March 9, 2021

Dear Member of Congress,

On behalf of millions of taxpayers and investors across the country, we urge you to reject any proposal to implement a financial transactions tax (FTT) on American savers and investors.

The Left has seized on the recent GameStop trading controversy to call for a "small" FTT that could purportedly increase federal revenues by $1 trillion over the next decade. This would impose a 0.1 percent tax rate on all buying and selling of stocks, bonds, and other financial instruments.

While progressives such as Bernie Sanders (I-Vt.) and Representative Alexandria Ocasio-Cortez (D-NY) argue that an FTT is needed to reduce market volatility and make Wall Street pay "their fair share," this tax will actually harm millions of Americans that invest their lifesavings in the stock market and own 401(k)s, pensions, and index funds.

An FTT is a tax on American savers and investors. It will harm Americans across the country including the 53 percent of American households that own stock and the 80 to 100 million Americans that have a 401(k). This tax will fall especially hard on public sector pensions including those used by teachers, firefighters, and police officers.

In fact, an FTT would cost pension funds billions of dollars every year, leading to fewer savings, less retirement income for retirees, and underfunded pensions. According to a 2021 study conducted by the Modern Markets Initiative, an FTT could cost a 401(k) owner $45,000 to $65,000 in savings over the lifetime of the account.

An FTT might not raise the revenue supporters claim it does. The Congressional Budget Office found that imposing an FTT in the U.S. would "decrease the volume of transactions" and "probably reduce output and employment." Some have predicted that a financial transactions tax would raise little net revenue because of these negative impacts.

FTTs also cause capital to flee to jurisdictions that do not tax transactions, further reducing revenues. When Italy and France imposed FTTs in 2012, both countries **raised** less than a quarter of expected revenues.

FTTs have a history of failure. When Sweden imposed a financial transaction tax, it lasted just six years as trading migrated to London to avoid the tax. Not only did this mean the FTT raised little revenue, capital gains tax revenue also dropped because of a reduction in sales. When it was abolished in 1990, investment began to return to Sweden.

Sweden is not an isolated case. According to the Center for Capital Markets, Spain, the Netherlands, Germany, Norway, Portugal, Italy, Denmark, Japan, Austria, and France have all tried an FTT in past decades. In each case, the tax failed to raise revenue, reduced trades, and has since been repealed.

Advocates of an FTT falsely argue it is needed to curb short selling and market volatility. There is no evidence that short-selling would shrink relative to overall trading under an FTT, but even if it did, short selling is not responsible for market crashes and economic downturns. Instead, it is a function of the free market.

Some investors will short a stock when they think it is overvalued. Other investors, as shown as the recent rallies in GameStop and other companies, will buy a stock they think is too heavily shorted. Both practices help promote efficient investing and provide information to markets, ultimately softening the blow of a downturn.

For example, the 2008 market crash could have been far more widespread if short sellers hadn't recognized the housing market was overvalued.

Arbitrarily restricting this trading will likely lead to severe pain if the country experiences another crash. Rather than improving market volatility, an FTT could make this problem worse as there would be fewer buyers and sellers and therefore more price jumps.

Congress should reject any proposal to implement a financial transaction tax. An FTT is the latest attempt by the Left to take advantage of a "crisis" to implement a massive new tax on the American people. Contrary to their rhetoric, this tax would be borne by the American people, not Wall Street. It would punish investment, leading to lower returns for American retirees and savers and increased market volatility. It fails to raise as much revenue as supporters claim and has failed everywhere it has been tried in past decades.

Sincerely,

Grover Norquist
President, Americans for Tax Reform

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