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# CIEBA

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*Committee on Investment of Employee Benefit Assets*

Position on  
Securities Transaction Excise Tax

This position is presented by the Committee on Investment of Employee Benefit Assets (CIEBA), which is a committee of the Financial Executives Institute (FEI). It addresses proposals that would impose a tax on the sale of stocks, bonds, futures contracts, and other securities.

FEI is a professional association of over 13,000 senior financial executives representing some 7,000 corporations. CIEBA currently has 36 members and 100 advisory members, all of whom are corporate ERISA-governed benefit plan sponsors with collective assets that total more than \$450 billion. The corporations represented in CIEBA cover a broad range of industry groups and asset sizes, and members manage their plan assets on behalf of some 8.5 million plan participants.

As pension fiduciaries, CIEBA members are deeply concerned about proposals that would impose a securities transfer excise tax. The 0.5% tax which is currently under consideration would have substantial effects on the future of the private pension system. CIEBA opposes such a tax and believes it would adversely affect pension funds, plan participants, and employers by reducing liquidity and depressing prices in the securities markets.

A July 1990 Congressional Research Service study estimates that the trading reduction and increased cost resulting from the tax could cause stock market prices to decline by about 7.7%. Moreover, CIEBA believes the tax will raise interest rates as higher yields on bonds will be demanded by investors to compensate for additional transaction costs. Reduced liquidity, lower stock prices, and higher interest rates will increase the cost of capital for U.S. corporations.

The proposed U.S. tax would also encourage offshore trading. In several countries where the tax has been implemented, the detrimental effects are clear -- trading activity has dropped and trading volume has shifted to other markets in order to avoid the tax. Significantly, a number of countries such as Germany and the United Kingdom which have such taxes are in the process of eliminating them.

With large investments in the securities markets, the burden of the proposed tax is likely to fall disproportionately on pension funds and their sponsors. The proposed tax would reduce the profitability of pension funds' investments and in the long term, reduce employers ability to provide pension benefits. Underfunded plans, in particular, would be sensitive to the tax as the decline in asset values would cause their Pension Benefit Guaranty Corporation premiums to go even higher.



In addition to the detrimental effects on the retirement security of employees, higher costs to the plan sponsor translate into reduced funds for other business purposes. Capital outlays and research and development funds would be sacrificed in order to fulfill pension obligations. Potentially, the competitiveness of U.S. industry could be impacted.

CIEBA believes the tax on securities transactions could have an overall negative impact on the economy, and may actually result in reducing federal revenues. Any perceived benefit of the tax does not offset the long term detrimental effects on pension plan beneficiaries, plan sponsors, and U.S. capital markets.