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A Financial Transaction Tax is a Retirement Tax Which Harms Working Americans, the U.S. Capital Markets and Individual Investors.

FACT | The Tax Would Harm Investors and Decrease Retirement Savings

Taxes and other fees are passed on to the individual investor, increasing the total cost of the trade. While it's being called an FTT, in practice it's a tax on working Americans and will decrease liquidity in the markets.

Decreased liquidity leads to wider bid-ask spreads, which harms investors.

Negative Impacts to Retail Investors from a 0.1% FTT

A "small" FTT of 0.1% would hurt workers saving for retirement:

A retirement saver who invests $10,000 per year over 40 years in a balanced portfolio of actively managed stocks (60%) and bonds (40%) with a 10-basis point tax imposed on purchases of securities would cost the investor some $36,000—more than 3 ½ years of annual savings.[1]

Individuals would experience a **$5,989** 20-year investment loss to their retirement savings, a **19% decline**

Individuals would experience a **$7,800 shortfall** in a college savings account, meaning parents would need to save an extra $250 per annum per child

The actual cost to investors is much higher than the 0.1% rate of the tax[2]:

- Suppose an investor purchases an asset for $10,000 that produces a 5% annual rate of return. If the asset is held for a month and sold with the pretax return of $42, **a seemingly small 0.1% transaction tax on $10,042 would amount to $10.0042, a 24% tax** for a 1 month holding period. Investors who hold for shorter periods would end up owing tax far in excess of any expected profit from the trade.

FTT = Tax on Liquidity → Liquidity Decreases → Bid-Ask Spreads Widen → Trade Costs Increase → Investors are harmed & retirement savings are decreased

1. *Source: Vanguard*
This analysis assumes an annual savings of $10,000 at the beginning of each year for 40 years, growing at a pre-tax rate of 6% for equities and 2% for bonds.

2. The Tax Policy Center, Urban Institute and Brookings Institution, "Financial Transaction Taxes in Theory and Practice." (July 2015)

FACT | What's Bad for the Capital Markets is Bad for the Economy

- The U.S. capital markets allow people to invest and save for retirement - the capital markets fund **65%**[1] of economic activity in the U.S.
- This tax will raise costs to consumers, harm capital markets competitiveness, increase costs to corporate and government issuers, and decrease economic activity

1 OECD (2018)

Learn more www.sifma.org/explore-issues/financial-transaction-tax

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FACT | Revenue Generated is Below Expectations & Investor Costs are High

CASE STUDY: SWEDEN

- Sweden originally hoped to raise **SEK 1.5 billion** per annum with the FTT, but raised only **SEK 50 million** on average per annum (3% of expectations)
- There were negative capital markets impacts seen in the great migration of trading volumes across multiple products to London
- Equity index returns fell, volatility increased and the interest rate options markets essentially disappeared.

CASE STUDY: ITALY

- Italy originally estimated revenue of **€1 billion** per annum, but achieved only **€200 million** in the first year (20% of expectations)
- Investors switched from buying domestic equities to purchasing stocks on other trading venues and other financial products with lower taxes
- Italy experienced negative impacts on its capital markets: volatility actually increased (the opposite reaction of legislators desired decrease) and bid-ask spreads increased ~2% (while this appears small it is highly statistically significant)

CASE STUDY: FRANCE

- France originally estimated revenue of **€500 million** from its FTT, but achieved only **€250 million** in the first year
- It had expected the addition of a high frequency tax to add an additional ~€1 billion per annum, making the projection **€1.5 billion revenue** per annum
- France raised **€700 million** in the first two years of implementation
- Actuals achieved **58%** of expectations on average, inclusive of the projected budget increase
- There were negative capital markets impacts in the form of reduced trading volume; market makers and liquidity providers exited; order book depth declined almost instantly after adoption; 1/3 of the trading in French public companies moved to London.

Analysis: U.S. CBO Projections

The 0.1% FTT revenue projections from the CBO do not seem to warrant the risk of harming the U.S. capital markets because

- Original CBO projections show only a **0.1% to 0.5%** of total GDP per annum
- Haircuts from other countries' failed FTT experiments indicate substantial declines in the original estimates
- Haircutted revenue projections show an even lower impact at **0.004% to 0.3%** of total GDP per annum

Source: Umlauf study (1992), press reports, CBO (2018), OECD, SIFMA estimates