Wall Street Trading and Speculators Tax Act (S.1787)

The Wall Street Trading and Speculators Tax Act, introduced by Senator Tom Harkin (D-Iowa) and co-sponsored by Senators Bernie Sanders (I-Vermont), Sherrod Brown (D-Ohio), and Sheldon Whitehouse (D-Rhode Island), would place a small tax on common financial trades undertaken by banks and financial firms. Congressman Peter DeFazio has introduced companion legislation in the House as H.R. 3313 along with 36 co-sponsors.

The measure will place a small tax of 3 basis points (**3 pennies on $100 in value or 0.03%**) on trading of financial securities, including stocks, bonds and other debt securities, except for their initial issuance. The tax would also cover all derivative contracts at their actual cost, rather than the notional cost of their underlying security.

By setting the tax rate very low, the measure is not likely to impact the decision to engage in productive economic activity. It would, however, reduce certain speculative activities like high-speed computer trading. Because the frequency of financial transactions is so high, even with this very low rate of taxation the proposal was estimated by the non-partisan Joint Committee on Taxation to generate **$352 billion over 10 years**.

What trades are *not* taxed?

It does not cover common, everyday transactions undertaken by consumers. As such, among other things, the bill does not tax:

- The purchase of any goods or services,
- Getting a loan, including a mortgage, auto loan, student loan, or credit card,
- Initial issuance of financial securities otherwise covered under the bill, including initial public offerings (IPOs),
- Buying currency (e.g. exchanging money),
- Buying debt instruments that have a fixed maturity of no more than 100 days, such as a 3-month Treasury note or commercial paper

Who must pay this tax and how is it collected?

The tax is imposed upon trades that take place within the United States and on trades occurring outside the United States if any party to the transaction is a U.S. corporation, partnership, or individual.

For the vast majority of transactions, the tax would be collected by exchanges like the New York Stock Exchange or, if the transaction is not traded on an exchange, by the broker. In very rare cases where

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exchanges or brokers are unable to collect the tax, the responsibility shifts to the buyer. This collection system serves to minimize paperwork and maximize compliance.

Will this tax harm our economy and drive our financial sector overseas?

A small transaction tax of this sort is not an untested or novel concept, either in the U.S. or in other countries, and its impact on GDP would be minimal. Until 1966, the United States taxed all stock transactions and transfers. During the Great Depression, Congress doubled the transaction tax rate in order to finance economic recovery initiatives.

Claims about the U.S. losing financial sector market share to other countries are exaggerated. Thirty other nations, including the United Kingdom, currently impose a transaction tax, and in each case the rate is higher than our proposed rate of 0.03%. 11 European Union nations have agreed to move forward with a 10 basis point tax (0.1%), more than three times our proposed tax rate. Furthermore, Joint Committee on Taxation staff has concluded that the offshoring of trades to foreign exchanges would be small.

Will this tax have a noticeable impact on ordinary investors?

Because the size of the tax (3 pennies on $100) is so small, typical investors who use financial markets to obtain loans, invest, save for retirement, and manage risk, will feel minimal impact from this tax. The following examples illustrate this point.

Assuming that **a typical small business**, with annual revenue of $5 million, turns over about 25% of $1.25 million in investments per year, it would pay less that $200 per year in tax. That's about what it would cost to hire a worker at $15 per hour for about a day and a half.

The median 401(k) balance in the U.S. is $60,000, and the average turnover rate is about 50%, so a typical small investor would pay about $18 per year in FTTs. That's less than 1/33 of what full-service fund managers -- and 1/8 of what even "no-load" funds -- can charge investors in 12b-1 "services" fees. If an investor responds to the tax by reducing trading by 10%, then he or she would actually end up paying slightly less in overall transaction costs.

A farmer with a 1000-acre farm – half corn, half soybean – who spends $60,000 on initial margin costs for futures contracts to lock-in prices for 90,000 bushels of corn and 25,000 bushels of soybeans would pay a tax of about $20. These margin costs might increase slightly over time depending on price fluctuations.

Groups supporting this bill include:

AFSCME, CWA, IFPTE, NEA, SEIU, Teamsters, Americans for Financial Reform, Consumer Action, Demos, Public Citizen, United for a Fair Economy, Center for Media and Democracy, Jobs with Justice, League of Rural Voters, Main Street Alliance, Rebuild the Dream, Tax Justice Network USA, Wealth for the Common Good, U.S. PIRG, Institute for Agriculture and Trade Policy, Alliance for a Just Society, National Women's Law Center, USAction, Health GAP, Interfaith Worker Justice, Leadership Conference on Civil and Human Rights