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Indirect taxation of financial services

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Abstract

The aftermath of the financial crisis has seen an increasing interest in the taxation of the financial sector. Beyond discussing the conceivable contribution of taxes to financial stability, there have been concerns with the allocative efficiency of (missing) taxation of financial services, which is the perspective of the current paper. It presents a number of models addressing the indirect taxation of a wide range of financial services related to savings and borrowing, insurance, payment services, currency trade, etc. A key question is whether there is a case for taxing the value added of financial services from a social efficiency perspective. In this context, the paper surveys a number of conceivable distortions. Financial services facilitate transfers across time, states, borders, etc. The analysis indicates a need for distinguishing between transfers of general purchasing power and transfers related to specific commodities, exemplified by insurance against loss of income versus loss of property. It argues that the treatment of the interest spread should be discussed in the presence of income taxation of interest. Finally, the paper shows how the nature of various payment services is essential when considering the effects of imposing taxes.