



1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

By Electronic Delivery

August 10, 2020

Senator James Sanders Jr.
LOB, Room 711
Albany, NY 12247

Assemblymember Phil Steck
LOB, Room 702
Albany, NY 12248

RE: OPPOSITION to Stock Transfer Tax

Dear Senator Sanders and Assemblymember Steck:

The Investment Company Institute¹—on behalf of shareholders in all funds, including mutual funds, that are registered under the Investment Company Act of 1940 (the “1940 Act”)—strongly opposes S6203a and A7791b. A repeal or reduction of the rebate of stock transfer sales tax² from 100 percent would increase the cost of saving for retirement and other long-term needs for New York residents and other individuals.

Specifically, the proposed reduced rebate would significantly increase the cost of transactions that a fund conducts in its portfolio. Because fund investors are the sole owners of a fund, the investors’ return is reduced on a dollar-for-dollar basis by all costs incurred by the fund. A reduced rebate of the tax, consequently, would increase a fund’s costs and reduce the return to the middle-class shareholders who own the fund’s shares.

Importantly, the reduced rebate also would impact all investors purchasing or selling 1940 Act registered funds (exchange-traded funds (ETFs) and/or closed-end funds) on the stock exchange. These individuals would incur the tax on every share transaction as well as on any trades in their funds’ portfolios. There is also clear evidence that similar taxes have harmed financial markets in other countries.

¹ The [Investment Company Institute](http://www.ici.org) (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI’s members manage total assets of US\$25.2 trillion in the United States, serving more than 100 million US shareholders, and US\$6.5 trillion in assets in other jurisdictions. ICI carries out its international work through [ICI Global](http://www.ici.org/global), with offices in London, Hong Kong, and Washington, DC.

² Although New York has imposed this tax since 1915, a portion (presently 100 percent) of the collected tax has been rebated since 1979.

For these reasons, we strongly urge you to maintain the 100 percent rebate of the stock transfer tax.

Background

1940 Act-registered funds are publicly-offered investment pools that provide individuals with access to a diversified portfolio of stocks, bonds, or other securities that these investors cannot replicate efficiently. These funds, consequently, are very attractive investment vehicles for moderate-income investors.³ Our capital markets have been democratized by funds in ways that could not have been imagined just a generation or two ago. In fact, at year-end 2019, funds held approximately 32 percent of US-issued equities.⁴

The typical fund investor is a middle-class American with a median household income of \$100,000 and modest holdings.⁵ Almost half of all American households⁶ invest in mutual funds; they depend on their fund investments to buy a home, finance a child's education, support aging parents or extended family, and prepare for retirement.⁷

Fund Investors Are the Middle Class

The bill's sponsor claims that rebating 100 percent of the tax back to the parties paying it no longer can be justified. Repealing the full rebate purportedly would be economically borne by the wealthiest of Americans. This proposal, however, would harm the middle class.

A substantial portion of this tax, if not rebated, would fall on the moderate-income investors in funds and would decrease their return on investment. Investors saving for retirement have benefitted tremendously from falling expense ratios; this tax would significantly negate the benefit that reduced costs have had on investment returns. Given the increased responsibility that individuals have for ensuring their own retirement security, the legislature should be creating incentives to *encourage* rather than *discourage* saving.

³ Retail investors (i.e., individuals) hold the vast majority (89 percent) of US mutual fund assets. https://www.ici.org/pdf/2020_factbook.pdf, Figure 3.3.

⁴ https://www.ici.org/pdf/2020_factbook.pdf, Figure 2.7.

⁵ The most recent ICI data show median mutual fund assets of \$150,000 per household in four accounts. https://www.ici.org/pdf/2020_factbook.pdf, Figure 7.2.

⁶ The most recent ICI data show 45 percent of US households owned mutual funds in 2019. https://www.ici.org/pdf/2020_factbook.pdf, Figure 7.1.

⁷ The most recent ICI data show that individuals invest in mutual funds to save for retirement (92 percent), for emergencies (50 percent), and for education (24 percent). https://www.ici.org/pdf/2020_factbook.pdf, Figure 7.2.

Harm to Financial Markets

The proposal cites New York’s “unpredictable state revenue” environment and suggests that a stock transfer tax will shore up revenue shortfalls. Given this time of uncertainty in the COVID-19 era, New York should not impose a tax that would hamper the functioning of the markets and hurt long-term investors. Empirical research finds that similar taxes imposed in other countries have reduced trading volume, impaired liquidity and distorted price discovery.

Further, there is no evidence of the purported benefits of similar taxes.⁸ Most studies have found that these taxes raise far less revenue than predicated and have either no effect on market volatility or increase it. In addition, there would likely be tremendous effort to avoid the tax, reducing the revenue raise by the tax and perhaps increasing, rather than reducing, the resources devoted to financial engineering. This tax could also cause trading to migrate to lower-cost trading venues outside of New York.

Recommendation

The Institute strongly recommends that the proposals to bring back the stock transfer tax be rejected. At the very least, any reduction of the rebate on stock transfer tax paid must *not* be extended to 1940 Act-registered funds. Any such reduction in the rebate to funds would be borne by their investors—average Americans saving for their long-term needs. The unintended (and most unfortunate) consequence of this bill would be to harm those Americans whom the bill’s sponsor is trying to help.

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The Institute appreciates your consideration of our concerns. Please do not hesitate to contact the undersigned at (202) 326-5826 if you have any questions regarding this letter or would like any additional information regarding the organization, operation, or taxation of investment companies and/or their shareholders.

Sincerely,



Katie Sunderland
Assistant General Counsel – Tax Law

CC: Members of the Senate Committee on Budget and Revenue
Members of the Ways and Means Committee

⁸ For more information see ICI’s Financial Transaction Tax Resource Center at: <https://www.ici.org/ftt>