STATEMENT OF THE
SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION
BEFORE THE
NEW YORK STATE JOINT LEGISLATIVE PUBLIC HEARING ON 2021 EXECUTIVE BUDGET PROPOSAL: TAXES
TUESDAY, FEBURARY 23, 2021

On behalf of the Securities Industry and Financial Markets Association (SIFMA),[1] we thank you for the opportunity to provide testimony on the proposed 2021 Executive Budget. SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers located throughout New York State and across the country. The New York financial services industry supports approximately one million total jobs in the state. There are nearly 370,000 people employed by the financial services industry in New York State and about 280,000 of those are in New York City.[2] These financial services jobs support an additional 596,900 jobs in other sectors throughout the state. SIFMA's mission is to support a strong financial services industry, investor opportunity, capital formation, job creation, and economic growth. This mission is consistent with the goals of the FY 2022 Executive Budget to reimagine, rebuild, and renew New York State as we ready for post-COVID-19.

The emergence of the COVID-19 pandemic in the first quarter of 2020 caused severe economic and capital market disruption. In an unprecedented move, federal, state and local governments purposely shut down economic activity to prevent the spread of the virus and as a result, in 2Q20 the U.S. economy took the sharpest drop into recession on record. The pandemic, and the associated business closures, event cancellations, and work-from-home policies, has had a devastating impact on the labor market.

By the end of 2020, the economy had rebounded, but not enough to erase the losses from the first half of the year. At a time when employers are considering how to best restructure their operations post-COVID, reinstatement of the Stock Transfer Tax (STT) (or a broader financial transaction tax) that would ultimately be paid by New Yorkers would be a significant hurdle to reopening.

The New York State STT was a type of financial transaction tax imposed on certain securities transactions that occurred in the state. The tax was effectively repealed in 1977 by the creation of a 100% rebate. According to a recent report by EY on the New York financial services sector and the STT, once the tax was repealed, employment in the securities industry grew by over 50% from 1978 to 1988, which coincides with when the state repealed the STT.[3]

[1] SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. For more information, visit http://www.sifma.org.
[2] EY (February 2021). *Economic contribution of the New York financial services sector and review of the Stock Transfer Tax.*
[3] EY (February 2021). *Economic contribution of the New York financial services sector and review of the Stock Transfer Tax.*

Most recently in 2013, the New York State Tax Reform and Fairness Commission recommended that the STT be repealed, [4] the final repeal was included in the Executive Budget proposal for the 2014-2015 fiscal year, [5] and was proposed again during previous legislative sessions. SIFMA strongly opposes proposals that would reinstate the STT, which is a harmful tax on working families saving for retirement and college, pension funds that secure retirement for millions, as well as individual investors, foundations and endowments.[6]

We encourage you to consider the following:

Investors Pay the Stock Transfer Tax. Imposing a STT on savers and investors in New York State runs counter to many longstanding policies promoting retirement and personal savings in the state. If New York State were to reimpose a STT, it would be even more damaging now than it was in the 1970's before it was ultimately repealed.

An example of how a STT could harm investors is if a person saves $10,000 per year over 40 years in a balanced portfolio of actively managed stocks (60%) and bonds (40%), a 10-basis-point tax imposed on purchases of securities would cost the investor some $36,000 — more than 3 ½ years of investor savings.[7] The cost of any amount of the STT would ultimately be passed on to both large and small investors. Public and private pensions and retirement funds, charitable organizations, and everyday savers and investors would pay more to save. Any tax on these transactions will reduce the account balances of savers in New York, which would result in New Yorkers having to work longer to meet their goals for retirement, home ownership, college, or any other future investment goal.

According to estimates in a 2020 study, a 10-basis point federally imposed FTT would cost:

- The New York State Common Retirement Fund $30.68 billion over 30 years;
- New York 529 college saving plan participants $117.34 million over 30 years;
- Individual investors in New York $1,677 a year and $67,077 over 40 years.[8]

The impact cited in the study is based on a federal tax rate illustrating how the burden of a financial transaction tax would be shared by the entire financial ecosystem, including pension fund plans, 529 participants, 401ks, and others. Although the mechanics of a state tax may differ from a federal tax, the impact of a financial transaction tax burden would ultimately be passed on to investors of all income levels.

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[4] New York Tax Relief Commission. (2013). *New York State Relief Commission Final Report, page 13.* https://www.governor.ny.gov/sites/governor.ny.gov/files/archive/assets/documents/commission_report.pdf

[5] New York State Division of the Budget. *2014 – 2015 New York State Executive Budget.* https://www.budget.ny.gov/pubs/archive/fy1415archive/eBudget1415/fy1415artVIIbills/REVENUE_ArticleVII_MS.pdf

[6] A. 3353 / S. 1406 (Sanders) would fully repeal the rebates for stock transfer tax paid, dedicate funds of the STT fund and Stock Incentive Fund to various funds, and establish the Safe Water and Infrastructure Action Program. Referred to Ways & Means on Jan. 22. In 2020, S. 1406 was S. 6203-A / A. 7791-B. A. 3271 would direct a percentage of the STT to the Metropolitan Transportation Authority special assistance fund. Referred to Ways & Means on Jan. 22. S. 3980/A. 5215 relates to the imposition of tax on certain financial transactions. Referred to Budget & Revenue on Feb. 1.

[7] Vanguard. (2020). *Financial Transaction Tax: Main Street Bears the Burden.*

[8] Kang, Kevin. *A Case Study on the Effects of a Financial Transaction Tax on Saver in New* York, December 2020. https://noretirementtax.org/wp-content/uploads/2020/12/MMI-FTT-Case-Study-NY-Final.pdf

As New York families recover from financial hardships caused by COVID-19, the state should be encouraging saving and investing, not imposing additional roadblocks to save.

The Stock Transfer Tax Makes New York Anti-Competitive. In an age of electronic trading and telecommuting, there are few barriers to relocation. Faced with a STT in New York State, firms are likely to relocate trading activity outside of the State to offer a better price for their clients, taking jobs and related economic activity with them.[9] Moreover, if New York imposes any STT, firms that process trades in the state could risk potential non-compliance with FINRA's "best execution" rule that requires broker-dealers to find the most favorable price for customers when buying and selling securities. No other state in the country imposes a STT, and increasingly we are seeing broker-dealer activities move to other states. From 2008 to 2019, New York State saw its securities jobs fall by 20,000,[10] and its share of U.S. securities brokerage jobs migrate from 27% to just 21%.[11] Beyond the negative effect on the state's competitive position, imposing a new tax will likely lead to financial firms leaving the state. Since most trading is done electronically, there are few barriers to moving trading that currently takes place in New York State to a state without a STT.

In New York, the financial services industry employment multiplier is 2.62, which means for every financial services job in the state, an additional 1.62 jobs are supported in the economy.[12] These valuable jobs substantially strengthen a state's tax base, which is why the Governor of Texas is proposing a constitutional amendment to ban financial transaction taxes in Texas in order to attract more securities jobs to his state, and it is being reported that the Florida Chief Financial Officer wrote to the New York Stock Exchange suggesting they move their operations to Florida. Clearly any relocation of these securities jobs out of NYS would translate to a net revenue decline in the state, direct loss of jobs in the industry as well as a loss of the many indirect jobs tied to the financial sector's significant presence in the state.

According to the New York State Comptroller's 2020 report on the securities industry in New York City, in 2018, the securities industry was responsible for more than 17% of all economic activity in New York City, and in 2019, made up 5.9% of the State's economy.[13] The report also estimates that 1 in 10 jobs in New York City and 1 in 15 jobs in New York State are associated with the securities industry. Imposing a STT could lead financial firms to move their back-office operations and related jobs outside of New York. This would reduce employment and revenue in the state.

Recently, 31 business organizations, including SIFMA, sent a joint letter to Governor Cuomo, Majority Leader Cousins and Speaker Heastie in opposition to reinstating a STT in New York State.

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9 Each additional dollar paid to securities industry employees in NYS results in an additional $1.97 of earnings by all households state-wide. Bureau of Economic Analysis, Regional Product Division, Regional Input-Output Modeling System.

10 U.S. Bureau of Labor and Statistics

11 U.S. Bureau of Labor and Statistics

12 EY (February 2021). *Economic contribution of the New York financial services sector and review of the Stock Transfer Tax.*

13 Office of the New York State Comptroller, *The Securities Industry in New York City*, October 2020.

The joint letter raised concerns that a STT would have negative effects on New York residents' savings, negative economic impacts on the state itself, cause firms and transactions to relocate, and offered examples of unsuccessful experiments with FTT's in Europe.

We appreciate your willingness to consider our concerns and thank you for your time.

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