

CRS Report for Congress

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Reducing Securities Transaction Fees: Effects on Collections of H.R. 1088 and S. 143

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Summary

Both the House and the Senate have passed separate bills that would reduce fees collected by the Securities and Exchange Commission (SEC) from sellers of corporate stock and companies active in securities and merger markets.¹ H.R. 1088 and S. 143 have the common aim of reducing the amounts collected to a sum more nearly equal to the SEC's budget, and would replace the current fee structure. In some cases, existing fee rates would be lowered; in others, collections would become subject to annual caps or targets. The proposed fee schedules in the two bills are not identical. This report sets out the differences, and, relying upon forecasts of collections under current law prepared by the Congressional Budget Office (CBO), presents dollar estimates of the impact on fee collections through FY2011. Over fiscal years 2002 through 2011, H.R. 1088 would reduce fee collections by an estimated \$15.0 billion; S. 143 by about \$16.7 billion. This report will be updated if legislative developments warrant.

There are three major securities transaction fees:

- Section 31 transaction fees, payable by sellers of corporate stock;
- Section 6(b) registration fees, payable by corporations selling new issues of stock or bonds; and
- merger and tender offer fees, paid by corporations acquiring other businesses, pursuant to Sections 13(e)(3) and 14(g) of the Securities Exchange Act of 1934.

The table and chart below show how total collections of these fees would be affected by the provisions of H.R. 1088 and S. 143. The versions of the bills referred to are: S. 143 as passed by the Senate on March 22, 2001, and H.R. 1088 as passed by the House on June 14, 2001.

¹ For an overview of the issue, see CRS Report RS20204.

**Table 1. Estimated Collections of All Securities Fees,
Under Current Law, H.R. 1088, and S. 143: Fiscal Years 2002-2011**
(All figures in millions of dollars)

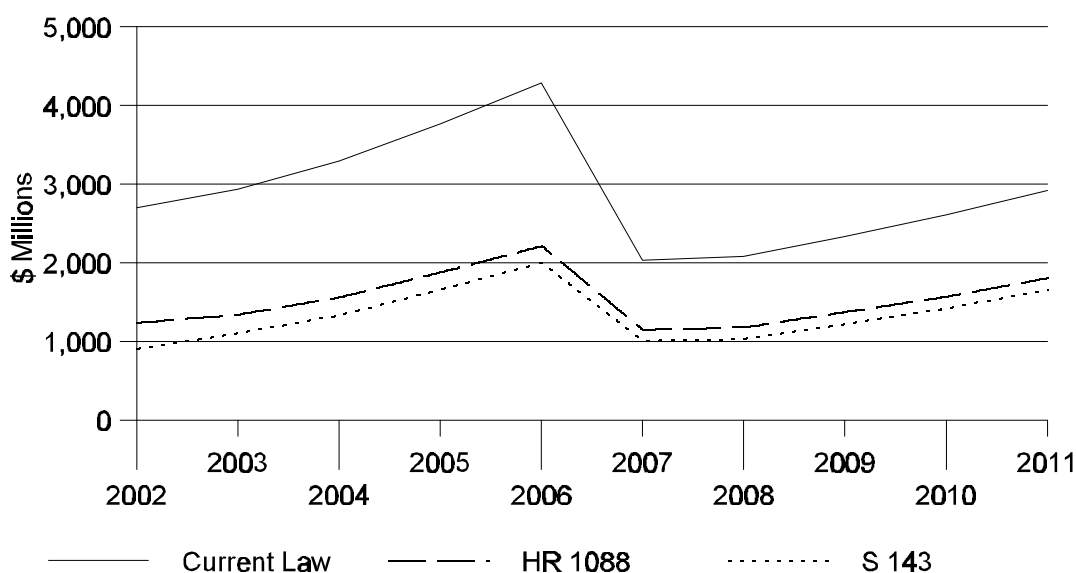
Fiscal Year	Current Law CBO Fee Collections Forecast	H.R. 1088		S. 143	
		Estimated Collections	Change From CBO Estimate	Estimated Collections	Change From CBO Estimate
2002	2,872	1,212	-1,660	915	-1,957
2003	3,188	1,309	-1,879	1,115	-2,073
2004	3,523	1,525	-1,998	1,340	-2,183
2005	3,958	1,827	-2,131	1,665	-2,293
2006	4,444	2,172	-2,272	2,010	-2,434
2007	2,079	1,141	-938	1,015	-1,064
2008	2,124	1,177	-947	1,035	-1,089
2009	2,373	1,368	-1,005	1,225	-1,148
2010	2,641	1,566	-1,075	1,430	-1,211
2011	2,939	1,797	-1,142	1,665	-1,274
Totals	30,141	15,094	-15,047	13,415	-16,726

Source: Calculated by CRS using April 2001 baseline forecasts by the Congressional Budget Office (CBO).

The figures in the table above depend on CBO estimates of the future volume and value of securities market transactions, which are extremely difficult to predict. If the stock, bond, and merger markets underperform the CBO estimates, fee collections under current law could be significantly lower than the CBO's forecasts.

The estimates in Table 1 for fee collections under H.R. 1088 and S. 143 are derived by applying the fee rates and collections targets and caps contained in the bills to the CBO current-law estimates. For simplification, it is assumed that the collections targets and caps in the bills will be met exactly. In practice, it is likely that actual collections – based on rates to be adjusted annually according to forecasts of market activity – would fall short of the target figures in some fiscal years.

**Figure 1. Estimated Securities Fee Collections
Under Current Law, H.R. 1088, and S. 143**



Source: Calculated by CRS using Congressional Budget Office forecasts.

More detailed estimates of the effects of the bills on fee collections – including the impact on individual fees – appear in the CBO cost estimates, which are available on the CBO web site [<http://www.cbo.gov>] and in the committee reports that accompanied both bills.²

The estimates presented above suggest that enactment of either bill, or a bill combining features of the two, would result in a substantial reduction in fee collections. Using the April 2001 CBO forecast as a guide, CRS estimates that H.R. 1088 would reduce fee revenue by about \$1.50 billion per year (or 50%) over the period of FY2002-2011, while S. 143 would reduce average annual revenues by about \$1.67 billion (or 55%). The difference is attributable primarily to the treatment of 6(b) registration fees, where S. 143 sets a lower rate that has a more pronounced effect on forecasted collections than do the target figures set forth in H.R. 1088.

While current law establishes fixed fee rates (some of which are set to decline in FY2007), both H.R. 1088 and S. 143 mandate the use of flexible rates for some fees, to be adjusted annually in order that collections meet caps or target figures specified in the legislation. An interesting possibility is that the fee rates could rise if market activity and/or prices decline: that is, given falling volume, each transaction might have to be taxed at a higher rate to obtain the specified amount of revenue. It is conceivable that a severe market decline could result in some fee rates higher than they would be under current law.

² U.S. Congress. House. Committee on Financial Services. *Investor and Capital Markets Fee Relief Act*. H.Rept. 107-52, Part 1, to accompany H.R. 1088. p. 13-19. and: Senate. Committee on Banking, Housing, and Urban Affairs. *Competitive Market Supervision Act of 2001*. S.Rept. 107-3, to accompany S. 143. p. 8-14.

The table below sets out the treatment of the three major securities fees under current law, S. 143, and H.R. 1088.

Table 2. Levels of Three Major Securities Fees: Under Current Law, H.R. 1088, and S. 143

Fee	Current Law	H.R. 1088	S. 143
Section 31 Transaction Fees (On Sale of Stock and Stock Options)	1/300th of 1% of the value of stock sold. In FY 2007 and later years, 1/800th of 1%.	Base rate of \$15 per \$1 million in stock sales, but SEC would adjust the rate to meet an annual collections target level specified in Section 3 of the bill.	Rate to be set annually in order that total collections equal a cap specified in Section 4 of the bill.
Section 6(b) Registration Fees (On New Offerings of Stocks and Bonds)	\$200 per \$1 million of securities offered, plus a supplemental amount (\$39 per million in FY 2002, falling to zero in FY 2006). In FY 2007, the fee will drop to \$67 per \$1 million.	Base rate of \$92 per \$1 million in securities offered, but SEC would adjust the fee rate to meet an annual collections target level specified in Section 3 of the bill.	\$67 per \$1 million of securities sold through FY 2006; \$33 per \$1 million in FY 2007 and later years.
Merger and Tender Offer Fees	\$200 per \$1 million in reported transaction value.	Base rate of \$92 per \$1 million transaction value, but SEC would adjust the fee rate annually to the same rate as that set for Section 6(b) registration fees.	\$67 per \$1 million of transaction value through FY 2006; \$33 per \$1 million in FY 2007 and later years.

Source: Securities Act of 1933, Securities Exchange Act of 1934, H.R. 1088 and S. 143 as passed by the House and Senate, respectively.