



TaxNewsFlash

United States



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KPMG report: States proposing new taxes on financial transactions, wealth and investment income

Certain states have recently proposed new taxes on financial transactions—such as stock trades—as well as taxes on wealth and investment income.

Tax on financial transactions

New York State

Assembly Bill 5215 and Senate Bill 3980 would impose a new tax on each “covered transaction” with respect to any security.

A “covered transaction” generally would be a purchase of a security that has some New York connection (e.g., occurs or is cleared on an exchange located in New York or executed by a New York broker, or the purchaser or seller is a New York business or resident). The term security is broadly defined to include shares of stock, partnership interests, bonds, notes, and derivative financial instruments such as options, futures contracts, etc.

The tax imposed would be the applicable percentage of the specified base amount of such covered transactions. For example, for a stock sale, the specified base amount would be the fair market value of the stock.

- The tax rate on a stock sale would be 0.5%.
- Transfers of bonds and other debt instruments would be taxed at a 0.1% rate.
- Transfers of derivatives would be taxed at a rate of 0.005% of the premium or payment.

A hierarchy would apply to determine who pays the tax on a particular transaction, and liability would attach to the facility where the transaction cleared, the broker, the purchaser, the seller or the payor.

Two other New York bills—Assembly Bill 3353 and Senate Bill 1406—were recently amended to repeal the provisions in New York State law that have fully rebated the stock transfer tax that has been imposed on sales or transfers of stock in New York State since 1981.

Illinois

House Bill 283 would impose a tax on the privilege of engaging in financial transactions on the Chicago Stock Exchange, the Chicago Mercantile Exchange, the Chicago Board of Trade, or the Chicago Board Options Exchange. The tax rate would be \$1 for each transaction for which the underlying asset is an agricultural product, a financial instruments contract or an options contract. The tax would be paid by the trading facility or the purchaser involved in the transaction. Transactions executed via "open outcry" that are physically filled on the exchange floor would be exempt from tax as would transactions involving securities in retirement accounts and transactions involving mutual funds.

New Jersey

Assembly Bill 4402 and Senate Bill 2902 would impose a tax on persons or entities that process 10,000 or more financial transactions through electronic infrastructure located in New Jersey during the year. The tax rate would be \$0.0025 per financial transaction processed through electronic infrastructure in New Jersey. [The New York Stock Exchange reportedly operates a data center in New Jersey.]

Taxes on wealth

Certain states are considering legislation that would increase taxes on investment income or adopt taxes on accumulated wealth.

Illinois

House Bill 3476 and Senate Bill 2124 would impose a surcharge on an Illinois resident's low-taxed investment income (i.e., income treated as long-term capital gains under federal law). Two other Illinois bills (House Bill 3475 and Senate Bill 2121) would require Illinois residents with net assets of \$50 million or more on December 31, 2020, to recognize gain or loss as if the assets were sold on that date, (i.e., a "mark-to-market" regime).

New York State

Assembly Bill 3352 and Senate Bill 2522 would impose additional taxes on low-taxed investment income to "correct the unfair federal tax benefit for income earned from investing, rather than working." Also other bills (Assembly Bill 5092 and Senate Bill 4482) would impose a tax on residents with \$1 billion or more in net assets on accumulated gains.

Washington State

Pending bills would establish a 1% tax on intangible financial assets of more than \$1 billion (House Bill 1406), would impose an excise tax of 7% on certain net capital gains (Senate Bill 5096), and would remove an exemption from business and occupation (B&O) tax for investment income of other than individuals (House Bill 1111).

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