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Abstract

Standard tax incidence analysis deals with households and firms that buy and sell consumption goods, as opposed to financial institutions that buy and sell financial products. This paper develops a framework that allows to study tax incidence on financial markets, and applies it to a financial transactions tax. A main result is that the tax may contribute to financial distress. Moreover, if the government has to bail out the debtors of failed financial institutions, the tax-induced increase in bailout costs may be larger than the increase in tax revenue, so that the government's overall fiscal position becomes worse.

Keywords: Tax incidence, Financial markets, Financial transactions tax

JEL-Codes: H22, G18, G21, G28

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