

BAD Taxation: Disintermediation and Illiquidity in a Bank Account Debits Tax Model

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Abstract

This paper uses a dynamic general equilibrium model to study the economic effects of bank account debits (BAD) taxation. Australia and various Latin American countries have levied or levy BAD taxes. Aspects such as financial disintermediation, market illiquidity, and impacts on dividend and interest rates are considered. Part of the BAD tax revenue may be fictitious, due to increased interest payments on government debt. The Brazilian BAD tax (CPMF) experience is evaluated. The empirical analysis confirms some theoretical predictions. Incidence base over GDP appears to be sensitive to the tax rate, possibly engendering a Laffer curve. The tax may also cause real interest rates to increase. Furthermore, the deadweight losses are relatively large, even if revenues are small. The theoretical and empirical results suggest that the BAD tax is not adequate for revenue collection.

Keywords: Bank Account Debits Tax, BAD Tax, Financial Transactions Tax, FTT, Currency Transaction Tax, CTT, Automated Payment Transaction Tax, APT Tax, CPMF, Disintermediation, Illiquidity

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