ICI Policy Video: The Trouble with Financial Transaction Taxes

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A financial transaction tax (FTT) is a tax on the sale and/or purchase of a security. Although supporters say this type of tax is small, ICI research shows otherwise. This short video looks at how an FTT would affect individual investors as well as Wall Street.

Transcript

A financial transaction tax is a tax on the sale and/or purchase of a security, such as a stock or bond. You might have heard it called an "F-T-T." Supporters of an FTT try to say the tax is small—and that it will only affect Wall Street. But ICI research shows the reality is very different.

Today we're going to explain how a financial transaction tax will hit Main Street and Wall Street. We'll also break down how it will ultimately harm individual investors who are saving for retirement, education, and other financial goals.

An FTT will reduce the savings of 56 million US households that own mutual funds, and almost half of those households have incomes of less than $100,000. In fact, the fund firm Vanguard calculates that a 10-basis-point tax would force an everyday investor to work roughly two-and-a-half years longer to reach the same retirement savings goals. The study also found that a family might have to take out an extra $7,800 in student loans to make up for the tax's cost on a college savings account.

How do the costs of an FTT add up so quickly? It's because the tax could be levied multiple times on every investment, depending on how the specific proposal is designed. As an example, let's walk through the four times investors could incur a generic 10-basis-point financial transaction tax for a long-term mutual fund investor in 2018.

First is when investors buy shares of a mutual fund. The tax would have cost investors $4.4 billion in a single year. Second is when investors sell mutual fund shares. Here the tax would have cost investors $4.5 billion. Third is when the mutual fund that an investor owns buys stocks and bonds, including rebalancing the fund to track an index. The tax on those necessary trades would have an annual cost of $9.5 billion. And fourth is when mutual funds sell stocks and bonds, again, including rebalancing a portfolio. The tax on these transactions would have cost investors $9 billion.

And these are just the direct costs to a mutual fund investor. An FTT would also raise the cost of executing a trade, and the increase in trading costs could be many times the direct cost of the tax. At the end of the day, Main Street investors are going to face heavy costs no matter how the tax is designed. Despite the claims of its supporters, a financial transaction tax clearly isn't worth the cost.

For more information on financial transaction taxes, please visit www.ici.org/ftt.

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