June 28, 2019

The Honorable Lyle W. Hillyard, Chair
Tax Restructuring and Equalization Task Force
Utah State Senate
320 State Capitol, P.O. Box 145115
Salt Lake City, Utah 84114

Dear Chair Hillyard:

The Securities Industry and Financial Markets Association (SIFMA)[1] is a national trade association which brings together the shared interests of more than 340 broker-dealers, investment banks and asset managers, many of whom have a strong presence in Utah. We are proud that, in 2018, our industry managed more than $121 billion in assets for Utah residents & institutional clients and raised over $4 billion for Utah municipalities and businesses.

We applaud the State for creating this Task Force to explore various revenue generating alternatives, and we appreciate the opportunity to provide input. We understand that a broad tax on services, which was contemplated earlier this year, remains under consideration. Should you decide to pursue a service tax, <u>we would strongly encourage you to exempt investment advice and brokerage fees</u>. Taxing such services could discourage people from seeking financial advice or cause them to seek out-of-state advice, neither of which is a desirable outcome. Specifically, we ask that you consider the following:

(1) <u>Americans aren't saving enough</u>. It is frequently reported that Americans are not saving enough for retirement, for their children's college educations or even for an unforeseen change in circumstance. According to Bankrate's March 2019 Financial Security Index, 21% of Americans are not saving at all, with another 48% of Americans saving 10% or less of their annual income.

(2) <u>People that use advisors are better prepared financially than those who don't</u>. Setting financial goals and creating a balanced portfolio to achieve those goals are critical to obtaining financial security. A 2015 survey found, among other things, that:

- 58% of people working with an advisor had saved for emergencies, compared to only 26% of people without an advisor.

- 70% of those working with a financial advisor were on track or ahead in saving for retirement, compared to 33% of those not working with an advisor.

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. For more information, visit www.sifma.org.

(3) Using a financial advisor provides tremendous value to investors. The value of financial advice was well-documented in a recently updated study[2] of Canadian households by the international research group CIRANO. The study found that "financial advice matters, and the results are robust."[3] It specifically noted that:

- Among comparable households, those that use the services of a financial professional gained 69% more value for their investment assets after four years.[4]

- After 15 or more years, the additional value for an advised household reaches 290%, which is 3.9 times the value of assets of an equivalent household that does not consult a financial professional.[5]

- The value comes from a variety of factors, "such as an increase in savings rates, better portfolio diversification, and more tax-efficient investments."[6]

- An advisor is particularly helpful in volatile times. Households that dropped an advisor between 2010 and 2014 "lost a significant percentage of their asset values while the households who kept their advisor have gained in asset values."[7]

(4) Financial advice is important at all income and asset levels. Most households start relationships with advisors when they have only modest assets. According to the CIRANO study referenced above, the median initial investment is $11,000, while most advised households first seek advice at below $50k in assets.[8]

(5) Taxing investment services will encourage residents to seek advice from out-of-state businesses. Unlike some other professional services, investment services can easily be performed outside the state via internet, phone, or by simply driving across the state border. A tax on investment advice and brokerage fees would give in-state clients and prospective clients a strong financial incentive to take their business elsewhere. Out-of-state clients and prospective clients would have virtually no incentive to do business with advisors located in the state. As a result, a tax on investment services would likely not generate the anticipated revenue and would come at the expense of financial advisors doing business in the state.

(6) Few states impose a tax that captures investment services. States that impose a service tax generally limit that tax to a small group of specifically identified services. Investment services are, for good reason, not typically taxed. The most recent attempt to broadly tax all services was in Michigan in October 2007. The tax was repealed 17 hours after it became effective. Similarly, a 1990 tax on services provided to businesses in Massachusetts was repealed in two days, while a 1987 tax on services in Florida lasted for six months. While South Dakota does tax most services, it does not impose either an income tax or personal property tax.

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[2] C. Montmarquette, N. Viennot-Briot, "The Gamma Factor and the Value of Financial Advice," CIRANO, 2016
[3] *Ibid.* pg. 41.
[4] *Ibid.* pg. 24 & 41.
[5] *Ibid.* pg. 24 & 41.
[6] *Ibid.* pg. 25 & 41.
[7] *Ibid.* pg. 41.
[8] *Ibid.* pg. 10.

We believe that, as a matter of policy, Utah should be encouraging saving and financial planning. For the reasons stated above, a sales tax on investment services is counter to that goal and is not in the best interest of Utah, its residents and its businesses. Should you decide to pursue a service tax generally, we would strongly encourage you to exempt investment advice and brokerage fees from that tax.

We appreciate the opportunity to provide input. If there is any further information we can provide or questions we can answer, please contact me at kchamberlain@sifma.org or 202-962-7411.

Sincerely,

Kim Chamberlain

Kim Chamberlain
Managing Director & Associate General Counsel
State Government Affairs