INVESTMENT COMPANY INSTITUTE

COMMENT LETTER

February 22, 2021

ICI Submits Opposition Letter to NY Stock Transfer Tax (STT) (pdf)

By Electronic Delivery February 18, 2021 The Honorable Andrea Stewart-Cousins President Pro Tempore and Majority Leader State of New York LOB 907 Albany, NY 12247 RE: OPPOSITION to Stock Transfer Tax Dear Majority Leader Stewart-Cousins: The Investment Company Institute1—on behalf of shareholders in all funds, including mutual funds, that are registered under the Investment Company Act of 1940 (the "1940 Act")—strongly opposes any initiative to repeal or reduce the stock transfer sales tax rebate.2 A stock transfer tax would impact the overwhelming majority of mutual fund shareholders3 and every shareholder in exchange-traded funds (ETFs) and/or closed-end funds. Fund investors are moderate income Americans with long-term objectives such as saving for retirement, a home, or a college education. The 101.8 million individuals owning mutual funds in 58.5 million households have a median household income of $100,000.4 Ninety-two percent of all fund investors are saving for retirement.5 1 The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US$28.5 trillion in the United States, serving more than 100 million US shareholders, and US$8.3 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in Washington, DC, London, Brussels, and Hong Kong. 2 Although New York has imposed this tax since 1915, a portion (presently 100 percent) of the collected tax has been rebated since 1979. 3 Equity funds are owned by 88 percent of mutual-fund-owning households. https://www.ici.org/pdf/2020_factbook.pdf, Figure 7.14. 4 https://www.icifactbook.org/, Figure 7.2. 5 https://www.icifactbook.org/, Figure 7.2. ICI Letter Opposing Stock Transfer Tax February 18, 2021 Page 2 of 3 Because fund investors are the sole owners of a fund, the investors' return is reduced on a dollar-for-dollar basis by all costs incurred by the fund. These individuals would incur the tax on every share transaction as well as on any trades in their funds' portfolios. Even exempt investors – such as retirement accounts and pension funds would be taxed – and taxed repeatedly (just like fund investors). There is also clear evidence that similar taxes have harmed financial markets in other countries. For these reasons, we strongly urge you to maintain the 100 percent rebate of the stock transfer tax. If the rebate is reduced or eliminated, an exemption should be provided for retirement accounts and to 1940-Act registered funds to the extent they are owned by retirement accounts. Background 1940 Act-registered funds are publicly offered investment pools that provide individuals with access to a diversified portfolio of stocks, bonds, or other securities that these investors cannot replicate efficiently. These funds, consequently, are very attractive investment vehicles for moderate-income investors.6 Our capital markets have been democratized by funds in ways that could not have been imagined just a generation or two ago. In fact, at year-end 2019, funds held approximately 32 percent of US-issued equities.7 Fund Investors Are the Middle Class Supporters of a stock transfer tax claim that rebating 100 percent of the tax back to the parties paying it no longer can be justified. Repealing the full rebate purportedly would be economically borne by the wealthiest of Americans. This proposal, however, would harm the middle class. A substantial portion of this tax, if not rebated, would fall on the moderate-income investors in funds and would decrease their return on investment. Thirty-nine million US households that own mutual funds, IRAs, or defined contribution accounts have incomes of less than $100,000 (66 million have less than $200,000).8 These households (less than $100,000 and $200,000, respectively) represent 50 percent and 85 percent of all US households that own mutual funds, IRAs, or defined contribution accounts. These investors saving for retirement have benefitted tremendously from falling expense ratios; this tax would significantly negate the benefit that reduced costs have had on investment returns. Given the increased responsibility that individuals have for ensuring their own retirement security, the legislature should be creating incentives to encourage rather than discourage saving. 6 Retail investors (i.e., individuals) hold the vast majority (89 percent) of US mutual fund assets. https://www.ici.org/pdf/2020_factbook.pdf , Figure 3.3. 7 https://www.ici.org/pdf/2020_factbook.pdf, Figure 2.7. 8 https://www.icifactbook.org/, Figure 7.2. ICI Letter Opposing Stock Transfer Tax February 18, 2021 Page 3 of 3 Harm to Financial Markets Recent justifications for a stock transfer tax cite New York's "unpredictable state revenue" environment and suggest that a stock transfer tax will shore up revenue shortfalls. Given this time of uncertainty in the COVID-19 era, New York should not impose a tax that would hamper the functioning of the markets and hurt long-term investors. Empirical research finds that similar taxes imposed in other countries have reduced trading volume, impaired liquidity and distorted price discovery.9 Further, there is no evidence of the purported benefits of similar taxes. Most studies have found that these taxes raise far less revenue than predicted and have either no effect on market volatility or increase it. In addition, there would likely be tremendous effort to avoid the tax, reducing the revenue raised by the tax and perhaps increasing, rather than reducing, the resources devoted to financial engineering. This tax could also cause trading to migrate to lower-cost trading venues outside of New York. Recommendation The Institute strongly recommends that the proposals to bring back the stock transfer tax be rejected. If the rebate is reduced or eliminated, an exemption should be provided for retirement accounts and to 1940-Act registered funds to the extent they are owned by retirement accounts. Fund investors—average Americans saving for their long-term needs—will bear the full impact of any reduction in the rebate to their funds. The unintended (and most unfortunate) consequence of a stock transfer tax would be to harm those Americans whom proponents purport to help. * * * * * * * The Institute appreciates your consideration of our concerns. Please do not hesitate to contact the undersigned at (202) 326-5826 if you have any questions regarding this letter or would like any additional information regarding the organization, operation, or taxation of investment companies and/or their shareholders. Sincerely, Katie Sunderland Assistant General Counsel – Tax Law 9 For more information see ICI's Financial Transaction Tax Resource Center at: https://www.ici.org/ftt

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