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## Congress of the United States House of Representatives

### Memorandum

February 3, 2004

To: Honorable Chaka Fattah

From: William Miles

Subject: Potential Positive Economic Effects of Transactions Fee

As you requested, the information contained in this memorandum was developed by the Congressional Research Service and presents a summary of the potential positive economic effects that could result from enactment of a broad-based fee on the value of transactions. As outlined in **HR 3759, The Transform America Transaction Fee of 2004**, the revenues generated under a transaction fee based system would not only cover current federal spending levels, but would yield additional monies to be used for: (i) national debt reduction, (ii) revenue sharing to support K-16 public education costs, equal to 50% of current domestic expenditures, (iii) health care insurance coverage, and (iv) rural-urban federal revenue sharing programs. In addition to these positives, enactment of the Transform American Transaction Fee of 2004 could also produce the following advantages:

- The plan may generate revenues sufficient to replace all current federal tax receipts and fund new investments in social programs. The fee rate sufficient to replace lost collections and fund the above additional outlays would vary depending on which programs are implemented.
- By eliminating existing federal taxes, the proposal would eliminate all efficiency losses and distortions associated with them, most importantly those arising from higher marginal tax rates. For example, firms would be willing to undertake projects that were not profitable in the past and workers would be more willing to supply labor than before.
- The proposal may create an opportunity to simplify the existing law, reducing compliance, administration and other costs. The Internal Revenue Service (IRS) net cost of operation in 2002 was over \$10 billion. Estimates of the compliance costs vary between \$100 billion and \$200 billion annually. Technical implementation of the fee could piggyback on existing federal and state infrastructure, reducing overall costs.

- A transactions fee would discourage short-term speculative trading in financial markets. Some researchers believe that it may serve as a mechanism to diminish foreign currency crisis occurrence risks.
- A transactions fee may capture revenues from an underground economic activity that currently evades taxation. Since illicit income remains undeclared, the federal government does not collect any taxes on it. However, proceeds from illegal operation eventually are used to buy legitimate goods and services that would become subject to the fee under the plan. For example, a street vendor currently may underreport his or her income and reduce income tax liability. However, the vendor would pay transactions fees in full as he or she spends this income in the course of regular everyday economic activity.