sales tax on service proposed in HF 677 and SF 552 would likely lead to decreased business activity and employment in the state and would increase the cost of doing business in Minnesota. For individual investors this punitive tax would unexpectedly increase the costs of savings, retirement, and college education.

Here are some important points we would like you to consider:

- <u>A Tax on Financial Services Discourages Savings</u>

  It is frequently reported that Americans are not saving enough for retirement, for their children's college educations or for an unforeseen change in circumstance. According to OECD, the nation's personal savings rate, while up from a record low 1% in 2005, is expected and projected to be <u>4.5%</u> for 2012. Taxing financial services marginalizes an investor's rate of return on their 401(k), personal savings, pension funds, and 529 plans; and thus will be a disincentive to saving.

  At this moment, the economic recovery is still taking place in Minnesota for both small businesses investing in their future and individuals planning for theirs. The expansion of individuals enrolling in private retirement and planning options to supplement their social security has expanded greatly over the past decades.

  It was reported in a January 2013 story by CBS-WCCO that the personal savings rates of the nation's youngest generation is increasingly in peril. Efforts should be made to make financial planning and saving <u>more</u> attractive, not less.

- A Tax On Financial Services Will Cause Investors To Avoid Seeking Professional Advice

  Setting financial goals and creating a balanced portfolio to achieve them is critical to obtaining financial security. This is particularly true in recent years, as personal savings, earnings, and 401(k) contributions are increasingly relied upon to maintain a reasonable standard of living in retirement. Obtaining financial planning and investment advice from a professional significantly aids Minnesotans to improve their financial health.

  Many Minnesotans wisely turn to financial professionals to guide them through the process. A tax on brokerage services and investment counseling would create a disincentive to the use of these valuable services. If there is a burden in place to dissuade reaching out to a financial professional, Minnesotans may engage in less-informed investing.

- A Tax on Financial Services Would Negatively Impact the State's Economy

  The State has nearly 13,000 "Active" Registered Representatives, 490 Investment Adviser Firms (serving clients in Minnesota), and 82 firms assisting 1.7 million investors. We would like to see these numbers grow, as these services help both individuals and the broader economy. Minnesota needs economic policies that promote this growth, not policies that deter it. As both cities and small towns in Minnesota seek to retain talent and grow, there are jobs directly threatened by this proposed legislation. In addition to the principal financial advisors, there are supporting staff, administrative positions, and outside industries that depend on these jobs too.

- A Tax on Financial Services is Not Effective Public Policy

  In the analysis prepared by the Minnesota Department of Revenue, South Dakota is listed as a state that imposes a tax on most services – similar to the Minnesota proposal. However, it should be noted that South Dakota has a lower state sales tax rate (4% versus 5.5% proposed Minnesota rate) and more importantly, South Dakota does not impose an income tax. Iowa has a tax on some financial services, and this year, legislation to repeal that tax has been introduced.

  In most states, sales tax has been imposed on the sale of tangible personal property and limited types of services. Minnesota has historically followed the majority of states - taxing only a limited number of specific services. This has helped preserve the state's competitive business environment.

- A Tax on Financial Services Does Not Have a Successful Track Record

  Here is what we have learned from other states that have enacted or attempted to enact sales tax on financial services:

  - Florida passed a sales tax on services in July 1987; 6 months later they repealed it because it put in-state businesses at a competitive disadvantage to out-of-state counterparts.
  - In October 2007, Michigan enacted a broad tax on services. Worried that it would negatively affect jobs, a taxpayer coalition was quickly formed to repeal it. The tax was repealed 17 hours after it became effective.

- In 1990, Massachusetts passed a tax on services that applied only to services provided to businesses; the state repealed the tax two days after it took effect because of the fear of economic harm and potential job loss.

Thank you for your consideration of our views.