



## CENTER FOR CAPITAL MARKETS COMPETITIVENESS



October 6, 2020

### **Re: A4402 / S2902; Imposing a tax on high-quantity processors of financial transactions**

Dear Legislator:

The U.S. Chamber of Commerce's Center for Capital Markets Competitiveness ("CCMC") and the New Jersey Chamber of Commerce ("NJ Chamber") urge the members of the Senate and General Assembly of the State of New Jersey to oppose legislation that would impose a tax on high-quantity processors of financial transactions. Both A4402 and S2902 would impose a tax of \$0.0025 for each financial transaction processed through electronic infrastructure located in New Jersey. Such a tax would apply to those entities that process 10,000 or more financial transactions.

While we recognize that New Jersey is seeking new sources of funding as a result of the negative financial impact of the COVID-19 pandemic, imposing a financial transaction tax (FTT) is not the correct solution. This tax would adversely impact pensioners, savers, imperil the return of pension funds, and the compliance costs could outweigh the amount raised. An FTT would harm Main Street savers and small businesses.

The attached report "Financial transaction taxes: A tax on investors, taxpayers, and consumers,"<sup>1</sup> outlines the numerous drawbacks of an FTT for retirement savers, investors, businesses, and the economy.

### **Main Street Would Pay for the Tax**

The legislation acknowledges that such a tax may be passed on by a processor to the purchaser or seller. As the cost of the tax is passed on, the burden would then fall on retail investors in mutual funds and pension plans, consumers at the grocery store and the gas pump, and all citizens, even those who are not investors.

Proposed FTTs have been pitched by various proponents as a painless way to raise vast sums of money from the financial industry. However, the real burden of an FTT would be placed on ordinary investors, such as retirees, pension holders, and those saving for college. As financial

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<sup>1</sup> U.S. Chamber of Commerce, Center for Capital Markets Competitiveness, [\*Financial Transaction Taxes: A tax on investors, taxpayers, and consumers.\*](#) Summer 2019.

intermediaries pass on the taxes as a cost of doing business, investors will pay higher transaction costs.

Since FTTs drive up the cost of trading, those same investors will see a reduction in mutual fund and pension fund returns. As the proposed legislation would tax all financial transactions processed through electronic infrastructure located in New Jersey, the tax would penalize retirement savers in New Jersey and other states, many of whom are already strained financially due to the pandemic. An FTT is the wrong solution to cover New Jersey's budget shortfall.

### **Additional Deleterious Effects**

The effects of imposing an FTT extend well beyond retirement savers. CCMC's report outlines several other negative consequences of an FTT.

- ***FTTs generate less revenue than expected.*** FTTs rarely raise the desired net revenue because of their impact on trading volume along with the damage to other tax revenue through decreased capital gains and decreased economic activity.
- ***GDP would be reduced by more than the net revenue raised.*** The higher cost of capital from an FTT would result in less investment and thus less economic growth, fewer jobs, and thus less income tax revenue. At the same time, an FTT would depress trading activity and send it to other jurisdictions, resulting in even fewer jobs and tax revenue. These consequences are consistent with the experience of countries that have experimented with FTTs.
- ***Taxpayers would pay more because government financing costs will go up.*** An FTT on municipal and U.S. Treasury securities would lead to higher interest rates on those securities. This would increase government borrowing costs, which will be borne by all taxpayers, not just investors. This would also increase the cost of capital for public projects, such as infrastructure improvements.
- ***Trading would move to other jurisdictions.*** The imposition of an FTT, like any tax, threatens to push market participants to relocate their activities. As an example, Sweden imposed an FTT in 1984; however, within four years 50 percent of its trading volume had moved offshore to London. We would expect the proposed tax in New Jersey to drive the firms that process financial transactions in the state to move to a jurisdiction that does not impose such a tax. The migration of these firms and their employees outside of New Jersey would decrease revenue collected by the state and lead to a loss of jobs.
- ***Decreasing investment and jobs.*** Because an FTT would cause a drop in the value of corporate stocks, businesses will have to spend more in order to raise capital, resulting in less capital investment to grow their business and hire new employees. In addition, by singling out high-quantity financial processors, this legislation would further impact the New Jersey economy and jobs by discouraging future technology business in the state.

- ***Driving up consumer costs.*** Because the proposed legislation would also tax derivatives transactions, the additional cost to producers and manufacturers for risk management activities to hedge against price fluctuations would instead be passed on to consumers in the form of higher prices for goods and services.
- ***Driving up the cost of home mortgages.*** The yields on mortgage-backed securities would go up because of both the direct impact of an FTT on the cost of trading them and the impact of an increase on benchmark Treasury rates. Because the rate on home mortgages is related to the yields on these mortgage-backed securities, an FTT would be passed on to homeowners through higher mortgage rates.

### **FTTs Have Consistently Failed Throughout History**

For the reasons raised in this letter, various jurisdictions that have imposed FTTs have either scaled back or eliminated them due to their deleterious impact on the economy. The various damages to the retirement community, investors, businesses, and the economy would outweigh the net amount of taxes collected.

CCMC and the NJ Chamber encourage the members of the Senate and General Assembly of the State of New Jersey to oppose A4402 and S2902. We thank you for your consideration of these comments and would be happy to discuss these issues further.

Sincerely,



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U.S. Chamber of Commerce



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