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Poll: Transaction Tax a Bad Idea

By Danielle Sottosanti November 9, 2011

A proposed tax on most stock, bond and derivative trades is not the solution for excessive market volatility, say roughly two thirds of *Ignites* poll respondents.

About 66%, or 156 respondents, contest the proposed legislation, which would levy a 3-basis-point tax on stock, bond and derivative trades, excluding initial issuance and debt that has an original term of less than 100 days. If approved, it would take effect on Jan. 1, 2013, [as reported](#).

Around 34%, or 81 *Ignites* respondents, support the tax.

Niels Holch, executive director of the **Coalition of Mutual Fund Investors**, attributes the latter sentiment to concern about excessive volatility in the trading markets.

“The question is whether the transaction tax is the best way to deal with that problem,” he says. Since trading markets are global, any country that increases its tax is going to see activity move offshore, Holch explains.

“I think we have to be really careful about what we do and how we do it. Certainly we have to look at options to decrease volatility in the market. It’s a hard problem to solve,” he says.

Sen. Tom Harkin (D-Iowa) and Rep. Peter DeFazio (D-Ore.) recently introduced the legislation in an effort to help reduce the federal deficit, as well as “rein in the excessive speculative activity that has destabilized our financial system,” DeFazio says in a press release.

Industry experts are weighing in on both sides of the debate.

Robert Ellis, principal of **Fast Track Advisors**, is in favor of the proposed tax.

“I am a big fan for several reasons, only one of which has to do with the government revenue,” says Ellis. The No. 1 reason is that such a tax would reduce rapid trading by making it much less economically feasible to trade frequently, he says.

The proposed legislation would “greatly reduce the volume, greatly reduce volatility... restore some aspects of buy-and-hold investing and get rid of this ‘casino’ mentality that predominates on Wall Street,” he explains.

The prevalence of proprietary trading is “disheartening to the American public. They see it as a casino and they don’t want to play anymore, and you can’t blame them,” he says.

But the Investment Company Institute, American Society of Pension Professionals and Actuaries, and Securities Industry and Financial Markets Association assert that the proposed tax would hurt the average investor.

Ellis counters that the cost for average investors, especially in retirement accounts, will be minimal and that the proposed tax actually would enhance returns.

Experts unanimously agree that the proposed legislation will be unsuccessful.

Though Ellis supports the tax, he does not think it will make it through Washington, D.C., either, because the proprietary traders will convince the politicians to kill the deal.

Holch also does not foresee a transaction tax succeeding at this point. However, he says that the SEC is looking at the structure of the capital markets and may be able to create a regulatory response "to deal with high-frequency trading and some of the causes of extreme volatility."

As of 3 p.m. Tuesday, 237 *Ignites* readers had participated in the survey.

The poll is an unscientific sampling of *Ignites* subscribers. Participants voted only once and were self-selected. *Ignites*'s audience consists of money managers, service providers and financial advisors.

☰ POLL RESULTS

Is a Transaction Tax a Good Idea?

Sen. Tom Harkin (D-Iowa) and Rep. Peter DeFazio (D-Ore.) have proposed a financial transaction tax that would levy a 3-basis-point tax on most stock, bond and derivative trades, excluding initial issuance and debt with a term of less than 100 days. Is this a good idea?

34% Yes. It would reduce volatility by cutting short-term, speculative trading by institutions.



66% No. This tax would be passed down to Main Street investors, who can ill afford it now.



0% 10% 20% 30% 40% 50% 60% 70%

Total Votes: 237

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