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Statement of Andrew Lowenthal
Head of Global Policy,
Managed Funds Association

Submitted to the New York State Legislature at the Joint Legislative Budget Hearing Concerning Taxes

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In Opposition to the Proposed Changes to the Stock Transfer Tax

Chair Krueger, Chair Weinstein, Members of the Senate Finance and Assembly Ways and Means Committees, I am Andrew Lowenthal, Head of Global Policy for the Managed Funds Association ("MFA"). I am pleased to provide this statement on behalf of MFA to present our members' views regarding the proposed changes to the stock transfer tax contained in A.3353 (Steck) and S.4606 (Sanders).

MFA represents the global alternative investment industry and its investors by advocating for public policies that foster efficient, transparent, fair capital markets, and competitive tax and regulatory structures.

MFA's members provide important investment options to investors seeking to generate attractive returns in all market conditions. Investors in alternative investment funds include pension funds looking to meet their future obligations to plan beneficiaries, university endowments funding education opportunities for thousands of students, and charitable foundations supporting mission-driven work in ordinary times and in the midst of a pandemic. Our member funds help institutions and their stakeholders honor pension obligations, fund scholarships, and support charitable work in communities throughout New York.

MFA's members manage a substantial portion of the approximately $3 trillion invested in hedge funds around the world. In the United States, our members manage more than $890 billion in public pension fund investments, more than $500 billion in educational endowment investments, and nearly $200 billion in other non-profit endowments. In New York, these investments include more than $8 billion from the New York State Common Retirement System, $1 billion from the Cornell University endowment, and $1.1 billion from Memorial Sloan Kettering Hospital endowment.

Moreover, New York's pension funds earn millions of dollars in revenue from lending out their securities to our asset managers to facilitate stock market liquidity and lower transaction costs for all investors. New York City Employee Retirement System, for example, earned $40 million in cash in 2019 and $22 million in cash in 2020 from these risk-free interactions with MFA members and other investors.

IMPOSING A FINANCIAL TRANSACTION TAX WILL HARM NEW YORK

Financial Transaction Taxes Consistently Fall Short of Revenue Goals

Multiple studies around the world show that financial transaction taxes (FTT) like the stock transfer tax do not raise the amount of revenue their proponents estimate.

Sweden, one of the best documented experiences with FTTs, estimated its FTT on fixed income transactions would raise 1.5 billion Swedish Krona per year; however, the tax raised only about 50 million Swedish Krona per year, or approximately 3% of the estimate.

More recent FTTs adopted by France and Italy also have failed to generate estimated revenues. The Italian FTT has raised €159 million compared to an estimate of €1 billion annually, or 16% of estimated revenues. The French FTT, which was designed to raise only modest revenues of €1.5

billion annually, nonetheless has raised only about 58% of those estimated revenues. In addition to falling well short of revenue estimates, each of these FTTs has had other negative consequences for those countries as market participants are easily able to shift their transaction execution location to other highly regulated jurisdictions with less punitive taxation.

Imposing a Tax on Financial Transactions Will Cost Jobs and Revenues

A key reason that FTTs do not raise estimated revenues is that businesses and markets adjust easily and with minimal cost to execute transactions that are not subject to the FTT.

If New York were to enact a financial transaction tax, market participants will adjust by engaging in transactions with competitors in other states or countries that offer similar services, but without the additional cost of an FTT. New York-based businesses are likely to relocate some or all of their business to other states to avoid being placed at such a competitive disadvantage.

Studies of the FTTs in Sweden, France, and Italy, among others, show similar responses when those countries implemented their FTTs, as trading and businesses have moved to other countries that do not impose the additional tax.

Job loss, accompanied by ever diminishing revenue as transactions shift to other jurisdictions, could alone see this policy turn into a revenue loss for New York even before the multiplier effect on the lost revenue to service providers from the missing jobs and business transactions.

FTTs Harm Pensions and Investors Saving for Retirement

While New York's FTT would be directly imposed on the companies that process financial transactions, the costs of any tax will be passed onto their customers, including pension plans, endowments, charities, and individuals saving for retirement.

In addition to these direct costs, pensions and savers will bear the indirect costs of a tax higher costs to execute transactions. Higher transaction costs and reduced liquidity in markets also impose opportunity costs on investors

All of these direct and indirect costs are likely to have a significant impact on the returns that pensions and savers need from their investments, requiring workers to delay their retirements. While the tax rates proposed may seem small, pension funds and other investors are likely to pay the tax multiple times on their assets as they manage the investments in their portfolios to maximize returns and manage risks. This cascading effect will lead investors to pay a significantly higher cumulative tax rate than the base rate.

An FTT Will Not Produce Immediate Revenues

Even if New York were to impose an FTT, it would not likely begin receiving revenues until legal and administrative issues can be addressed. The delay in collecting actual revenue provides yet another reason why enacting an FTT would be ill suited to respond to the state's current revenue needs.

Imposing a tax on transactions entered into by individuals and businesses across the country with no real connection to New York raises significant constitutional issues given the outsized impact such a tax would have on interstate commerce. Collection of the tax is likely to be delayed until those legal issues can be resolved.

Conclusion

Financial transaction taxes imposed solely upon New Yorkers and New York businesses will cost the state jobs and revenue at a critical time in our recovery from the pandemic. I appreciate the opportunity to present this statement on behalf of MFA as the legislature considers this important matter. MFA is committed to working with Members of the Senate Finance and Assembly Ways and Means committees and I would be happy to answer any questions that you may have. Please do not hesitate to contact me at (202) 730-2600.