February 3, 2021

The Honorable Andrew M. Cuomo
Governor of New York State
NYS State Capitol Building
Albany, NY 12224

RE: Letter in Opposition to Any Form of the Stock Transfer Tax

Dear Governor Cuomo:

We write in opposition to re-imposing any form of a New York State Stock Transaction Tax (STT). Such a tax would damage New York's position as a global financial capital, resulting in shrinkage of an industry that is the largest contributor to our economy and tax base.[i] Our organizations represent more than 544,000 workers in the financial services industry in New York State, those throughout the U.S., and other business groups in the state. While some see this as a tax on the securities industry itself, it is actually a tax on working families saving for retirement and college, pension funds that secure retirement for millions, as well as many individual investors, foundations and endowments.

New York State eliminated collection of a STT in 1981[ii], in response to market globalization and significant technological changes affecting market transactions. During these unprecedented and critical times, a STT targeted at the financial markets will impair New York State's economy, adversely impact the state's business environment, and increase the cost of investing for everyday savers and investors. In 2003, when restoration of the tax was proposed, the NYC Independent Budget Office found that reinstating the tax at half the prior rate would increase transaction costs by 23%, eliminate nearly 60,000 private sector jobs, and reduce trading volume by 18%.[iii]

We encourage you to consider the following as you consider any STT legislation:

This is a tax on end investors. Imposing a STT on savers and investors in New York State runs counter to many longstanding policies promoting retirement and personal savings in the state. The cost of any amount of the STT would ultimately be passed on to both large and small investors. Public and private pensions and retirement funds, charitable organizations, and everyday savers and investors would pay more to save. Any tax on these transactions will reduce the account balances of savers in New York, which would result in New Yorkers having to work longer to meet their goals for retirement, home ownership, college, or any other future investment goal.

According to estimates in a 2020 study, a 10-basis point federally imposed FTT would cost:

- The New York State Common Retirement Fund $30.68 billion over 30 years;
- New York 529 college saving plan participants $117.34 million over 30 years;
- Individual investors in New York $1,677 a year and $67,077 over 40 years.[iv]

The impact cited in the study is based on a federal tax rate illustrating how the burden of a financial transaction tax would be shared by the entire financial ecosystem, including pension fund plans, 529 participants, 401ks, and others. Although the mechanics of a state tax may differ from a federal tax, the impact of a financial transaction tax burden would ultimately be passed on to investors of all income levels.

As New York families recover from financial hardships caused by COVID-19, the state should be encouraging saving and investing, not imposing additional roadblocks to save.

Revenue Decline. In an age of electronic trading and telecommuting, there are few barriers to relocation. Faced with a STT in New York State, firms are likely to relocate trading activity outside of the State to offer a better price for their clients, taking jobs and related economic activity with them.[v] Moreover, if New York imposes any STT, firms that process trades in the state could risk potential non-compliance with FINRA's "best execution" rule that requires broker-dealers to find the most favorable price for customers when buying and selling securities. No other state in the country imposes a STT, and increasingly we are seeing broker-dealer activities move to other states. From 2008 to 2019, New York State saw its securities jobs fall by 20,000[vi], and its share of U.S. securities brokerage jobs migrate from 27% to just 21%.[vii] Beyond the negative effect on the state's competitive position, imposing a new tax will likely lead to financial firms leaving the state. Since most trading is done electronically, there are few barriers to moving trading that currently takes place in New York State to a state without a STT. Clearly this business loss would translate to a net revenue decline in the state as well as a direct loss of jobs in the industry and indirect jobs stemming from the financial sector's significant presence in the state.

According to the New York State Comptroller's 2020 report on the securities industry in New York City, in 2018, the securities industry was responsible for more than 17% of all economic activity in New York City, and in 2019, made up 5.9% of the State's economy.[viii] The report also estimates that 1 in 10 jobs in New York City and 1 in 15 jobs in New York State are associated with the securities industry. Imposing a STT could lead financial firms to move their back-office operations and related jobs outside of New York. This would reduce employment and revenue in the state.

<u>Unsuccessful Experiments With a STT.</u> In the European Union, there are 27 countries that have some regulatory barriers for companies to move their operations from one country to another, so the ability to relocate brokerage activity due to a national STT is limited. In sharp contrast, if New York State were to impose a STT, there are no such barriers to prevent businesses from moving to one of the 49 states without the tax.

Some countries in Europe, such as Sweden and France, have unsuccessfully experimented with a STT.

In 1984, Sweden implemented a 1% transaction tax (or $0.1 per $1) on equities traded, which was later doubled 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 60% of trading volume of the top 11 traded stocks - or 30% of all trading volume - shift to London. One study showed volatility of London-traded Swedish stock shares declined while Stockholm shares increased in volatility due to the lack of liquidity. Expected tax revenues were never realized as there was such a dramatic decline in and shifting offshore of trading activity. The tax was eventually repealed in 1991.[ix]

In 2012, France imposed a 0.2% tax on French equity trades on large French companies and a .01% tax on high frequency trading. The tax on equities was increased to 0.3% in 2017.[x] After implementation of the tax, French trading volume declined on average 16% within two months and the French CAC 40 declined 21% in the first 10 days and 16% in the first 40 days.[xi] France did not raise even half the revenue they had projected in 2012 or 2013.[xii] France experienced an overall 30% reduction in trading volume in 2012.[xiii] In sum, trading volume went down, market makers and liquidity providers exited, and the market and revenues were below expectations.

We appreciate the opportunity to share our significant concerns on imposing a STT in New York State. New York is facing budget deficits and economic uncertainty that will only be made worse by adding a tax that diminishes financial market activity in the state. We cannot express strongly enough the economic harm a STT could have on the state's retirement savers, investors, businesses and the economy. If you have any questions, please do not hesitate to contact us.

Thank you for your time and consideration.

Sincerely,

Alternative & Direct Investment Securities Association
American Council of Life Insurers
American Retirement Association
American Securities Association
Business Council of New York State
Business Council of Westchester
Coalition to Prevent the Taxing of Retirement Savers
Council on State Taxation
Equity Markets Association
Financial Planning Association
Financial Services Institute

Foreign Exchange Professionals Association
Futures Industry Association – Principal Traders Group
Institute of International Bankers
Insured Retirement Institute
Investment Company Institute
Life Insurance Council of New York, Inc.
Long Island Association
Managed Funds Association
Modern Markets Initiative
NASDAQ
New York Bankers Association
New York State Economic Development Council
New York Stock Exchange
Partnership for New York City
Securities Industry & Financial Markets Association
SPARK Institute

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[i] The securities industry accounts for 18% of NYS tax revenue and 6% of NYC tax revenue, 15.9% of NYS private sector wages and 2.6% of NYS private sector employment; New York State Department of Labor and Office of the New York State Comptroller.

[ii] Ch 878, L. 1977

[iii] New York City Independent Budget Office. *Reviewing the New York Stock Transfer Tax: Revenues and Risks,* November 2003. https://ibo.nyc.ny.us/iboreports/stocktransfertax.pdf

[iv] Kang, Kevin. *A Case Study on the Effects of a Financial Transaction Tax on Saver in New* York, December 2020. https://noretirementtax.org/wp-content/uploads/2020/12/MMI-FTT-Case-Study-NY-Final.pdf

[v] Every additional securities industry job and earned dollar result in 2.19 jobs and $1.97 of earnings by all households in NYS; Bureau of Economic Analysis, Regional Product Division, Regional Input-Output Modeling System.

[vi] U.S. Bureau of Labor and Statistics

[vii] U.S. Bureau of Labor and Statistics

[viii] Office of the New York State Comptroller, *The Securities Industry in New York City*, October 2020.

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

[x] Interactive Brokers. *Information Regarding the French Financial Transaction Tax.* https://ibkr.info/node/1965

[xi] Goethe University Franfurt. 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

[xii] Modern Markets Initiative. *Effects of a Financial Transaction Tax, November 13, 2018.* https://www.modernmarketsinitiative.org/archive/2018/11/13/this-is-a-test-post

[xiii] Banque de France. Jean-Edouard Colliard & Peter Hoffman. *Sand in the Chips? Evidence on Taxing Transactions in Modern Markets* (Euro. Central Bank, Working Paper, Jul. 31, 2013). https://fondation.banque-france.fr/sites/default/files/media/2017/05/03/colliard-hoffmann.pdf