

**STATEMENT OF THE
SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION
BEFORE THE
ASSEMBLY FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE
HEARING ON
A.4402 FINANCIAL TRANSACTIONS TAX
MONDAY, OCTOBER 19, 2020**

On behalf of the Securities Industry and Financial Markets Association (SIFMA),¹ we thank you for the opportunity to provide testimony on A.4402, a bill that would impose a financial transaction tax (FTT) on entities that process financial transactions through electronic infrastructure located in New Jersey. SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers located throughout New Jersey and across the country. There are nearly 80,000 New Jersey residents who are employed by the securities industry, with approximately 38,000 of the jobs located within the state.² There are approximately 200,000 people employed in the greater financial services and insurance industry in the state— or about 5% of the total employment in New Jersey.³ Our mission is to support a strong financial services industry, investor opportunity, capital formation, job creation, and economic growth. This mission is consistent with the goals of the Governor's Stronger and Fairer NJ Economic Report which focused on making New Jersey the State of Innovation and supporting key growth sectors, including information, high tech, finance and insurance. FTT proposals send the wrong signal to the financial services industry with a significant presence here and to firms considering re-locating to New Jersey given the proximity to New York.

The proposed FTT in A.4402 is effectively a tax on public pensions, charitable foundations, and university endowments which runs counter to many longstanding policies that promote savings and economic growth, including the recently enacted New Jersey Secure Choice retirement program.

Recently, 26 trade associations representing businesses and financial services sent a joint letter to Chairman McKeon and Senate President Sweeney in opposition to the proposed financial transaction tax in A.4402 and its companion. The joint trades letter raised concerns that the FTT would have negative effects on New Jersey residents' savings, negative economic impacts on the state itself, cause firms to use alternative, out-of-state trading platforms, and offered examples of unsuccessful experiments with FTT's in Europe.

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. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit <http://www.sifma.org>.

² EY. (2020, October 13). Economic Contribution of the New Jersey Securities, Commodity Contracts, and Investment Sector. EY.

³ US Department of Labor - Bureau of Economic Analysis (2019)

I continue to urge members of the Assembly Financial Institutions and Insurance Committee to consider these well-founded arguments on the adverse effects on individual savers, the unlikelihood of achieving anything close to the revenue targets, and the anticipated job losses stemming from the expected permanent relocation of companies and their employees out of New Jersey.

Effect on Investors:

More than 50% of U.S. households own stocks either directly or indirectly through mutual funds, ETF's or other passive investments that can have higher turnover due to redemptions and portfolio rebalancing.⁴ Many retirement accounts such as pension funds, 401ks and IRAs as well as 529s are invested in target date funds, which have embedded asset allocation. If an FTT were to be imposed, these investments would be charged with the tax whenever they are rebalanced, or the asset mix is changed, which would ultimately be passed along to the savers and investors.

While some people think an FTT is a tax on Wall Street, it is, in fact, a tax on workers. In the U.S., 78% of people with at least \$20,000 in individual income or \$40,000 in joint household income participate in a retirement plan.⁵ A recent report published by the Modern Markets Initiative found that the proposed FTT would cost the New Jersey Division of Pension & Benefits, investors in the NJBEST 529 Savings Plan, individual savers and New Jersey residents billions of dollars.⁶

This year, Vanguard published an analysis on how an FTT on security transactions could “hinder millions of American investors striving to reach their long-term financial goals.”⁷ According to Vanguard’s analysis, if a person saves \$10,000 per year over 40 years in a balanced portfolio of actively managed stocks (60%) and bonds (40%), a 10-basis-point tax imposed on purchases of securities would cost the investor some \$36,000 — more than 3 ½ years of investor savings. If levied on purchases and sales, the tax would be more than \$56,000. Such a levy could cost the retirement saver as much as \$200,000 — equivalent to 20 years of an investor’s annual contributions. The retirement assets of many New Jerseyans- both in the public and private sectors- who depend upon the returns earned by their pension and retirement funds would be significantly harmed.⁸

Revenue Decline:

Faced with an FTT in New Jersey, firms are more likely to use alternate trading platforms to offer a better price for their client and alleviate costly administrative burdens. Securities firms must adhere to FINRA’s “[best execution](#)” rule that requires broker-dealers to find the most favorable price for their customers. These firms are likely to gravitate toward alternative trading platforms outside of New Jersey that are more likely to offer a better price for their clients. In addition, if the data centers were to relocate out of the state, firms would also likely move employees to be near the exchanges to ensure that their transactions are processed in the most expeditious way to meet their best price

⁴ Federal Reserve Bulletin - Board of Governors of the Federal Reserve System. *Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances*. Sept. 2017, www.federalreserve.gov/publications/files/scf17.pdf.

⁵ Investment Company Institute. *Who Participates in Retirement Plans, 2017*. May 2020, www.ici.org/pdf/per26-03.pdf.

⁶ G. (2020, October). A Case Study on the Effects of a Financial Transaction Tax on Savers in New Jersey [Scholarly project]. Retrieved from <https://noreirementtax.org/wp-content/uploads/2020/10/MMI-FTT-Case-Study-New-Jersey.pdf>

⁷ Vanguard. (2020). *Financial Transaction Tax: Main Street Bears the Burden*.

⁸ Vanguard. (2020). *Financial Transaction Tax: Main Street Bears the Burden*.

obligation. In today's predominantly electronic, globally connected market, volumes can simply migrate to other jurisdictions which have not imposed an FTT.

SIFMA and the Managed Funds Association (MFA) commissioned EY to analyze and report on the overall contribution of businesses which may conduct financial transactions using New Jersey electronic infrastructure. The report concluded that a "portion of the economic activity summarized in the analysis may relocate to another state were a financial transaction tax to be levied on New Jersey transactions."⁹ The securities industry jobs are especially valuable to New Jersey's economy; for every dollar earned by the securities industry in New Jersey, an additional \$2.01 is earned by all households statewide;¹⁰ and each job in the securities industry supports 2.43 New Jersey jobs, which is 28% higher than the statewide average.¹¹ The securities industry indirectly supports almost 55,000 New Jersey workers in professional and building services, utilities, transportation, restaurant, retailer and personal services industries.¹² This means that an FTT could result in a negative fiscal impact across the state and that the impact of any resultant job losses would be felt far beyond the finance and insurance industries.

The New Jersey financial services industry bears a significant tax burden in the state. The industry accounts for 7% of the state's private sector GDP but pays 12% of the state's total corporate business tax and fees. The industry also contributes approximately \$1.4 billion in state and local taxes including individual income tax, household sales and property tax, and corporate income, property and sales tax. In 2019, the securities, commodity contracts, and investment sector added \$10.44 billion to the state's economy.¹³

Other Experiences with an FTT

In nearly every jurisdiction that has enacted an FTT, the tax has failed to achieve the projected revenue and has had a negative impact on market liquidity. When Sweden implemented a 1% transaction tax (\$.01 per \$1) on equities traded and then doubled it to 2% in 1986, in the 30 days leading up to the introduction of the tax, Sweden's market experienced a 5.3% decline. Once the tax was implemented, Sweden's market saw 30% of its total trading volume - 50% volume of the top 11 traded stocks which represent 60% of total trading volumes- shift out of the country to London.¹⁴ When Sweden implemented a smaller tax on trading of fixed income securities, .002% on short term securities and .03% on long term bonds, trading volumes fell by 85% and both futures and options trading nearly disappeared.¹⁵

⁹ EY. (2020, October 13). Economic Contribution of the New Jersey Securities, Commodity Contracts, and Investment Sector. EY.

¹⁰ Bureau of Economic Analysis.

¹¹ EY. (2020, October 13). Economic Contribution of the New Jersey Securities, Commodity Contracts, and Investment Sector. EY.

¹² EY. (2020, October 13). Economic Contribution of the New Jersey Securities, Commodity Contracts, and Investment Sector. EY.

¹³ EY. (2020, October 13). Economic Contribution of the New Jersey Securities, Commodity Contracts, and Investment Sector. EY.

¹⁴ Umlauf, Steven R. *Transaction Taxes and the Behavior of the Swedish Stock Market*, Journal of Financial Economics 33 (2), 227-240 (April 1993).

¹⁵ Committee on Capital Markets Regulation (September 2019). *Financial Transaction Taxes*.

<https://www.capmksreg.org/wp-content/uploads/2019/09/Financial-Transaction-Taxes-Statement.pdf>

When France imposed a .2% tax on French equity trades on large French companies and a .01% tax on high frequency trading in 2012, the NYSE Euronext Paris volume decreased an average 16% within two months, the French CAC 40 declined 21% in the first 10 days and 16% in the first 40 days. Fully, one third of the trading in French public companies moved to London and other European securities markets.¹⁶

Neither France nor Sweden raised even close to the expected tax revenues from their FTT due to the dramatic declines in trading volume.

In all, the tax proposed by A.4402 would have a significant and negative effect on the people and the economy of New Jersey. It will markedly increase the costs of executing trades in the state, and these costs would be passed on to many New Jersey residents, including middle-class retirees. This tax could also drive the exchanges, firms and their associated jobs outside the state. This proposal is far more likely to harm New Jersey investors and the overall economy than to achieve its projected revenue forecasts.

We appreciate your willingness to consider our concerns and thank you for your time.

For further information, please contact SIFMA's New Jersey Counsel, Mary Kay Roberts, of Riker Danzig at 609-396-2121 or Nancy Lancia, of SIFMA at (212) 313-1233 or nlancia@sifma.org.

¹⁶ Goethe University Frankfurt. Haferkorn, Martin and Zimmermann, Kai. (2013). *Securities Transaction Tax and Market Quality – The Case of France*. <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.360.6098&rep=rep1&type=pdf>