[rough initial draft of letter/email to Congressional representative re Traders Tax Bill]

Dear Congressman _______:

It has come to my attention that on February 13th Rep. DeFazio of Oregon introduced HR 1068, "Let Wall Street Pay for Wall Street's Bailout Act of 2009", and, as a tax bill, has been referred to the Committee on Ways and Means. The bill adds section 4475 to the Internal Revenue Code.

This is one of those bills that, to some, might sound reasonable on the surface but its implications are dire. Here's how it works. The bill taxes the value of each covered securities transaction at the seemingly insignificant rate of 1/4th of 1%. However, the tax is staggering when you do the math. For example, the tax on a round turn of a 30-year Treasury Bond futures contract would be $500 ($250 on the purchase and $250 on the sale). Traders typically make a profit of only a few tics per contract (a tic being $31.25). A tax of this magnitude would drive most traders out of the market because few trades could cover a cost of that magnitude. The tax is imposed on the "trading facility" (normally the broker) but, like all direct trading costs, would be passed along to the trader.

"Covered securities transactions" include any transaction subject to the jurisdiction of the Commodity Futures Trading Commission (in other words, most futures contracts), stocks traded on a national securities exchange, and options in securities indexes.

By driving so many from the market, liquidity would become a major problem. In these times of huge government borrowing, we need a liquid market for U.S. Treasury instruments as well as other futures contracts. Farmers raising cattle, wheat, etc. would not be able to hedge their risk by taking positions in the futures market. Volume on the Chicago Board of Trade and Chicago Mercantile Exchange for January 2009 compared to January 2008 is already down 49% due to the current financial turmoil.

In addition to individual and corporate traders, the tax would burden pensions, IRA's, 401(k) plans, university and hospital endowments, and other 501(c)(3) tax exempt organizations. Consider a retiree who is liquidating his or her pension or 401(k) plan. As mentioned above, the tax is imposed on the broker who will pass along the tax to the plan and ultimately reduce the retirement benefit to the retiree.

While you may routinely receive many "sky is falling" communications from constituents, H.R. 1068 would surely cause the financial markets to cease to exist as we know them now. The bill should not be voted out of committee in any form.