AMERICANS for TAX REFORM

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Re: Support "Protecting Retirement Savers and Everyday Investors Act"

Dear Representatives McHenry and Huizenga:

I write in support of the "Protecting Retirement Savers and Everyday Investors Act," legislation that prohibits states from imposing financial transactions taxes (FTT) on American savers and investors across the country. **All members of Congress should support and co-sponsor this legislation.**

Most FTT proposals impose a 0.1 – 0.25 percent tax on any buying and selling of stocks, bonds, and other financial instruments.

In the wake of the Robinhood-GameStop controversy, several Democrats have called for FTTs to limit market volatility. FTTs would do nothing to limit volatility: rather, they would act as a Trojan Horse to pass new regulations and new taxes.

If implemented in any given state, an FTT would result in significant harm to investors. Because the tax would be imposed on transactions processed by the exchanges in a state, it would harm investors across the country, not just those in the state which implements it. **Your legislation would protect against this by prohibiting a financial transactions tax on taxpayers outside a state's borders.**

FTTs represent another attempt by the left to create new and higher taxes on the American people and grow the size and scope of government. If implemented, this tax would have broad, negative economic effects. It would impose an additional layer of taxation on top of corporate income taxes, capital gains taxes, and individual income taxes. This would impose a barrier to trades, which could increase the cost of capital and reduce economic productivity.

This tax could even increase market volatility as investors would be less likely to buy and sell. It also punishes shareholders who have strategically invested, saved and planned for a prosperous future.

An FTT would especially impact 401(k)s, pensions, and index funds. These funds make frequent trades, so the tax would increase the costs of buying and selling, resulting in lower returns. A 0.1% surcharge would require average Americans to work another 2.5 years before retiring in order to make up for the shortfall in savings. A 2021 study conducted by the Modern Markets Initiative found a proposed financial transaction tax would cost $45,000 to $65,000 over the lifetime of a 401(k) account.

FTTs fail to raise significant revenue because they reduce trades and increase the cost of capital. In fact, an analysis by the Congressional Budget Office found that imposing a FTT would "decrease the volume of transactions and would make some types of trading activity" and "probably reduce output and employment."

This is not hypothetical. FTTs have failed when they have been tried overseas. For instance, in 1984, Sweden imposed a financial transaction tax. However, this tax lasted just six years due to investors fleeing to foreign markets. Not only did the FTT raise little revenue, capital gains tax revenue dropped because of a reduction in sales. According to the Center for Capital Markets, this has also happened in Spain (1988), Netherlands (1990), Germany (1991), Norway (1993), Portugal (1996), Italy (1998), Denmark (1999), Japan (1999), Austria (2000), and France (2008). It was even repealed here in the United States in 1965 through a bipartisan vote, due to its failure. In the years following the repeal, trading volume in the United States increased substantially.

While many are motivated to support an FTT by their disdain for short-selling, the fact is that short selling is not responsible for market crashes and economic downturns. Instead, it is a function of the free market. Investors will short a stock when they think it is overvalued. In this way, it helps promote investor efficiency and provides information to markets, ultimately softening the blow of a downturn.

For instance, 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 we experience 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.

The effort by blue states to impose FTTs should be rejected. These taxes have failed where they have been tried before, would harm economic growth and investment, and would fail to raise any significant revenue.

The Protecting Retirement Savers and Everyday Investors Act would protect Americans from FTTs by ensuring that states could not impose them on taxpayers across state lines. All members of Congress should co-sponsor and support this important, pro-taxpayer legislation.

Onward,

Grover G. Norquist
President, Americans for Tax Reform