A potential new “financial-transaction tax” assessed on trading transactions would significantly increase taxes on traders. Imagine breaking even for the year and having to pay a $50,000 tax (0.25percent tax times $10 million of sales proceeds and $10 million of purchases). Don’t sit idly by and allow pundits and members of Congress denigrate traders, lumping them into the “sin tax” category. Online trading is a valued profession and it’s time to demand respect and defend your (tax) rights!

By Robert A. Green, CPA

Details of a new, proposed tax — a financial-transactions tax on the sale or transfer of financial assets — have come to light, and it’s not good news for traders. This new tax sounds small in percentage terms — it’s only 0.25 percent of proceeds and purchases as proposed — but it can add up to large sums for day traders and other hyperactive traders and force them to exit this business activity. Many active traders have sales proceeds of $10 million or more per year; some have well over $100 million. A 0.25-percent financial-transaction tax on $10 million of proceeds and $10 million in purchases equals a $50,000-tax per year, even if they breakeven or lose money.

Well-capitalized traders that don’t use leverage and have plenty of turnover may not mind. However, consider struggling pattern day traders with just $25,000 of capital; this tax could possibly wipe out their working capital in a year they otherwise might break-even on trading.

This new financial-transaction tax was proposed to apply to stock, options, futures, and perhaps many other types of financial instruments too. Passage would spell disaster for the trading and brokerage industries, including collateral service providers. Our firm is dedicated to online traders and hedge funds, so we would also be impacted if this tax is passed. We need to take action to see that this doesn’t happen.

This tax makes no sense for America, the reasoning is flawed, and it’s patently un-American. If anything, homeowners and banks should be taxed to pay for the TARP toxic asset mess — not business traders.

**How did this tax proposal come to fruition?**

A “financial-transaction tax” reappeared as a tax proposal during the first round of TARP legislation negotiated and passed in the fall of 2008. But that proposal failed. The proposal for this new tax was buried in the fine print of the TARP bill and it did not receive much public attention at the time; the much bigger TARP issues overshadowed it.

Thankfully, this proposal did not survive final negotiations in Congress, as has been the case many times in the past. Can we count on Congress to keep putting this fire out over the next several years, considering that that media may turn negative toward traders and Wall Street in general?

Perhaps it was dropped from TARP as a result of successful lobbying efforts made on behalf of financial-exchanges and brokerage firms (in Chicago and New York City, cities that are represented by important leaders in Congress and the President-elect ex-senator of Ill.).

See http://www.govtrack.us/congress/bill.xpd?bill=h110-7125 for the history on this bill proposal and the sponsors in Congress. You can email members of Congress your strong objections to this proposal.

Per that site, “This bill never became law. This bill was proposed in a previous session of Congress. Sessions of Congress last two years, and at the end of each session all proposed bills and resolutions that haven't passed are cleared from the books. Members often reintroduce bills that did not come up for debate under a new number in the next session.”

**H.R. 7125: Law Sec. 1. SHORT TITLE; FINDINGS.**
110th Congress - Pending Legislation (RIA)
with comments from Green.

Sec. 1. SHORT TITLE; FINDINGS.

**(a)** Short Title. This Act may be cited as the “Let Wall Street Pay for Wall Street's Illiquid Assets Act of 2008”.

**(b)** Findings. Congress finds the following:

**(1)** The Bush Administration is asking Congress to authorize $700 billion to cover the “illiquid” assets of Wall Street. This will further worsen our budget deficit.

**(2)** The $700 billion is to protect Wall Street investors; therefore, the same Wall Street investors should pay for this infusion of taxpayer money.

***Green comment****:* Business traders are not investors in TARP assets and they have no responsibility or interest in the toxic asset mess. Homeowners took out mortgages, mortgage brokers sold them aggressively, Wall Street packed mortgage-backed securities, and that market crashed. Cleaning up this toxic-asset mess is the responsibility of homeowners, mortgage brokers, and Wall Street mortgage-backed securities packagers/sellers and the buyers of those assets. Active traders — especially business traders — should be exempt from this cost.

**(3)** The easiest method to raise the $700 billion from Wall Street is a securities transfer tax; a tax that has a negligible impact on the average investor.

***Green comment:*** Easy to do, yes. But very unfair too and that makes it an unacceptable easy out.

**(4)** This transfer tax would be on the sale **and purchase** of financial instruments such as stock, options, and futures. A quarter percent (0.25 percent) tax on financial transactions could raise approximately $150 billion a year.

***Green comment:*** No mention of forex, ETFs, and plenty of other financial products. I imagine this is just the short list.

**(5)** The United States had a transfer tax from 1914 to 1966. The Revenue Act of 1914 levied a 0.2% tax on all sales or transfers of stock. In 1932, Congress more than doubled the tax to help overcome the budgetary challenges during the Great Depression.

***Green comment***: America did not have a thriving online trading business in the early 1900s to 1960s.

**(6)** The United Kingdom currently has a modest financial transaction tax of 0.5 percent.

***Green comment*** The UK also attracts traders from around the world to move to London and then only tax their UK earnings, not their offshore trading account gains. The UK financial-transaction tax at least gets a partial tax payment from these foreign traders living in the UK. Is the U.S. prepared to stop taxing worldwide income on foreigners who move to the U.S.? Doubtful, so raising this precedent is only half the story and therefore not appropriate.

**(7)** The Securities and Exchange Commission currently implements a very small tax per transaction to cover its costs; therefore this additional transfer tax is easy to implement.

***Green comment:*** SEC efforts do help business traders.

**(8)** All revenue generated by this transfer tax shall be directed to the general treasury.

**Economists take action**

Economist Dean Baker influenced a *New York Times* columnist to bring media attention back to the transaction tax (also called a stock tax). The mood in the media and government is to target traders, Wall Street, brokers, and investment managers — the current bad guys of this time.

*The New York Times* columnist Bob Herbert caused a firestorm in the trading community with his opinion piece (Jan. 13, 2009) in favor of this new financial- transaction tax.

*The Times*' editors even recommended comment posts from readers using hateful language against traders — words such as "blood suckers," "parasites," and, "money-shifters." The public discourse is turning ugly against traders; misconceptions and myths need to be corrected by the trading media and traders quickly. This is a major reason for this article. Herbert's opinion piece recapped (excerpts are also included in the sidebar below): America needs to raise tax revenue sooner rather than later and it can't escape the current financial crisis (in a sustainable manner) using huge spending projects and middle-class tax cuts alone. American needs to find who to tax more and fast.

**Other countries are doing it, why shouldn't the U.S.?**

As mentioned earlier, the U.S. had a transaction tax from 1914 to 1966 and it's being used now in the UK and some other major countries too. Some argue, why not institute it again in the U.S.?

Google "financial-transaction tax" and you will find information about this tax discussed and passed in several countries around the world. For example, in India: [http://www.countercurrents.org/eco-singh200704.htm](http://www.countercurrents.org/eco-singh200704.htm)

A transaction tax was passed in China under a firestorm a few years ago and then unwound recently after significant market disruptions and declines. It caused controversy in most other countries where it was passed too.

Proponents of this transaction tax often argue they want to use this tax to dampen speculation and encourage long-term investing. Dampening the right of speculators (who have lived on this earth from day one) is more understandable in a communist country like China; and maybe even in the more socialist-leaning countries too — but not in America, the world's shining light for financial and other freedoms.

Instead, the transaction tax did not work in China because so much of its emerging stock markets were based on local retail investors and its speculation — for many Chinese, it's their first taste of financial freedom and independence. Knock out the retail trader (with this tax and other obstacles) and if you don't have local world-class financial institutions catering to global investors (like the UK does), a country's financial markets will suffer. Despite this, the UK is doing disproportionately poorly now.

Many argue that the transaction tax was passed in the UK to help its wholesale banks compete against retail traders; to unlevel the playing field. The banks won exemption from the transaction tax.

America is different from China and the UK; we usually seek to level the playing field.

We must honor our bond with small business traders and entrepreneurs and not give undue advantage to banks. It would be very unfair for U.S. banks to win exemption from this transaction tax in connection with their proprietary trading desks. This applies to hedge funds, all of which should be treated on par with retail traders, or at least small business traders. However, an exemption for a broker dealer selling inventory makes sense, as the tax would then be passed on to the retail traders, fund, or bank.

The transaction tax (on retail traders only or otherwise) is un-American. In America, we don't tie the hands of entrepreneurs, small businesses, risk takers, and speculators (who built our great country), and we don't give away markets to large corporations. In America, you can start a business overnight on a shoe string and find success fast, or fail and move on to something else — good old fashioned trial and error.

Conversely, in much of Western Europe and Japan, you need to wait for a business license and other competitors to give up their market position or location. It usually costs much more to establish a business than in America. Western Europe and Japan are business-centric; America is customer-centric.

As the world craters into recession, we should not give up our history of entrepreneurship and free-market principles and dumb down to the levels of communist China, patrician UK, and Western Europe. We should not become big-spending socialists backed by big tax assessors and redistributors. Don't jump ship!

Yes, we had a transaction tax in America in the early 1900s — to combat the Great Depression and during a Roosevelt socialist administration — but a century makes a world of difference. In the 2000s, we have empowered, sophisticated, and highly educated online traders using the Internet and incredible tools to compete against the big banks. Online traders and hedge funds are great customers of these banks, and the banks need traders more than a transfer tax.

Transfer this tax to countries outside the U.S. and don't hand-off our great world-class retail and small business traders to other countries. That's one marketplace battle we are winning! Is the US government willing to tax mom and pop retail stores and let Wal-Mart off the hook on special types of excise taxes? How un-American would that be?

**President Obama may not raise taxes on the rich right away**

President Obama gave indication this month that he might allow the Bush tax cuts on the rich expire as scheduled in 2011 and not seek early repeal in 2009 or 2010 as promised on the campaign trail. We'll have to see if Congress decides to push for early repeal.

President Obama also implied that he may not push for repeal of carried interest tax breaks in 2009 and 2010 to allow for the economy to turn around. It may even be a moot point if most hedge funds don't receive profit allocation (carried interest) or incentive fees on gains, considering that many hedge funds have losses in 2008. Why fight over nothing?

Rich vs. middle-class (tax) warfare (as exhibited on the campaign trail) may be on hold, but hopefully the active-trader investor class will not take the new hot seat. It's important for traders to defend themselves from a "sin tax" approach too, which demonizes the targeted group and supports a sin-tax assessment.

**Media bashes traders, Wall Street**

The mainstream media has been painting a negative picture of traders that is unfair, untrue, and unfortunately mostly unanswered to date (until now), saying Wall Street, banks, brokers, hedge funds, traders, and short-sellers have damaged the economy and contributed to the crisis.They are all considered to be the Gordon Gekko characters (played by Michael Douglas in the classic 1987 film "Wall Street") of the 2000s. (Incidentally, Hollywood is working on a sequel.)

Short-sellers, and others who played the down side of the markets (in other ways), have been called everything from unpatriotic to greedy, and they have been charged with taking advantage of (and accelerating) America's financial problems.

*Times* columnist Bob Herbert argued that day traders do no good, so why not tax them and raise 100 billion for the US treasury? (By the way, if there are 200,000 active day traders, legislators must be figuring each day trader will pay over $100,000.)

> (Sidebar) Excerpt from Herbert column
> http://www.nytimes.com/2009/01/13/opinion/13herbert.html?_r=2&ref=opinion
> *But there's another intriguing element to the [financial-transaction tax] proposal. While the fees would be a trivial expense for what the general public tends to think of as ordinary traders — people investing in stocks, bonds or other assets for some reasonable period of time — they would amount to a much heavier lift for speculators, the folks who bring a manic quality to the markets, who treat it like a casino."*
>
> *"It raises money in a way that comes primarily at the expense of speculation," said Mr. Baker [economist]. "The fees would be a considerable expense for someone who is buying futures, or a stock, or any asset at 2 o'clock and then selling it at 3. The more you trade, the more you pay."*
>
> *"For the typical person holding stock, who is planning to hold it for a long period of time, paying the quarter of one percent on a trade is just not that big a deal."*
>
> *The fees, though small, could amount to a big deal for speculators because in addition to the volume of their trades they often make their money on very small margins. Someone*

> *who buys an asset and then sells it an hour later at a one percent appreciation might feel quite pleased. He or she would be less pleased at having to pay a quarter-percent fee to purchase the asset in the first place and then another quarter percent to sell it.*
>
> *This, according to Mr. Baker, is part of the beauty of the transfer tax; it tends to curb at least some speculation. "It's a very progressive tax," he said, "that discourages nonproductive activity."*

**Traders will lose jobs; most don't qualify for unemployment**

Media bashing may be easy to do for disgruntled writers, but this new financial-transaction tax can put hundreds of thousands of traders out of business overnight and put their families in dire distress. Unlike many other salaried employees displaced in our economy, self-employed business traders often do not pay into state workman compensation funds for unemployment benefits. Many online traders only entered a trading business after already exhausting job searches and considering other new business opportunities.

Real estate investing is no longer attractive in this down market and many other types of businesses are not doing well either. The entire economy is in decline and it's hard to survive.

**Trading is not a sin and not deserving of sin tax**

The important point is that those who argue that trading deserves a sin tax (such as the taxes on cigarettes, alcohol, and gambling) are very wrong. Day traders are an integral part of society, providing vital liquidity to the financial markets so long-term investors can sell and buy their stocks when they want or need to.

Although this tax has not been introduced as a "sin tax", the many derogatory comments made against speculators in connection with the attempted justification for this tax remind me of sin tax arguments.

The market trends may be down, but day traders still buy when others are selling and sell when others are buying. They include the person you desperately need on the other side of your transaction no matter what the market circumstances are on any given day.

It's not just day traders at risk: Entire Wall Street firms may continue to simply shut down their proprietary trading desks, drying up liquidity. The U.S. markets will come across as less appealing to the rest of the world.

**Tax could push U.S. traders to foreign exchanges**

Many U.S. traders are already well versed in trading abroad, and they could accelerate this trend if the transaction tax is passed. This will seriously undermine U.S. stock market values and hinder the fleeting recovery efforts underway now. It's going to be hard for the IRS to assess a financial-transaction tax on foreign transactions, but don't put it past them. (Of course, Americans pay U.S. income taxes on global profits.)

Chasing traders outside the U.S. goes against President Obama's stated initiatives to encourage Americans to repatriate foreign profits, businesses, workers and more from offshore to onshore. Congress already acted in late 2008 to repeal the offshore fund tax break (profit allocation deferral Section 409a) for investment managers. More tax changes are coming to give incentive to do business in America rather than abroad.

The sad reality of tax law changes and regulation: There are always unintended consequences. That's why central planning and tax officiating of business decisions is bad public policy and it has failed from time and memorial.

Congress passed the *Sarbanes-Oxley* Act of 2002 (SOX), new expensive red tape and regulation for public companies after the Enron debacle, and this pushed companies to list in London instead.

**Tax change is coming**

The good old days of planning for and around significant tax law changes usually happened once per every Presidential term; including second terms.

For example, the Bush tax policies and cuts were well advertised and they lived up to expectation, without much change. President Obama was clear and consistent with his stated goals for tax change on the campaign trail, and with a Democratic-controlled Congress, most people expect these changes. President Obama seems like a person who will do what he says, but he has demonstrated that he will also listen to his (money) generals and react to boots on the ground.

The economic and financial crises take center stage and job number one.

If you want new spending, line up for a shovel ready do well for the economy project.

If you want to avoid tax increases, explain your case to how the taxes will undermine the economic turnaround. Every trader should send a letter to their Congressman in support of the arguments I lay out in this article and add all the good ones you have too boot.

After the crisis subsides, defending against tax increases should be harder for traders.

At that point, it's important to stay out of the rich and investor classes, which won't fare well in the reversal of Bush tax cuts for the rich and investor-classes. Active traders should stay in the small self-employed business class.

Over time, to combat this ensuing fiscal crisis, Congress and the administration may feel compelled to pass one round of tax law changes after the other; sometimes pinning it on the tail of further stimulus legislation, reform, and regulation.

The sky is the limit and no tax breaks should be taken for granted; not even the cherished 60/40 lower tax rates for futures traders.

Lobbyists are lining up in Washington DC to defend their precious tax interests, however online traders don't have a lobbying group dedicated to their specific (and important) needs. And they should!

Brokers, banks, and financial-market exchanges have excellent lobbying groups that hopefully will help fight off this financial-transaction tax change. After all, they stand to lose a lot of business if hyperactive traders leave U.S. markets to open foreign brokerage accounts instead.

**GreenTrader Alliance for Traders**

I formed this alliance in the late 1990s and it's time to put it to use fighting off this proposed tax. Other issues we will tackle include health insurance alliance rates for business traders, expanding the puny $3,000 capital loss limitation, allowing Section 475 MTM ordinary loss treatment after the fact, and more.

Learn more about (and join) our alliance here: http://www.greencompany.com/Traders/Advocacy.shtml.

**The public still has too many negative misconceptions about traders**

The biggest myth in Congress, the media and the public is that investors are mostly upper-income people. Wrong.

In the Bernard Madoff Ponzi scheme, not only were the wealthy burned, but also every-day pensioners, who unknowingly invested with Madoff through fund of funds purchased by their pension managers.

Online traders come from all walks of life. They have been dislocated in the economy and are trying to support their families rather than relying on government hand-outs (which most don't qualify for in the first place).

What's better: An unemployed worker seeking extended benefits and not looking for work, or an active trader generating profits and paying taxes?

*The New York Times* recently ran a story about the return of day trading from the 1990s, discussing the improvements to the profession and the sophistication and education of the new day traders. Previously, day traders jumped into the profession without any training; now, traders are educating themselves and are comfortable using more advanced technology, services and tools.

Many traders have left Wall Street firms and hedge funds (some at will, others due to layoffs) to start their own day trading businesses. Wall Street firms may down-size to be more like classic banks, so it makes sense that trading operations may be taken over by small-business entrepreneurs. Government needs to help these entrepreneurs, not bury them with new taxes. That will kill off a vital part of our economy and again, significantly reduce liquidity in our markets.

**Traders already pay high taxes**

Many new traders in 2008, especially those that left financial service firms, made good money. They spotted the downtrend in the markets and profited from it, using legal short-selling techniques, put buying, call selling, and a bevy of new products in place such as ETFs and indexes.

AND IT'S LEGAL, ALLOWABLE, AND MORAL.

Don't confuse this with sometimes unethical, inappropriate, and sometimes illegal short-selling, rumor mongering, and media-bending perpetuated by infamous well-known short-sellers. The mainstream media shares the blame on that one too, as they gave the soap box to the rumor mongers and sold papers with the headlines.

**Buy and hold was a bad strategy in 2008**

Buy-and-hold investors were the ones who took a beating in 2008 and may take another one in 2009. For the longest time, Congress has given tax incentives to investors to buy and hold, and especially hold onto losers (if they already have exceeded the capital loss limitation of $3,000).If you hold a stock for 12 months, the gain qualifies for the lower long-term capital gains rates, currently up to 15 percent; vs. current 35 percent rates on short-term capital gains.

Day traders faired much better than buy-and-hold investors in 2008 on both the market and tax fronts. With IRC Section 475 MTM, business traders are allowed ordinary loss treatment, including Net Operating Loss (NOL) carry backs. NOLs are currently carried back two tax years, and/or carried forward 20 tax years.

President Obama has stated that he wants to extend the NOL carry-back period from two to five years, in the same way that President Bush did in the early 2001 recession. That NOL tax law change would be fantastic for business traders!

Business traders need to force Congress and the public to treat them as valid small businesses and not the fleckless investor class.

**How sin taxes work**

Lower-income individuals often purchase cigarettes, alcohol, and lottery/gambling products in disproportionate ways. The idea is that increasing sin taxes on these products helps dissuade these self-hurting (and often addictive) activities. Sin tax revenues are often used to combat the harmful effects of these activities. Sin taxes are also a tax on the lower class, who might not otherwise pay (much) income tax.

So far, sin taxes make sense.

But they cross the line when government officials and the media declare an activity a sin, when it is clearly not a sin.

**How would sin taxes collected from traders be used for public good?**

Should the government use revenues raised from a financial-transaction tax to provide further relief to Wall Street and the markets? I would think Wall Street would prefer government to cancel this tax idea, to save its customers money and save its customers.

These are basic market-based principles vs. government redistribution principles.

Why put traders out of business and then give the money to help Wall Street?

Why not take a hands-off approach, allowing Wall Street to conduct good business with their trading customers? Then, both Wall Street and traders survive and prosper and pay income taxes to the government.

Should a financial-transaction tax be used to provide relief to homeowners? Weren't those ills perpetuated by overzealous homeowners and mortgage brokers as opposed to traders?

Plus, where does it all end with an escalating sin tax? Who will be the sin-tax police? It's starting to sound like fundamentalism.

**Who is safe from the sin tax?**

In all fairness to the concept of sin tax, I advocated a "social tax" idea several years ago, when tax law change was in sight in Washington (and the Bush tax cuts occurred).

My social tax is based on social polluters paying an extra tax rate to cover the costs of a government clean up; in lieu of graduated income tax rates on income alone. Doctors should pay lower taxes than polluters. It's based on the concept of cradle-to-grave product usage.

The financial-transaction tax would not be charged with my social tax, because traders don't cause these problems. Traders did not cause the market meltdown; it happened for a whole litany of reasons, both good and bad. And the government itself is as much at fault.

The biggest reason is the American dream; good luck putting that on trial.

**Excise taxes versus sin taxes**

There are no grounds to call it an excise tax either.

Per Wikipedia, "An **excise** or **excise tax** (sometimes called an excise duty) is a type of tax charged on goods produced within the country (as opposed to customs duties, charged on goods from outside the country). Typical examples of excise duties are taxes on tobacco, alcohol and gasoline."

The UK may justify and maintain this "stamp duty" financial transaction tax in order to assess a tax of some sort on "non-domiciled" UK residents; who otherwise do not owe UK income taxes on offshore trading account gains (which accounts may trade on UK exchanges). The UK is trying to pass a fixed minimum tax on "non-domiciled" UK residents; who can otherwise skip that tax by filing like UK residents.

It's my understanding that full UK resident taxpayers may deduct this financial transaction tax from their UK income tax; thereby getting it refunded (in part of full). The income tax credit won't help business traders who have trading losses. But the connection with foreigners avoiding UK taxes may be the main justification for this tax and the reason it's named a "stamp duty." Duties usually refer to foreign versus domestic equalization.

This UK example make no sense for America, since America taxes all US residents (domiciled or not) on worldwide income.

**Bottom line**

Traders pay plenty of taxes when they make profits and they usually can't deduct their losses and expenses. Plus most traders rarely qualify for lower long-term capital gains tax rates. Isn't that enough? There are simply no grounds to charge a sin-type tax or excise tax on trading proceeds and purchases. Next, states will want to charge a sales tax on trading proceeds too. Traders suffer enough prejudice already with the IRS and other groups, so please don't prevent individuals displaced in the economy from trying to keep their slice of the American dream — as small business traders.

**Conference calls**

On our free weekly conference calls, we are discussing the financial transaction tax and organizing ways to fight it off. Visit www.greentradertax.com and see http://www.greencompany.com/EducationCenter/InteractiveOnlineMeetings.shtml. Simply join our email list (bottom of any Web page) to receive an email invitation to our calls.

**Listen to our archived recording** entirely devoted to the financial transaction tax and this article on Jan. 15, 2009. It's been edited to be a little less politically charged. Our conference call recordings are available on our Conference Call page at http://www.greencompany.com/EducationCenter/InteractiveOnlineMeetings.shtml.

**Background research for article**
Our in-house tax attorney Mark Feldman, JD sent me the below email after I wrote this article.

From: Mark Feldman, Esq.
Sent: Thursday, January 15, 2009 2:50 PM
To: 'Robert A. Green, CPA/CEO'
Subject: Financial-Transaction Tax

Hi Bob,

See BNA article, attached. *Excerpts below*.

I believe that it is significant that Congressional leaders are against this tax. The fact that it is supported by a couple of liberal Congressmen such as DeFazio (see http://www.ontheissues.org/House/Peter_DeFazio.htm) should not faze us. Ditto for Bob Herbert, a known left-leaning writer.

However, the history of prior versions of this tax (as you noted in your blog, and as discussed in 2008 TNT 127-42, attached) may mean that it may come back into vogue.

See also the attached in-depth article, 93 TNT 239-46, written in 1993. It discusses attempts in the 80's and early 90's to reintroduce this tax, and provides a careful analysis of the implications. See also 90 TNT 193, an article against the tax written in 1990, when Congress seriously considered implementing the tax.

Best regards,
Mark Feldman, Esq.
Senior Attorney
Green & Company CPAs, LLC

BNA article excerpts:

**TITLE:** Tax Legislation   DeFazio Proposes Taxing Stock Transfers To Offset Cost of Financial Industry Bailout

Rep. Peter DeFazio (D-Ore.) recommended in the House Democratic caucus meeting Sept. 25 that Congress reimpose transfer taxes on stocks to help insulate the government from the costs of the financial industry bailout, but the idea appeared to gain little support from his colleagues.

Laura Tyson, a chair of the White House Council of Economic Advisers under President Clinton, shot down the idea in the meeting, but Democrats said concerns about protecting the government from the budgetary risks of a bailout that could cost $700 billion are a main point of contention.

"Some of our members would like to say, 'Let's measure this program a few years out . . . to see what pay-for we could have there,' " House Speaker Nancy Pelosi (D-Calif.) told reporters.

But Pelosi herself did not endorse the idea of seeking offsets and suggested the more important issue at the moment is to construct a plan that will reinforce the financial sector.

"I'm just telling you some of the conversations that people are having in our caucus and in smaller groups . . . I suppose there could be [offsets], but, you know, again, we're talking about the basic package," Pelosi said.

*Left out entire rest of this paper. We would need reprint rights.*
-----------------------------------------------------------------------------------------



**MAGAZINE-CITE:** Tax Notes, June 30, 2008, p. 1367;
119 Tax Notes 1367 (June 30, 2008)
**HEADLINE:** 2008 TNT 127-42 SPECULATION AND TAXATION: TIME FOR A TRANSACTION TAX? (Release Date: JUNE 26, 2008) (Doc 2008-14155)

Excerpts:

High gas prices have prompted a search for scapegoats on Capitol Hill. Oil companies were the first to take the heat, as lawmakers cast a disapproving look at the record high earnings posted by Chevron, Exxon Mobil, and other malefactors of great profit. **But the legislative upshot -- a tax on windfall profits -- hasn't gotten very far, despite support from Sen. Barack Obama, D-Ill.** So maybe it's time for a new scapegoat.

**What about speculators?** Last week the House Energy and Commerce Committee invited a few oil market experts to do a little speculation of their own, asking them to assess Wall Street's role in driving oil prices to record territory. They happily obliged, suggesting that a crackdown on some types of investment activity might bring prices down by 50 percent.

But how, exactly, should lawmakers curb speculation? In recent weeks, members of Congress have floated several ideas, including higher margin requirements, enhanced disclosure by investment banks, and bigger budgets for federal commodity regulators.

But most regulatory measures depend on making some sort of distinction between speculative and nonspeculative investment. And that sort of distinction has eluded American lawmakers for decades, frustrating their episodic efforts to limit speculation in various financial markets.

So what to do? Economist Dean Baker, codirector of the Center for Economic and Policy Research, has an answer. "Treat speculation like casino gambling," he wrote in a recent post to his popular blog, "Beat the Press" -- "just tax it." Baker suggested that a broad-based financial transaction tax might help curb commodity speculation while also raising a nice chunk of change for the Treasury (http://www.prospect.org/csnc/blogs/beat_the_press).

More specifically, Baker supports "a set of modest taxes on financial transactions" -- perhaps 0.2 percent on commodity futures trades and 0.25 percent on stock trades. In a 2002 paper, he and two colleagues suggested that such taxes might raise $ 150 billion a year (http://www.peri.umass.edu/236/hash/aef97d8d65/publication/172/). And as a bonus, they added, the taxes would probably "take a big bite out of the hides of speculators."

Baker's idea has pedigree and precedent. Harvard economist Lawrence Summers suggested something similar in the late 1980s, when lawmakers and academics were still trying to make sense of the 1987 stock market swoon. Nobel laureate James Tobin endorsed a levy on currency transactions (an idea that still has broad support among the antiglobalization crowd, not to mention currency speculator extraordinaire George Soros). Even John Maynard Keynes suggested that some sort of transaction tax might reduce the "predominance of speculation over enterprise" so characteristic of American society.

Around the world, several countries have imposed taxes on financial transactions. The United Kingdom, in particular, taxes stock transfers at 0.25 percent. If imposed in the United States, Baker has contended, "this sort of tax would make almost no difference to a typical middle class shareholder" while putting "a serious crimp in the money shuffling business that has wreaked so much havoc on the U.S. economy." (See http://tpmcafe.talkingpointsmemo.com/2008/03/15/a_stock_transfer_tax _the_right/.)

For readers with a historical bent, it's worth recalling that the federal government -- as well as several states -- has repeatedly imposed a tax on the sale or transfer of securities. The first stock transfer tax can be traced to the early Republic, and it reappeared during the Civil War and the Spanish-American War. In 1914, faced with yet another military conflict, Congress again turned to the stock transfer tax. But this time the levy remained on the books for more than 50 years.

The Revenue Act of 1914 levied a tax of 2 cents per $ 100 of par value on all sales or transfers of stock. The tax was designed principally to raise revenue, not regulate markets. But that didn't stop advocates from predicting that it would also curb speculation.

The tax survived World War I and went on to raise considerable revenue in the bull market of the 1920s. In 1928 Democratic congressional leaders tried to reduce it, suggesting that current rates were unnecessary and excessive. But progressive leaders in both parties rejected the move, complaining that it would encourage speculation. They found surprising but crucial support in the person of Sen. Reed Smoot, a fiscal conservative who supported the transfer tax as a revenue measure. Ultimately, according to historian Cedric B. Cowing, nonfinancial business interests rallied to the cause, preferring the transaction tax to more onerous revenue alternatives.

In 1932, as lawmakers were casting about for ways to raise new revenue in the face of a Depression-spawned deficit, they slated the stock transfer tax for a big increase. Wall Street leaders complained that any hike would be ruinous, and they deployed a variety of arguments to bolster their case. Stock purchases were not speculation, they insisted. And even if they were, it was Ok, because speculation was good for the economy and the nation. And in any case, it was impossible to tell the difference between investment and speculation, so better to leave well enough alone.

Lawmakers were unconvinced, and the Revenue Act of 1932 more than doubled the rates. But Treasury experts remained lukewarm. In general, the tax probably made the revenue system more progressive, concluded economist Carl Shoup in a key 1934 study. But it didn't raise a lot of money, and it probably couldn't be made to produce much more. "Except as a check on speculative activity the tax probably has little to justify it," he wrote. Worse yet, it did a poor job of curbing speculation. "At present rates it probably does not check the kind of speculative activity -- the reckless, foolish activity -- deplored by those who would like to use the tax for this end," he wrote.

Nevertheless, the stock transfer tax remained on the books for another 32 years, disappearing only in 1966 when lawmakers repealed it as part of a broader effort to streamline the tax system. Few observers mourned its passing.

The idea remained dormant until the late 1980s, when both Democrats and Republicans began to ponder its potential. The stock market crash in 1987 had revived interest in the antispeculative potential of financial transaction taxes. Prominent economists published a flurry of papers on the topic, giving it intellectual currency for a few years.

Even more important, however, a federal budget crunch sent politicians in both parties scrambling for new revenue. Speaker of the House Jim Wright offered his support for some sort of financial transaction tax, chiefly as a revenue tool. Even the Treasury Department was reportedly considering it, which at least one observer found amusing. "A securities transfer tax, deliberately designed to create friction in the wheels of commerce, is a strange bird to be hatched by a Republican administration," wrote Washington Post columnist Michael Kinsley in 1990.

Indeed it was. But antispeculation sentiment runs strong in Washington, at least every once in a while. And when juxtaposed with a revenue crunch, it can be a powerful force for innovation. That might be an idea worth watching.

-------------------------------------------------------


Tax Notes Today

NOVEMBER 23, 1993 TUESDAY

**DEPARTMENT:** Special Reports (SPR)

**CITE:** *93 TNT 239-46*

**LENGTH:** 14867 words

**HEADLINE:** 93 TNT 239-46 SECURITIES TRANSACTIONS TAXES: TAX DESIGN, REVENUE, AND POLICY CONSIDERATIONS. (Release Date: November 22, 1993)

**SUMMARY:** R. Glenn Hubbard is a professor of economics and finance at the Graduate School of Business of Columbia University and a research associate of the National Bureau of Economic Research. He was a deputy assistant secretary (tax analysis) in the Bush administration. The CATALYST Institute provided financial support for this project.

Hubbard believes that issues surrounding the design, revenue- raising potential, and tax policy implications of a securities transactions tax are likely to surface in budget debates over the next few years. He notes that virtually all serious students of securities transactions taxes acknowledge the significant implementation problems they pose. Understanding the revenue-generating potential of the tax, says Hubbard, requires analysis of complex market forces determining asset trading volume, substitutability among taxed and nontaxed transactions, and

international competition among exchanges and marketmakers. Tax policy concerns must be examined as well, he notes.

Hubbard has reached five principal conclusions in this study. First, a workable broad-based securities transactions tax will be difficult to design. Second, behavioral responses will significantly reduce the revenue-raising potential of the tax. Third, even a modest transactions tax on futures trading will likely damage the competitiveness of U.S. futures markets, while raising little revenue. Fourth, the burden of the tax will be borne by individuals in many income groups. Finally, a securities transactions tax raises significant tax policy concerns and will likely amplify existing tax distortions of real and financial decisions.

**AUTHOR:** Hubbard, R. Glenn
Columbia University

*Left out entire rest of this paper. We would need reprint rights.*
====================================================



---

Tax Notes Today

SEPTEMBER 19, 1990 WEDNESDAY

**DEPARTMENT:** Washington Roundup

**CITE:** *90 TNT 193-43*

**HEADLINE:** 90 TNT 193-43 Stock Transfer Taxes -- Sheer Quackery] IRET CONSIDERS TRANSFER TAX 'SHEER QUACKERY.' (Legislative Proposals) (09 AUG 90) (Doc 90-6652)

**TEXT:**

A 0.5-percent transfer tax on securities sales would reduce federal receipts by as much as $ 7.5 billion per year, warns Stephen J. Entin in an Institute for Research on the Economics of Taxation (IRET) report. IRET anticipates that the proposed transfer tax would dramatically reduce trading and depress the economy. As a result, foreign traders would leave U.S. markets for those more globally competitive, corporate investment would suffer from the high cost of capital, and the reserves of pension funds and insurance companies would decline, to the detriment of workers and retirees.

IRET further insists that the economy will derive no benefit from driving shareholders into longer holding periods, because shareholders' actions hardly affect business investment planning. Research and development levels are dependent, rather, upon the liquidity of markets and the cost of capital. IRET states that a transfer tax would contradict and frustrate the policy behind the capital gains tax, adding that a transfer tax is a poor political trade-off for the capital gains tax because small savers who invest in mutual funds will see their trading fees increase to ten times that of large traders.

*Left out entire rest of this paper. We would need reprint rights.*