Main Street investors at risk
A financial transaction tax would harm everyday savers

A financial transaction tax (FTT) would hinder millions of American investors who are striving to reach their long-term financial goals. Such taxes are borne by everyone who invests. That includes Main Street families saving for their retirement—not just Wall Street banks and high-frequency traders.

Quantifying the hardships imposed on American families

An FTT generates a substantial drag on investment returns as the tax cascades and compounds over time. The real-world implications for investors, including those investing in retirement accounts, are sobering.

For example, making up for the savings shortfall caused by a proposed 10-basis-point (0.1%) tax would create these burdens:

Even outside of saving for retirement or a college education, an investor’s ability to save for any future goal is drastically diminished by the proposed tax. The figure below shows that the ending value of an investment of $10,000 in a small-capitalization active equity fund would be reduced by roughly 19% with the proposed tax, after 20 years.

Regardless of investment goals, purchasing power would be drastically diminished.

Effect of the FTT on an investment of $10,000 in a small-cap active equity fund

<table>
<thead>
<tr>
<th>Initial investment</th>
<th>Balance after 10 years</th>
<th>After 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000</td>
<td>Balance without FTT</td>
<td>Balance with FTT</td>
</tr>
<tr>
<td></td>
<td>$26,082</td>
<td>$32,071</td>
</tr>
</tbody>
</table>

Notes: Assumes a 6% compounded return and 109-basis-point annual impact of an FTT. The 109-basis-point annual estimate includes transaction costs that would be incurred due to fund turnover, and the estimated impact the FTT would have on market spreads and liquidity.

Source: Vanguard.

Negative market impacts and revenue shortfalls

The harms caused by FTTs extend beyond investors. Other countries—particularly in Europe—have shown us that FTTs distort capital markets. FTTs generally increase risk in the financial system by hurting market liquidity, producing volatility, increasing bid-ask spreads, encouraging financial engineering, and raising costs of capital.

At the same time, FTTs have consistently failed to deliver the promised tax revenues because FTTs shift financial activity to less-regulated markets. For example, France and Italy did not raise even half the first-year revenue they had projected from the FTTs they enacted in 2012 and 2013, respectively.

1. Based on a 22-year-old investor contributing the maximum to an IRA account until retirement at 62.
2. Assumes a parent invests $8,000 per year for 18 years to pay for a child’s college education.
About Vanguard

At Vanguard, we take pride in the role we’ve played to democratize investing and empower people financially. Since our introduction of the first index mutual fund in 1976, we’ve touted the benefits of low costs, diversification, maintaining balance in one’s investments, and sticking with a sound plan for the long haul.

As one of the world’s leading asset managers, Vanguard is committed to ensuring that financial products—and the regulations governing them—work in the best interest of investors everywhere, regardless of their level of investable assets. We summarize this commitment in Vanguard’s core purpose:

“To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.”