Securities Regulation Daily Wrap Up, FINANCIAL INTERMEDIARIES —SIFMA, other securities institutions oppose New Jersey's financial transaction tax, (Oct. 21, 2020)

Securities Regulation Daily Wrap Up

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Opponents say the tax will harm New Jersey much more than it will help the state.

The Securities Industry and Financial Markets Association (SIFMA), the Managed Funds Association (MFA), and the Center for Capital Markets Competitiveness (CCMC) have each submitted comments to New Jersey's Senate and General Assembly opposing a bill to impose a tax on high-quantity processors of financial transactions. The bill, to take effect 90 days after enactment, would impose a tax on a person or entity that processes 10,000 or more financial transactions through electronic infrastructure located in the state during the calendar year. The tax would be $0.0025 for each transaction but: (1) no financial transaction would be taxed more than once; and (2) if multiple persons or entities process a single financial transaction through electronic infrastructure located in New Jersey, the first person or entity processing the transaction would be subject to the tax.

How tax will harm New Jersey.SIFMA, CCMC, and MFA in a statement and testimony, while acknowledging that the Assembly would impose the financial transaction tax (FTT) to overcome a major budget revenue shortfall caused by the COVID-19 pandemic, proclaimed that the FTT's costs to New Jersey would severely outweigh its financial benefits. The three organizations as well as 26 trade associations representing businesses and financial services firms all agreed in a letter sent to the assembly chairman and senate president that the FTT is not the way for the state to overcome its budget shortfall because the tax would negatively impact New Jersey residents' savings and the state itself in the following significant ways:

1. ***An FTT would be passed down to New Jersey investors and consumers.*** SIFMA pointed out that more than 50 percent of U.S. households own mutual funds, 401(k)s, IRAs, pension funds, and 529 plans whose percentage of stocks and bonds are periodically rebalanced during the investor's working years to better position the investor for retirement. If the FTT was enacted, said SIFMA, these investments would be charged with the tax whenever they are rebalanced, thereby causing a significant drop in the investor's savings upon retirement. SIFMA remarked on a recent Modern Markets Initiative report stating that the proposed FTT would cost the New Jersey Division of Pension & Benefits, investors in 529 savings plans, individual savers, and non-investor consumers billions of dollars in lost income and revenue.
2. ***An FTT would cause New Jersey businesses to leave the state.*** MFA declared that the FTT would cause New Jersey-based businesses to relocate to other states to avoid being placed at a competitive disadvantage by the tax. Moreover, these businesses leaving New Jersey would lead to large losses of jobs, along with the tax revenues generated from those jobs. Separately, MFA said that the FTT would likely not begin receiving revenues until legal issues are addressed. The fact that New Jersey has imposed the tax but other states have not would constitutionally affect interstate commerce.
3. ***An FTT has not worked in other countries.*** The CCMC highlighted past incidents where other countries imposed an FTT to their disadvantage: (1) Sweden implemented a 2 percent FTT in 1986 but experienced a 5.3 percent market decline from the tax, followed by its top 11 traded stocks shifting out of the country to London; and (2) France imposed a similar FTT in 2012 but afterwards saw its trading volume decline 21 percent in the first 10 days and 16 percent in the first 40 days.

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