

A LaSalle Street Tax to Meet Human Needs B FAQ

by the Chicago Political Economy Group (www.cpegonline.org)

(1) What is a LaSalle Street Tax?

A **LaSalle Street Tax (LST)**, (also called a **Financial Transactions Tax** or **Speculation Sales Tax**) is a very small tax on the trading (buying/selling) of financial assets such as stocks, bonds, currencies and derivatives (futures and options) based on these assets. Essentially a sales tax, such as when we buy/sell shoes or computers.

(2) Why Illinois?

Illinois has two of the largest financial markets in the world, the Chicago Mercantile Exchange (CME) and the Chicago Board Options Exchange (CBOE). Each year the value of products traded on these two exchanges totals over \$800 trillion.

(3) How would an LST in Illinois work?

HB 0106, submitted by Rep. Mary Flowers, proposes a \$1/contract fee on all agricultural futures and futures options traded on these two exchanges and a \$2/contract fee on all other futures and future options and stock index options traded on these two exchanges. Average contract size at these exchanges is more than \$225,000. So this tax amounts to less than 1/1000s of a percent of average contract value.

(4) That doesn't sound like a very big tax - would the LST raise much money?

Yes, the tax rate is very low but, because the amount of trading is so large, the proposed LST would raise between **\$10 and \$12 billion per year** for Illinois at current trading volumes.

(5) Wow! But can the exchanges afford to pay this tax? Wouldn't they move?

The LST is not a tax on the exchanges, they don't trade. It is a tax on the buyers and sellers of futures and options contracts traded in the exchanges. The exchanges would simply act like the hardware or clothing store that collects the sales tax when you buy a hammer, clothes, etc. And then sends the tax to the State of Illinois.

(6) Are there any experiences with Financial Transaction Taxes in other parts of the world?

There are Financial Transactions Taxes on various financial markets in the United Kingdom, Switzerland, Hong Kong, Brazil, France, Singapore and other countries; in most cases the tax is at a higher rate than proposed under HB 0106. These are all large markets that have not been hurt by the tax and exchanges have not moved away.

(7) I don't know anyone who trades on the CME and CBOE. Who are they? Can they afford this tax?

Most people know few if anyone who trades on these exchanges, because the vast majority of trading is done by large banks, hedge funds -- financial institutions in general -- other large businesses, and wealthy individuals. None of these would be hurt significantly by the proposed LST. There would, however, be a reduction in what is called a high frequency trading, @ where traders buy and sell the same contract within seconds. However, reducing such trading will not harm the economy. In fact,

these high frequency trades are considered destabilizing gambling, so it would amount to a >sin tax.=

(8) What about trading by pension fund managers B wouldn't paying the tax hurt people planning for retirement and retirees?

HB 106 contains an exemption for retirement funds so they would not pay the tax.

(9) Would these traders move to another exchange?

The products that are proposed to be taxed are not traded on any other exchange. In addition, some of the products that would be taxed, such as the S&P 500 index futures and options, are exclusively licensed to these two exchanges. While another exchange could seek regulatory approval to trade some of the other products, doing so would take some period of time. In addition, moving trading liquidity from one market to another is very difficult. Once an exchange has captured all the volume in a product, it is difficult for a later entry to establish a market that is attractive to traders. Finally, the amount of the proposed LST is less than the smallest price change (the smallest amount a trader could gain or lose) on these contracts so it would provide very little incentive to trade elsewhere even if the same products were available on another exchange.

(10) You compared the LST to the state sales tax. That's 6.25%, right? How does the LST compare?

The LST rate is much, much lower than the 6.25% for the Illinois state sales tax. While the LST rate would vary depending on the size of the different contracts, here are some representative figures. The size of an S&P 500 index futures contract is currently about \$92,500 (with the index is at 1850). If a trader bought and then later sold the index futures contract, the total tax on the \$92,500 would be \$4 (\$2 to buy and \$2 to sell), or 0.004% -- less than 1/100th of the sales tax that you pay. Another example: a soybean futures contract is for 5000 bushels. When soybeans are selling for \$7/bushel, the value of the contract is \$35,000. Since soybeans are an agricultural product, the LST for both buying and later selling a contract would be \$2 (\$1 to buy and \$1 to sell), or 0.006%, again less than 1/100th of the sales tax you pay.

(11) OK, how could we use the money raised by the LST?

There are many good uses of this revenue. Illinois could reverse decades of underfunding and understaffing of human services and human needs. It could boost funding for higher education and other public education (today Illinois ranks last in state share of funding for education). It could be used, at least in part, to make up for the decades-long failure of the Illinois legislature to keep their promise to fund the pensions of teachers and other public employees. Illinois could fund thousands of jobs preserving the environment, improving energy efficiency, rebuilding public infrastructure, etc.