

April 15, 2015

United States Senate Committee on Finance  
Savings & Investment Working Group  
Via email to: [Savings@finance.senate.gov](mailto:Savings@finance.senate.gov)

Re: Comments on Bipartisan Tax Reform

Dear Honorable Senate Finance Committee Members,

In addition to comments submitted by our organizations either singly or under the banner of other coalitions, the undersigned groups urge you to more appropriately tax Wall Street speculators as you consider changes to the United States tax code.

In the announcement from U.S. Senators Hatch and Wyden soliciting comments from the public on possible reforms to the nation's tax law, fairness was listed as one of the sought outcomes. Fair can mean progressive—taxes should raise significant revenue without further obligating middle-class and low wage earners who cannot afford to pay more. Fair can also mean making sure that everyone has a level playing field, such as small businesses and large corporations.

Instituting a Wall Street Tax (or Financial Transaction Tax) would provide greater fairness and equity in the tax code since it would be a progressive tax that also provides equal footing for financial market investors.

The key to progressive taxation is placing the greatest obligation of a tax on those who can pay the most. However, corporations are paying less and less of their share of taxes. In 2014, corporations paid taxes equal to less than two percent of the Gross Domestic Product (GDP), but in 1950s the average corporate share was double that, at more than 4 percent share of the GDP<sup>1</sup>. However, in 2014, individuals' tax payments equaled more than 8 percent of the GDP, four times the corporate share.<sup>2</sup>

Though it is making record-breaking profits, the financial sector is disproportionately undertaxed. On average, financial firms pay less than 19 percent tax on their profits.<sup>3</sup> Huge financial firms like Wells Fargo and Goldman Sachs made billions in profit but recently actually received a tax refund from Uncle Sam.<sup>4</sup> It would be a far fairer tax system if corporations, especially financial firms, were again shouldering more of their fair share of the cost of important government services.

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<sup>1</sup> *Historical Source of Revenue as Percent of GDP, Receipts by Source as Percentage of Gross Domestic Product: 1934-2020*, TAX POLICY CENTER, (Updated Feb. 4, 2015), <http://tpc.io/1INzwqu>.

<sup>2</sup> *Id.*

<sup>3</sup> THE SORRY STATE OF CORPORATE TAXES, CITIZENS FOR TAX JUSTICE (February 2014), <http://bit.ly/1ekAj5J>.

<sup>4</sup> *Id.*

Another critical element of creating a fairer tax code is to create a more level playing field, in particular between average investors and high-frequency traders. High-frequency trading has overtaken the market and is now estimated to make up nearly half of equities trades and more than 60 percent of futures trades.<sup>5</sup>

Smaller investors and investment groups such as pension funds are harmed by high-speed traders that utilize proximity to markets and proprietary algorithms to profit off of otherwise imperceptible upticks in price. The cost of such alleged “front-running” amounts to an estimated increase in cost of approximately seven basis points for other market participants.<sup>6</sup>

Not only are pensioners and other retirement savers on the receiving end of cost increases associated with high-frequency trading, they are much better served by longer term investments, not the short term trades typified by high-frequency trading.

First, long term investments fund companies that create goods and services in the real economy. Unlike short term trading for purposes of market speculation, long term investment strategies create shareholder value and strong returns that themselves spark more capital growth.<sup>7</sup> Not only is that positive for savers and investors, it’s good for the whole economy.

Less high-speed trading also means less volatility. High-frequency trading exacerbated the 2010 “Flash Crash” where the Dow Jones Industrial Average plummeted nearly 1000 points in a matter of minutes. The computer mistakes executed that day cascaded into a domino effect on the market that erased \$1 trillion dollars in market value over an extremely short period of time.<sup>8</sup> Such mini crashes can have huge impacts on individuals’ retirement savings and investment portfolios, and that’s simply not fair.

Another benefit for retirement savers and other average investors is that a tax on Wall Street trades would lessen excessive turnover that hurts returns. The fact is that average retirement savers are already paying much more in existing fees than they would if financial transactions were taxed<sup>9</sup>, and experts estimate that the cost of the tax would be offset or even outpaced by savings on fees from less turnover of funds.<sup>10</sup> Moreover, average investors would also be incentivized to use index funds, or less actively-managed funds which may boost their returns.<sup>11</sup>

Regulators are just now starting to enforce, firm by firm,<sup>12</sup> rules against these imbalanced trading practices. It would be far more efficient to take out in one fell swoop unfair and

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<sup>5</sup> Gregory Meyer, Arash Massoudi and Phillip Stafford, *Casualties Mount in High-speed Trading Arms Race*, THE FINANCIAL TIMES (2015), <http://on.ft.com/1G4fdqL>.

<sup>6</sup> Michael Lewis, *The Wolf Hunters of Wall Street: An Adaptation from “Flash Boys: A Wall Street Revolt” by Michael Lewis*, <http://nyti.ms/1iRYw3Y> NEW YORK TIMES MAGAZINE (March 31, 2014), (Seven basis point figure extrapolated from Lewis’ data by Center for Economic and Policy Research).

<sup>7</sup> OVERCOMING SHORT-TERMISM: A CALL FOR A MORE RESPONSIBLE APPROACH TO INVESTMENT AND BUSINESS MANAGEMENT, THE ASPEN INSTITUTE, BUSINESS AND SOCIETY PROGRAM (2009), <http://bit.ly/1G4fnOS>.

<sup>8</sup> Ben Rooney, *Trading Program Sparked May “Flash Crash,”* CNN MONEY (Oct. 1, 2010), <http://cnnmon.ie/1dV1Tbf>.

<sup>9</sup> Taylor Lincoln, PUBLIC CITIZEN, A MATTER OF PERSPECTIVE: ADDED COSTS FROM A FINANCIAL TRANSACTION TAX WOULD BE MINISCULE AS COMPARED TO FEES INVESTORS ALREADY PAY (2014), <http://bit.ly/1DoWKmT>.

<sup>10</sup> Dean Baker, *The Cost to Savers of the Democrats’ Wall Street Sales Tax*, CENTER FOR ECONOMIC AND POLICY RESEARCH (Jan. 12, 2015), <http://bit.ly/1INAC5D>.

<sup>11</sup> Ian Salisbury, *Proposed Tax May Help, Not Hurt, Small Investors*, THE WALL STREET JOURNAL (2010), <http://on.wsj.com/1CJkpcg>.

<sup>12</sup> Michael Lewis, *Michael Lewis Reflects on His Book “Flash Boys,” a Year After It Shook Wall Street to Its Core*, VANITY FAIR (April 2015), <http://vnty.fr/1BctGJ1>.

unproductive speculative trading by shearing off these companies' slim profit margins—profits made by jacking up costs for average investors—with a miniscule tax on financial transactions.

Though our groups do not support the concept of solely revenue neutral tax policies, it's clear that new sources of revenue will need to be established through the tax reform process. A Wall Street Tax of only 0.03 percent would raise \$352 billion over nine years, the bipartisan Joint Committee on Taxation estimated in 2011.<sup>13</sup> The Congressional Budget Office estimated more than \$180 billion in revenue from a tax on trades set at only 0.01 percent.<sup>14</sup> And, research estimates that a higher rate tax of 0.5 percent could bring in as much as \$350 billion annually.<sup>15</sup>

And, these scores are sure to improve with expected 2016 implementation of a collaborative financial transaction tax between 11 European nations. Ranking U.S. House Budget Committee Member, Chris Van Hollen, included a financial transaction tax of 0.1 percent tracking the European rate as part of the pay-for for his Middle Class Tax Action Plan released in January, and it would be commonsense for the Senate Finance working groups to come out with a similar plan to utilize revenue from a Wall Street Tax.

As the Senate Finance Committee working groups proceed with the difficult work of weighing possible changes to the tax code, all ideas should be on the table, especially those that meet the criteria of fairness while raising significant revenue.

Our groups look forward to working with committee members on this and other issues, and as the process of comprehensive tax reform advances. We request the opportunity to meet with working group members to discuss this proposal in more detail.

Lastly, when deciding what policies would be most fair to the hardworking Americans who depend on their savings and investments, our groups' members and the public ask: Will you stand with Wall Street or Main Street?

For questions about this comment, please contact Susan E. Harley, JD, deputy director, Public Citizen's Congress Watch division, at (202) 454-5150 or sharley@citizen.org.

Thank you in advance for the consideration of our views.

Sincerely,

**National groups:**

Alliance for a Just Society

Americans for Financial Reform

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<sup>13</sup> Press Release, Office of Rep. Peter DeFazio (D-Ore), *Memo: Joint Tax Committee Finds Harkin, DeFazio Wall Street Trading and Speculators Tax Generates More Than \$350 Billion* (Nov. 9, 2011), <http://1.usa.gov/KgULbb>.

<sup>14</sup> CONGRESSIONAL BUDGET OFFICE, *OPTIONS FOR REDUCING THE DEFICIT (2014 TO 2023)*, (November 2013), <http://1.usa.gov/1x7LITZ>.

<sup>15</sup> Memo from Robert Pollin and James Heintz to Robin Hood Tax Coalition, *Tax Rates and Revenue Potential for Financial Transaction Tax in U.S. Financial Markets* (March 2, 2012; Updated Nov. 16, 2012), <http://bit.ly/1GS1qFa>.

Center for Effective Government

Consumer Action

Friends of the Earth U.S.

Institute for Policy Studies, Global Economy Project

International Brotherhood of Teamsters

National Priorities Project

NETWORK, A National Catholic Social Justice Lobby

New Economy Project

Public Citizen

United for a Fair Economy

**State groups:**

Main Street Alliance of Florida

Main Street Alliance of Oregon

Main Street Alliance of Vermont

Main Street Alliance of Washington

New Jersey Citizen Action