

Financial Transaction Tax Costs

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By Paul Schott Stevens

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Dear editor,

Your story “Elizabeth Warren Healthcare Plan Sparks Outcry over 401(k) Tax Hike” accurately exposes a financial transaction tax (FTT) as a burden on retirement and everyday savers. The article, however, only scratches the surface on the ways this tax would harm savers.

Yes, retirement savers would pay an FTT each time they make a 401(k) contribution, rebalance their accounts, or roll money from one 401(k) plan to another. But savers could also pay the price of an FTT at other times, compounding its harm. Investors in a long-term mutual fund would incur an FTT at least four times:

- First: when investors buy shares of a mutual fund. If imposed on these transactions in 2018, a 10-basis-point FTT would have cost long-term mutual fund investors \$4.4 billion.
- Second: when investors sell mutual fund shares. The cost: \$4.5 billion.
- Third: when the mutual fund an investor owns buys stocks and bonds, including rebalancing the fund to track an index. The tax on those necessary trades would cost \$9.5 billion.
- Fourth: when mutual funds sell stocks and bonds, again, including rebalancing a portfolio. The tax on these transactions: \$9 billion.

That is an aggregate annual cost of \$27.4 billion.

Worse yet, these are just the direct costs to mutual fund investors. An FTT would also raise the cost of executing a trade, and the increase in trading costs could be many times the direct cost.

In the end, Main Street investors are going to face heavy costs from any FTT. It’s not worth it.

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