

# Tax “LaSalle Street” to Meet Human Needs.

## (1) What is a “LaSalle Street” Tax?

A “LaSalle Street Tax” or **financial transactions tax (FTT)** 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. It is essentially a sales tax, such as when we buy/sell shoes or computers. “LaSalle Street” has come to mean the financial/trading district, the “Wall Street” of the Midwest.



## (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 well over \$500 trillion.

## (3) How would a LaSalle Street tax (LST) work in Illinois?

**HB 5929**, submitted by Rep. Mary Flowers, proposes a \$1/contract fee on all agricultural futures and options traded on these two exchanges and a \$2/contract fee on all other futures, futures options and options traded on these two exchanges. Average contract size at these exchanges is more than \$225,000, so this tax amounts to less than 2/1000 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 proposal would raise between **\$10 and \$12 billion per year** for Illinois.

## (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 store that collects the sales tax when you buy a hammer. And then sends the tax to the State of Illinois.

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

The United Kingdom, Switzerland, Hong Kong, Australia, France, and Singapore have such taxes. These are all large markets, the tax had been in place for years without hurting these markets, and exchanges have not moved away. In addition, 11 European countries will implement an FTT in late 2015.

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

Few of us know 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* be a reduction in what is called “high frequency trading,” where traders buy and sell the same contract within seconds but 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) 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. Moving trading liquidity from one market to another is extremely 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.

**(9) 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. For example, the size of an S&P 500 index futures contract is currently about \$100,000. If a trader bought and then later sold the index futures contract, the total tax on the \$100,000 would be \$4 (\$2 to buy and \$2 to sell), or 0.004% -- less than 1/10<sup>th</sup> 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 1/10<sup>th</sup> of the sales tax we pay.

**(10) 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 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.

**(11) Sure it's a great idea, but will it fly politically?**

LaSalle Street Traders and Wall Street banksters have lots of money to throw into opposing this idea, so many politicians are leery ... but voters like it. When asked in a ballot referendum, Chicago north side **voters supported the Financial Transactions Tax by a margin of 3-1.**

*It's been called the most popular tax in history.*

