FAQs on Financial Transaction Tax

What is a financial transaction tax?

A financial transaction tax is a tiny fee – at rates of a fraction of a percent – on trades of financial instruments, such as stocks, bonds, and derivatives.[1] Such taxes are promoted as having the dual benefits of discouraging short-term speculation while generating significant revenue.

What is the experience with FTT to date?

More than 30 countries currently have FTTs on particular asset classes that raise billions of dollars per year. These include many countries with robust and fast-growing financial markets, such as the UK, South Africa, Hong Kong, Singapore, Switzerland, and India. From 1914 to 1966, the United States levied a stock transfer tax, which stood at 0.04% per transaction in 1966.

What is the current state of the debate?

While the Obama administration is not yet supportive, on January 12, 2015, the Democratic leadership in the U.S. House of Representatives announced support for FTT as a core element of a new tax reform plan. In Europe, 11 governments are moving forward to implement the first regional FTT. In January 2013, they received authorization to form a "coalition of the willing" to implement a coordinated FTT. These countries include: Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia, and Slovakia. The starting point for negotiations was a European Commission proposal for a tax of 0.1% on stock and bond trades and 0.01% on the notional value of derivatives. Trading platforms and clearing houses would collect the taxes and pass on revenue to national tax authorities.

On May 6, 2014, these governments announced a plan to start phasing in the tax starting on January 1, 2016, beginning with transactions of shares and "some derivatives." At the end of 2014, they missed a scheduled deadline to agree on the tax design, but aim to finalize the plan in early 2015. Some countries, led by Germany, have pushed for a broad-based tax similar to the EC proposal, while the French finance ministry has favored limiting the tax to shares transactions—at least at a first stage. However, after 120 parliamentarians from his own party objected to a watered-down approach, French President Hollande announced in a January 5, 2015 radio interview that he would support a broad FTT (although with rates on some instruments lower than proposed by the EC if necessary to capture sensitive markets).

How much revenue could be raised?

The European Commission estimates that their original proposal would generate about 31 billion euros ($US 42 billion) per year for the 11 participating countries. Limiting the tax to only share transactions would reduce the potential revenue to roughly 6 billion euros ($US 7.2 billion) a year, according to the French government. In the United States, the Joint Committee on Taxation has produced a score for only one of several FTT bills, concluding that a tax of 0.03% on stock, bond, and derivative trades could raise $350 billion over 10 years.

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[1] Financial transaction taxes are sometimes referred to as a *Tobin Tax, Wall Street Tax,* or Robin Hood Tax.

Would FTT hurt average investors?

The cost would fall overwhelmingly on short-term speculators. For most pension funds and traditional stock-and-bond-holders, the cost would be negligible—in fact less than typical portfolio management fees. Moreover, to the extent that FTT encourages investment that boosts the economy in the long term, this will benefit retirement funds. The 50% or so of U.S. households that have no investments in financial markets would be completely unaffected.

European Commission analysis of risks and benefits

The European Commission has conducted extensive analysis of the potential benefits and risks of financial transaction taxes. Their responses to common questions are relevant to debates in other parts of the world:

How would it affect economic growth?

Our economic studies show that it will have no impact on jobs, and could even have a positive impact on growth if revenues are reinvested wisely. The tax rates proposed are very low, to prevent an increased cost of capital affecting the real economy, and the activities of central banks and public debt managers are exempt. – Commissioner Šemeta op-ed

How would it affect market stability and long-term investment?

It should help to deter the irresponsible financial trading that contributed to the crisis we are in today. It will favour steady financial activity over high-risk speculation and steer the financial sector towards the real economy. — Commissioner Šemeta op-ed

The FTT would serve as a tool to deal with the challenge of short-sighted profit-seeking behavior. Also, it could help to reduce the rents of the financial sector generated by activities such as high-frequency automated trading. — EC impact assessment (Annex 14)

How would it affect liquidity?

Since the emergence of the global financial crisis in 2008, mainly hitting OECD economies having had the most sophisticated financial markets, the traditional paradigm of "the more the better" as regards liquidity and financial intermediation has been challenged. This also holds for the role of broker-dealers, market makers, propriety traders, high frequency traders and so-called "modern" investment banking activities (as opposed to "traditional" investment banking activities that tried to facilitate the raising of capital, restructuring of companies or mergers and acquisitions) in general... Taxing the financial market transactions of such actors would complement and support financial market regulation. – EC impact assessment (updated)

Won't trading just shift to FTT-free zones?

The EC proposal includes two anti-avoidance principles – one based on **residence** (a transaction is taxable if at least one of the parties resides in one of the 11 participating EU member states) and another based on **issuance** (a transaction is taxable if the instrument is issued in the FTT zone).

The tax will apply to any transactions with an established economic link to the 11 states, the only way to avoid it would be to give up all financial trading with those in the FTT-zone – a highly irrational response to a small tax, especially given the fact that the participating countries constitute two-thirds of the EU economy. — Commissioner Šemeta op-ed

Who Supports FTT?

Drawn largely from Facts & Myths and Statements of Support by the Center for Economic and Policy Research

Proposed U.S. Legislation

- Democratic House leadership announced support for FTT on January 12, 2015. While bill text has not yet been released, Rep. Chris Van Hollen, ranking member of the House Budget Committee, said the tax would be introduced in coordination with the EU.

Bills introduced in the previous 113th Congress:

- Sen. Tom Harkin and Rep. Peter DeFazio introduced the ***Wall Street Trading and Speculators Tax Act***, which proposes a 0.03% tax on stock, bond, and derivative trades, with a tax credit offset for contributions to qualified tax-favored accounts, such as 401(k)retirement funds, 529 education saving plans and health savings accounts.

- Rep. Keith Ellison introduced the ***Inclusive Prosperity Act***, which proposes tax rates of 0.5% on stock, 0.1% on bond, and 0.005% on derivative trades, with an offset for taxpayers with adjusted gross incomes under $50,000 per individual or $75,000 per family.

- Sen. Sheldon Whitehouse introduced the ***Job Preservation and Economic Certainty Act of 2013***, which includes a 0.03% tax on stock, bond, and derivative trades, with an offset for contributions to tax-favored accounts, such as 401(k)s, 529s and HSAs.

- Rep. John Conyers proposed FTTs to help fund some bills, including the ***Humphrey-Hawkins Full Employment and Training Act*** and the ***Expanded & Improved Medicare For All Act***.

Economists, Financial Experts, and Business Leaders

Financial industry professionals
More than 60 have signed a support letter. Excerpt: "New FTTs, whether agreed by the G20, EU, or by individual countries, offer a real opportunity to help restore the financial sector to its proper role, while raising massive revenues for people in urgent need at home and in the world's poorest countries."

George Soros, Open Society Institute
The globalization of financial markets has given financial capital an unfair advantage over other sources of taxation. A tax on financial transactions would redress the balance.

Jeffrey Sachs, economist and Director of the Earth Institute at Columbia University
In 2011, Sachs was one of 1,000 economists who signed a letter in support of FTT.

Sheila Bair, former Chair of the Federal Deposit Insurance Corporation
Impose a Financial Transaction Tax: Developed nations in Europe and elsewhere are moving forward with fees on financial transactions. Instead of resisting these efforts, the U.S. should lead the way.

John Bogle, founder of the Vanguard Group
I love it. The financial institutions that control 75 percent of all stocks are tax free. Pension funds are tax free. Mutual funds are about half tax-deferred, but the other half is run by managers who pay no attention to taxes. So we've got these two giant industries basically operating without any frictional costs when they trade stocks back and forth… and that helps explain why we've had this orgy of speculation…. So I like the idea of a transaction cost.

Mark Cuban, owner of NBA team Dallas Mavericks, Landmark Theaters, and other enterprises
We need to figure out a way to revert the Stock and Bond Markets, and the derivative instruments created from these equities, back to their original purpose, a place to raise capital for growing business… The simplest way to change this is to place a very simple per share tax on every transaction… The market thrived when spreads and transaction costs were much higher just a few short years ago.

Bill Gates, Chairman of Microsoft
It is very plausible that certain kinds of FTTs could work. I am lending some credibility to that. This money could be well spent and make a difference.

Paul Krugman, economist and Nobel Laureate
To the extent that taxing financial transactions reduces the volume of wheeling and dealing, that would be a good thing.

Avinash Persaud, Chairman of Intelligence Capital Limited and former head of Currency and Commodities Research, JPMorgan (UK)
Believers in the true purpose of finance – the funding of genuine economic activity – should embrace the FTT.

Joseph Stiglitz, economist and Nobel Laureate
What's needed is a comprehensive response that should include, at least, significant investments in education, a more progressive tax system and a tax on financial speculation

David Stockman, Director of Office of Management and Budget during the Reagan administration
[F]rankly we should put a transaction tax on Wall Street as well.

David Weidner, *Wall Street Journal* columnist
[A] minimal transactions tax would create new forms of revenue for cash-strapped regulators and gently apply the brakes to trading run amok in the market.

John Fullerton, Founder, Capital Institute, and former Managing Director, JPMorgan
If the FTT causes a shift that even modestly reduces the fragility of markets and the risk of deepened future crises – both highly detrimental to the long-run efficiency of the real economy, which is the efficiency that really matters – it will have been worth it.

Jared Bernstein, former Chief Economist and Economic Adviser to Vice President Joe Biden
It's actually a good, old-fashioned economic solution: internalize the negative externalities of bad risk pricing and volatility but making it more expensive to lurch... It would also raise some much needed revenue which, if I'm right, we're going to need the next time the herd runs off the cliff…together.

Leo Hindery, Managing Director, InterMedia Partners LP
Beyond raising needed revenues, the [tax] would also significantly reduce the rampant financial speculation that continues to plague our economy and that has cost every man, woman and child in America thousands of dollars and our nation millions of jobs.

Wallace Turbeville, former Goldman Sachs VP and advisor to CFTC on HFT, on how FTT would be a cost-effective way to monitor high frequency trading:
It's a real challenge to monitor and track this trading from a technical standpoint. A solution like this tax could be very helpful. It's a great deal for the public.

Religious and Opinion Leaders

Kofi Annan, former UN Secretary-General
I support innovative financing solutions, such as a fair maritime bunker fuel tax, a levy on airline tickets, or the Financial Transaction Tax.

Al Gore, former U.S. Vice President
We need policy changes, we need a tax on carbon and we need a tax on global transactions.

Pontifical Council for Justice and Peace
[T]axation measures on financial transactions... would be very useful in promoting global development and sustainability according to the principles of social justice and solidarity.

Desmond Tutu, Archbishop Emeritus of Cape Town
I urge G20 leaders… to introduce a tax on financial transactions to help low-income countries hit by the economic crisis and to protect poor people from climate change.

Presbyterian Church USA
Support the implementation of a financial transactions tax, similar to those used by some other countries, to raise revenue (as most other transactions are taxed), and reduce financial speculation and risk.

Hollywood Celebrities
In 2014, Harry Potter director David Yates made a video with Andrew Lincoln, the star of "The Walking Dead," Bill Nighy, of "The Best Exotic Marigold Hotel" and "Love, Actually," among the actors. Ben Kingsley, Mark Ruffalo, Emma Thompson, and Sienna Miller have also endorsed the FTT.

What do the polls say?

- In a January 2013 poll conducted by Hart Research for Americans for Tax Fairness, **over 6-in-10 (62%) of respondents approved – and one-third (34%) strongly approved** – a "small tax on all stock/bond/market trades."

- A December 2012 survey by the Mellman Group for Friends of the Earth found that among American voters, **two-thirds favored the FTT**, saying yes to "taxes on Wall Street banks that helped create our economic problems." A majority of poll respondents favored reining in "the casino culture of Wall Street" and "skimming the fat off a sector that can afford to pay."

- In November 2012, a Democracy Corps national post-election survey found **that two-thirds (66%) favor and almost 4-in-10 (38%) strongly favor** instituting "a financial transactions tax and a 'too big to fail' fee on the largest banks and financial institutions to discourage risky investments and guard against more bailouts."

- An International Trade Union Confederation Global Poll conducted in April and May 2012 also determined that among U.S. respondents, **over 6-in-10 (63%) favor "a financial transactions tax** – which is a small levy on large transactions of currencies, bonds and shares ... The idea behind this levy is that this would be a good way for the banking sector to contribute back to society for their part in the financial crisis."

- A Euro-barometer survey shows 82% of German and 72% of French citizens support a European FTT. Across the EU, support was 64%.

Institute for Policy Studies

—Institute for Policy Studies, January 2015

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