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2016 Total Tax Contribution of the UK banking sector

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Foreword

The banking sector contributes to the UK economy in many ways. Paying tax is an important element of that contribution but there has historically been little robust data on the contribution made by the banking sector in taxes. The first Total Tax Contribution study of the sector, carried out in 2015, provided useful evidence and highlighted that the contribution extends beyond corporation tax to include irrecoverable VAT, bank levy, stamp duties and employment taxes.

While this report quantifies the current Total Tax Contribution of the banking sector, the future contribution to the public finances is in doubt. Increased capital and liquidity requirements as a result of tightening regulation coupled with persistent low interest rates have led to a structural change in the sector compared with the pre-crisis era. Falling levels of return on equity and gross value added call into question the sustainability of tax payments from the sector in the future.

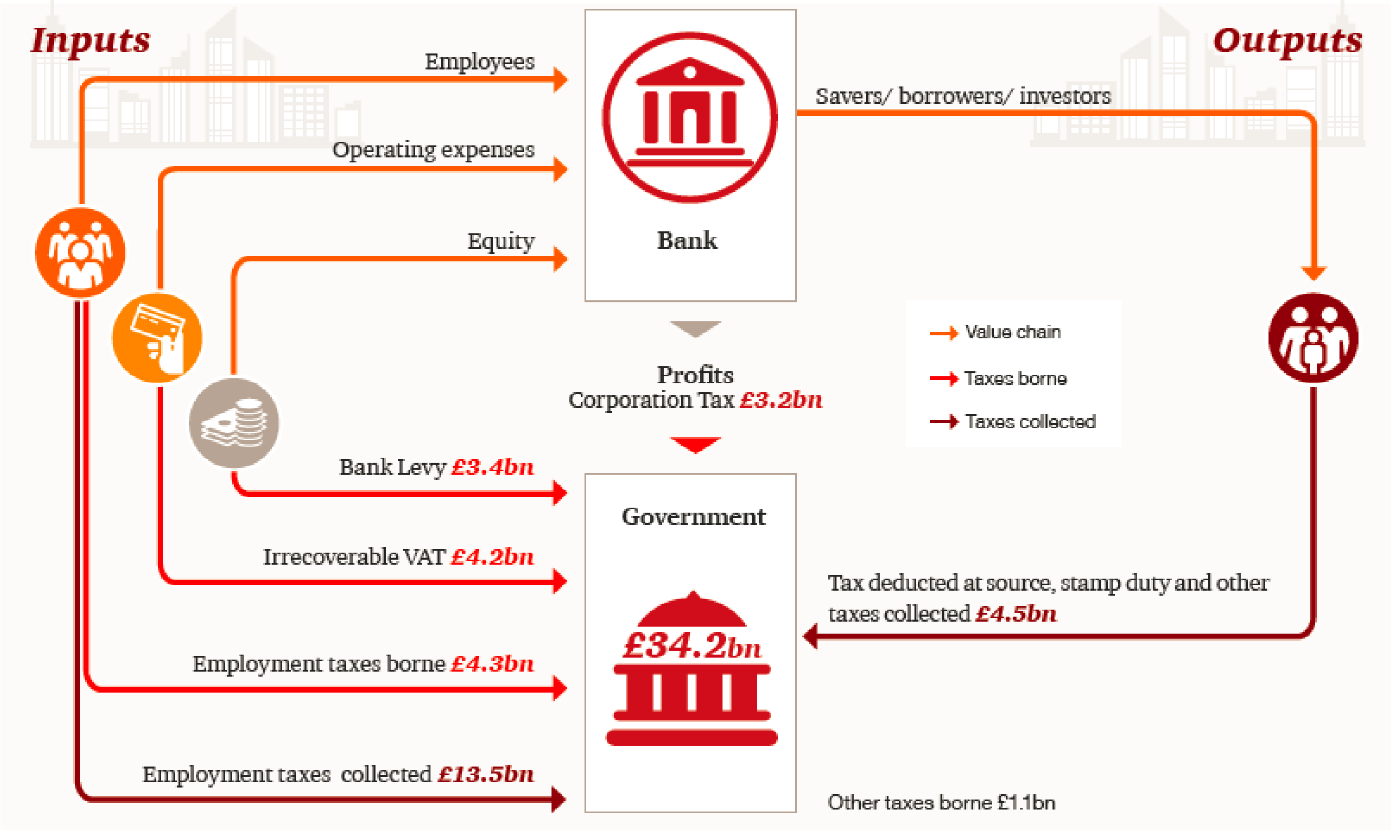
Coupled with this are the implications of Brexit. As this report shows, almost half of the current contribution to the UK public finances is delivered by foreign headquartered banks many of which use the UK as a base from which to trade with European customers. The current uncertainty could impact the level of tax contribution from this sector in the future.

In addition to the direct contribution in taxes, there is an indirect contribution from companies in the banks' supply chains and a further benefit to the economy from spending by bank employees, so the true contribution will be in excess of the £34.2bn shown in the report. As the scrutiny of banking sector taxation continues unabated, robust data on the contribution of the sector is vital to inform policy discussions over bank taxation going forward and we hope this study informs that debate. We thank the participants for their support for the study.

2016 Total Tax Contribution
UK banking sector

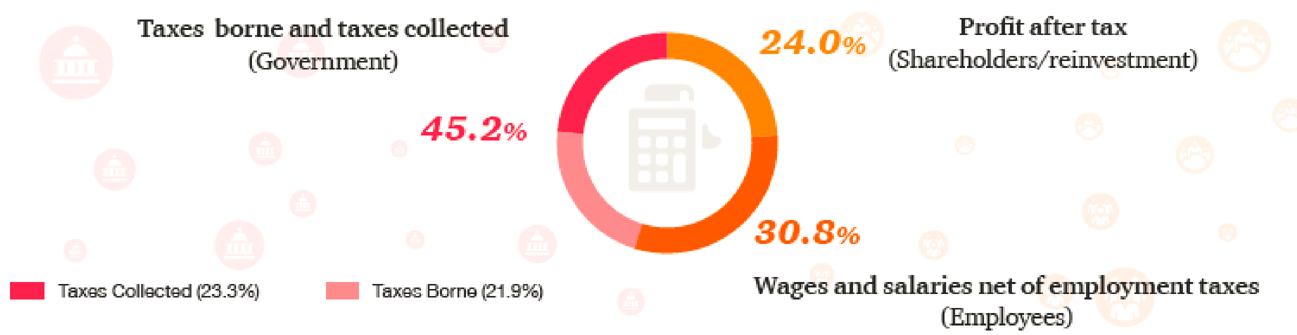
This study has been carried out for the British Bankers' Association, the trade association for the UK banking sector, to look at the Total Tax Contribution made by its members.

The Total Tax Contribution of the UK banking sector is estimated as £34.2bn.

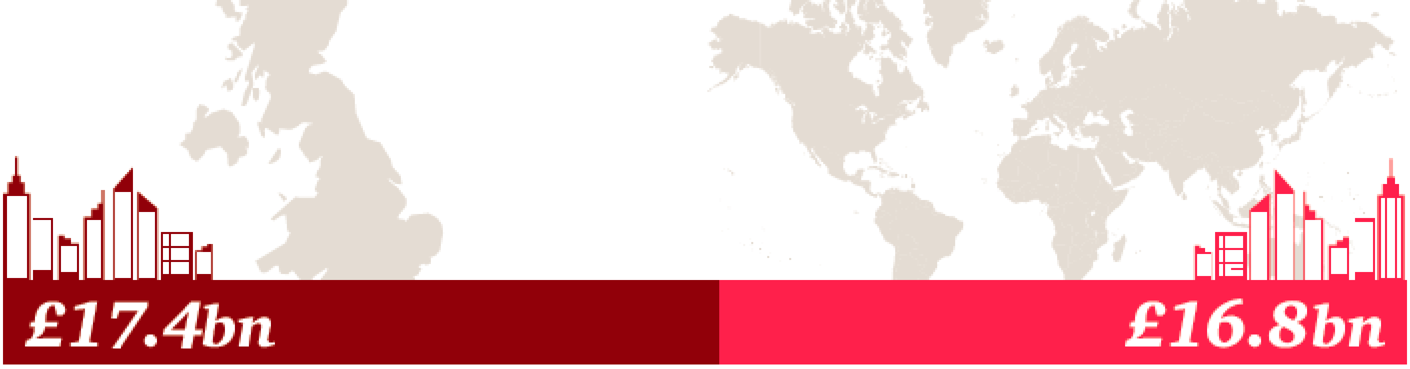


For mainly December 2015 year ends.

The banks in the study paid more to government in taxes (45.2%) than to employees in wages (30.8%) or to shareholders / reinvested in the business (24.0%)



Of the Total Tax Contribution of the sector of £34.2bn, £17.4bn is paid by UK banks and **£16.8bn** by foreign banks.



The largest tax for the banking sector is employment tax amounting to **£17.8bn** which is **6.9%** of Government receipts of employment taxes. **£9.7bn** (54.5%) of this is estimated to come from foreign banks.

Employment taxes
£17.8bn

There has been an increase in contribution of **£2.9bn** (+9.3%) from the last study since 2014. This is due to an increase in corporation tax of **£1.6bn** (+100%) and in bank levy of **£1.2bn** (+54%)

Data was provided by 36 of the largest banks operating in the UK contributing 83% of total employment taxes from the sector for accounting periods ending in the year to 31 March 2016. For most this was 31 December 2015.

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Executive summary

The key findings from the second Total Tax Contribution study carried out for the British Bankers' Association show that, in the year to 31 March 2016:

- the Total Tax Contribution of the UK banking sector in 2016 was estimated as £34.2bn.
- of this total, £17.4bn was paid by UK banks and £16.8bn by foreign banks. Brexit may introduce uncertainty over the contribution from foreign banks in the future.
- compared to the study carried out for 2014 year ends the contribution of £34.2bn was an increase of 9.3%, which was driven by corporation tax and bank levy.
- legislative changes governing the restriction of loss relief and deductibility of compensation payments have resulted in an increase in corporation tax since 2014 of 100%; the rise in bank levy (+54%) was a result of rate increases.
- the burden of tax on the banking sector has increased from 22.4% of turnover in 2014 to 27.0% in 2016. The Total Tax Rate in 2016 is 46.4% which is the total tax borne as a percentage of Profit before business taxes.
- the largest tax for the banking sector was employment taxes (£17.8bn). Of this, £9.7bn (54.5%) was from foreign banks which employ 29.3% of the employees in the study.
- irrecoverable VAT was the second largest tax (13.2%), with 76.1% paid by UK banks in the study. We estimate total irrecoverable VAT paid by the sector of £4.2bn.
- receipts of corporation tax, bank levy and employment taxes were £24.4bn, the highest level seen for the sector since 2006, equal to 2011, the year of the bank payroll tax.

Total Tax Contribution of the UK banking sector in 2016 was estimated as £34.2bn

Purpose and outline of the study

The purpose of the study is to generate robust data, collected in accordance with a credible and well understood framework, to quantify the contribution made by the UK banking sector to the public finances in taxes and the trends in contribution over time.

This study has been carried out for the British Bankers' Association (BBA), the trade association for the UK banking sector, to look at the Total Tax Contribution made by its members.

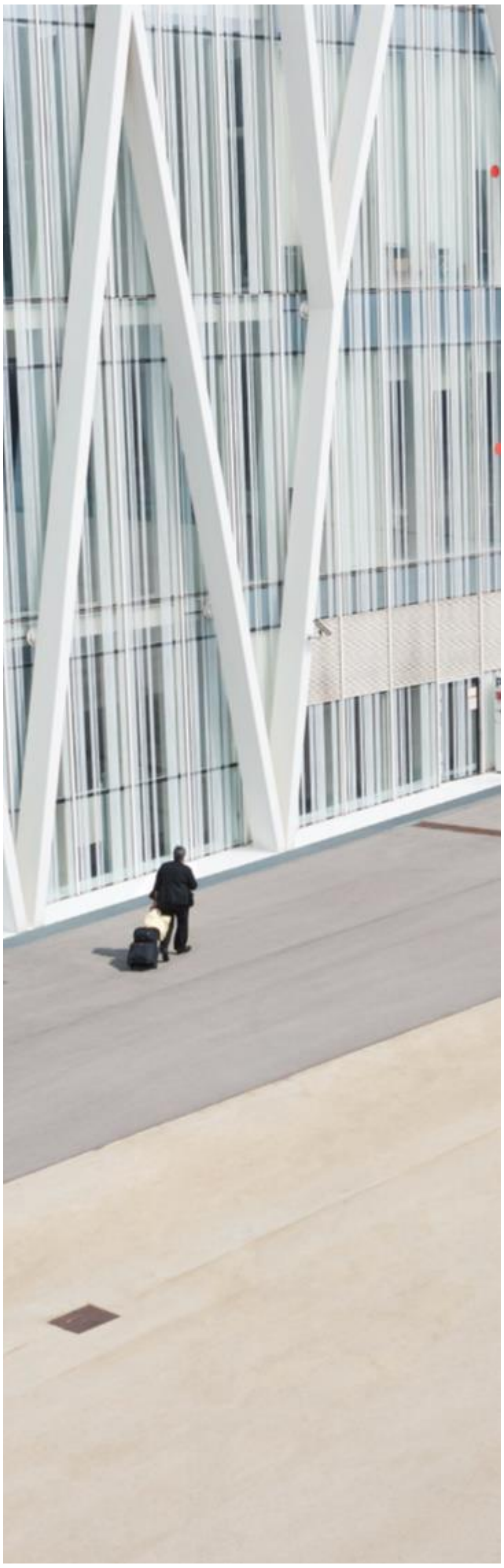
In the first study, we estimated that the banking sector overall contributed £31.3bn to the UK finances in 2014 and that was evenly divided between the UK banks and foreign banks.

This study shows that contribution is broader than corporation tax with bank levy, employment taxes, irrecoverable VAT, business rates, stamp duties, tax deducted at source and other taxes adding to the total.

It's also important to have robust data to highlight the impact of the recent changes (surcharge, loss relief restriction, compensation payments restriction) on the banking sector and how the contribution from the sector is changing over time.

The survey data is important as Brexit negotiations commence

The members taking part in the study provided data on their tax payments in their accounting period ended in the year to 31 March 2015 and 31 March 2016, for most this was the year ended 31 December.



Methodology

The study uses the PwC Total Tax Contribution (TTC) Framework which provides a standardised methodology for companies to measure and communicate all the taxes and contributions that they pay. The study collected data from BBA members on all their UK tax payments. PwC has anonymised and aggregated this data to produce the study results. PwC has not verified, validated or audited the data and cannot give any undertakings as to the accuracy of the study results.

The Framework is straightforward in concept, not tax technical and therefore relatively easy for stakeholders to understand. The Framework makes a distinction between taxes borne by the company and taxes collected.

Taxes borne are the company's own contribution in taxes that impact their results, e.g. corporation tax, employer NIC, irrecoverable VAT, bank levy etc.

Taxes collected are those that the company administers on behalf of Government and collects from others, e.g. income tax deducted under PAYE and employee NIC, tax deducted at source, stamp duty.

Taxes collected have an administrative cost for the company and will also have an impact on the company's business.

The results are a measure of the taxes paid by members, covering both taxes borne and taxes collected. The results provide information which would not otherwise be in the public domain, since this is not information the companies are required to disclose in their financial reports. Where we refer to data published by Government and HMRC, this is clearly indicated.

There was an increase in the number of companies providing data in the 2016 study

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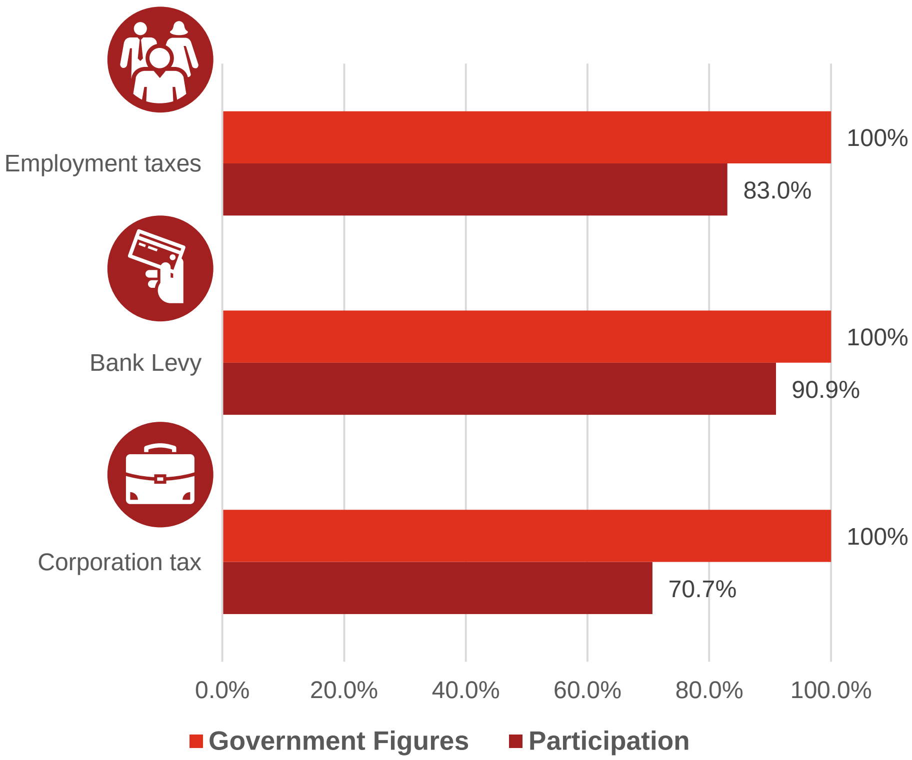
The data can be said to be representative of the UK banking sector

- Thirty-six BBA members participated in the study, providing data on their taxes borne and taxes collected. 29 companies provided data in the previous study.
- Data was received from both large and smaller banks, UK banks and foreign banks.
- The data related to payments to the UK public finances, and no tax payments to foreign tax authorities were included.
- These companies represent a significant part of the UK banking sector, as measured by reference to Government[1] data.
- Government provides data for receipts of employment taxes, bank levy and corporation tax from the sector. Figure 1 compares the data from the study with this Government data:
  - Employment taxes (income tax deducted under PAYE, employer and employee NIC) paid by study participants totalled £14.7bn accounting for 83.0% of Government receipts from the banking sector (£17.8bn).
  - Bank levy paid by participants was £3.1bn comprising 90.9% of Government receipts from the banking sector (£3.4bn).
  - Corporation tax payments made by participants totalled £2.3bn which represents 70.7% of corporation tax receipts (£3.2bn) from the UK banking sector.

Figure 1 - Participation in the study shown as percentage of the UK banking sector totals



[1] *Pay-As-You-Earn and corporate tax receipts from the banking sector*

Total Tax Contribution of the UK banking sector

Total Tax Contribution of the UK banking sector

We estimate that the Total Tax Contribution (TTC) of the UK banking sector was £34.2bn in 2016[2]

The banking sector makes a major contribution to the UK Exchequer. The 36 companies taking part in the study reported taxes borne of £13.2bn and taxes collected of £14.3bn, making a UK tax contribution of £27.5bn.

Extrapolating from these figures[3], we estimate that the Total Tax Contribution for the entire UK banking sector, including those banks who did not take part in the study, is £34.2bn which amounts to 5.5% of total Government receipts for all taxes in the year to 31 March 2016.

Figure 2 shows that the TTC of £34.2bn is estimated to comprise, taxes borne of £16.2bn and taxes collected of £18.0bn.

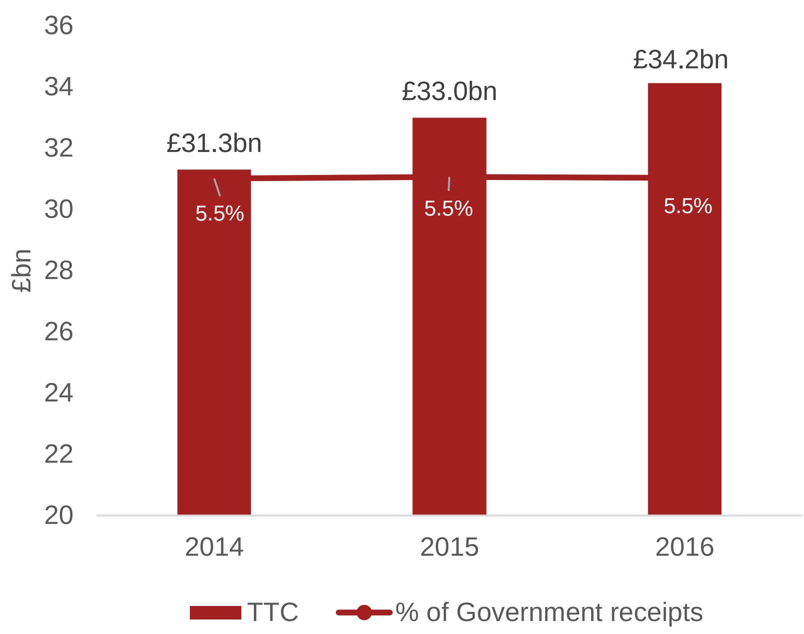
The totals for corporation tax and bank levy for the whole of the sector are not extrapolated from study data but are taken from published Government figures.

Figure 2: 2016 Total Tax Contribution of the UK banking sector as a percentage of total UK tax receipts[4]

£'bn	Study participants	Extrapolated to the UK banking sector	As a percentage of Government receipts
Corporation tax	2.3	3.2	7.3%[5]
Bank levy	3.1	3.4	100%[6]
Employment taxes borne[7]	3.5	4.3	
Irrecoverable VAT	3.6	4.2	
Other taxes borne[8]	0.7	1.1	
Total taxes borne	**13.2**	**16.2**	**2.6%**
Employment taxes collected[9]	11.2	13.5	
Other taxes collected[10]	3.1	4.5	
Total taxes collected	**14.3**	**18.0**	**2.9%**
Total tax contribution	**27.5**	**34.2**	**5.5%**

[2] The accounting period for the majority of participants was year ended 31 December 2015.
[3] Data was extrapolated to provide an estimate of the total tax contribution of the banking sector. The extrapolation was based on Government figures released by HMRC "Pay-As-You-Earn and corporate tax receipts from the banking sector". Extrapolation uses the ratios of (a) employment taxes to taxes borne and (b) employment taxes to taxes collected for different parts of the sector, as established in the study (c) trends in tax receipts. Extrapolation is an estimate only, apart from corporation tax, bank levy and employment taxes in total, where actual figures are included.
[4] The Office for Budget Responsibility (OBR) – Economic and fiscal outlook alongside Budget 2015. Table 2.8 Current receipts (on a cash basis)
[5] Percentage of Government corporation tax receipts
[6] Percentage of Government Bank Levy receipts
[7] Employer national insurance contributions and PAYE agreements
[8] Business rates, stamp duty land tax, stamp duty and stamp duty reserve tax, insurance premium tax, air passenger duty, vehicle excise duty, carbon reduction commitment, climate change levy, EU ETS
[9] Employee national insurance contributions and income tax deducted under PAYE
[10] Tax deducted at source, stamp duty reserve tax, net VAT, insurance premium tax

Figure 3: Total Tax Contribution of the UK banking sector



The contribution in taxes made by the banking sector in 2016 was £2.9bn higher than the TTC in the first study (£31.3bn). TTC of the UK banking sector represents 5.5% of Government receipts (Figure 3).

The data in this study provides visibility over other taxes such as irrecoverable VAT, stamp duties and tax deducted at source, to provide a more informed view of the taxes paid by the sector. The extrapolation for the sector is performed at the level of taxes borne and taxes collected using details which are available from Government data[11].

Looking forward, although the rate of bank levy will fall, corporation tax payments made by the sector are expected to increase as the full effect of the loss restriction and non-deductibility of compensation payments is felt. In addition, the corporation tax surcharge which came into force on 1 January 2016 will add to the TTC made by the banking sector. According to the 2015 Autumn Statement, bank levy and bank surcharge are forecast to raise £19.6bn in total over the next five years.

[11] HMRC "Pay-As-You-Earn and corporate tax receipts from the banking sector- Released: 31 August 2016

The profile of taxes borne and collected

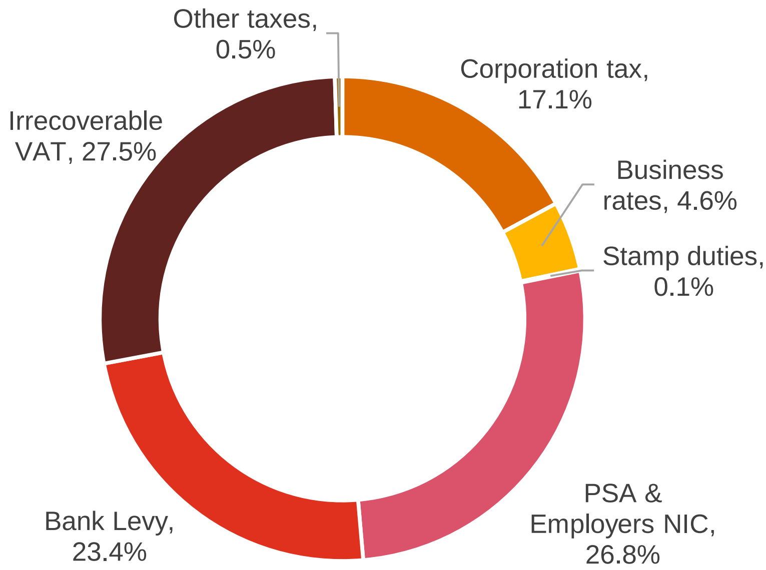
Taxes borne

Taxes borne are a cost to the business and therefore directly affect a company's financial results. The profile for these taxes across the banks that participated in the 2016 study is shown in figure 4. Irrecoverable VAT was the largest tax borne by the banking sector (27.5%). Employment taxes, comprising employer NIC and PSA (PAYE settlement agreement, a tax on benefits provided by the company) were the second largest taxes borne by the banking sector (26.8%). These were followed by the bank levy which accounts for 23.4% of taxes borne.

Sector taxes and those which although not labelled as a sector tax fall heavily on this sector and are therefore an important element of the profile for these companies with 50.9% of total taxes borne being represented by bank levy and irrecoverable VAT. These taxes are not dependent on profits and represent a more fixed cost for the sector. Corporation tax made up 17.1% of taxes borne in the study.

Please refer to Appendix I for a detailed list of taxes borne by study participants.

Figure 4- Taxes borne profile for the participant companies



Source: Study participants

For every £1 of corporation tax, the banking sector in the UK paid £4.84 of other taxes borne

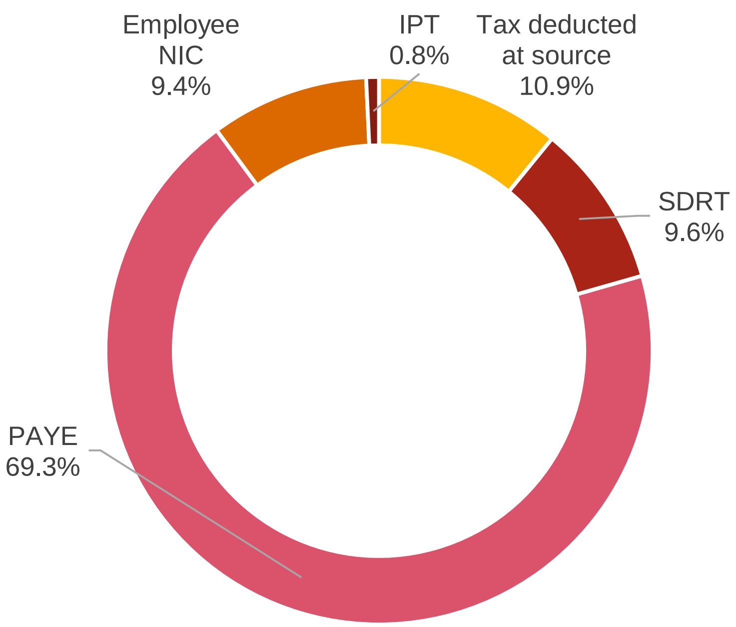
Taxes collected

Taxes collected are those which reflect the nature of a company's operations, but do not directly impact on its results, e.g. income tax deducted under PAYE and net VAT. They are collected and administered on behalf of HMRC and reflect the wider economic contribution generated by the banking sector.

Figure 5 shows the profile of taxes collected for the participants. Employment taxes (income tax deducted under PAYE and employee NIC) were the largest taxes collected (78.7% of taxes collected) reflecting skilled and well paid jobs in the sector. The tax deducted at source was 10.9% of taxes collected, mainly arising from tax deducted from interest paid to customers by the retail banks. Stamp duty reserve tax made up 9.6% of taxes collected. Please refer to Appendix I for a detailed list of taxes collected by study participants.

For every £1 corporation tax, there is £6.31 in taxes collected

Figure 5 - Taxes collected profile for the participant companies

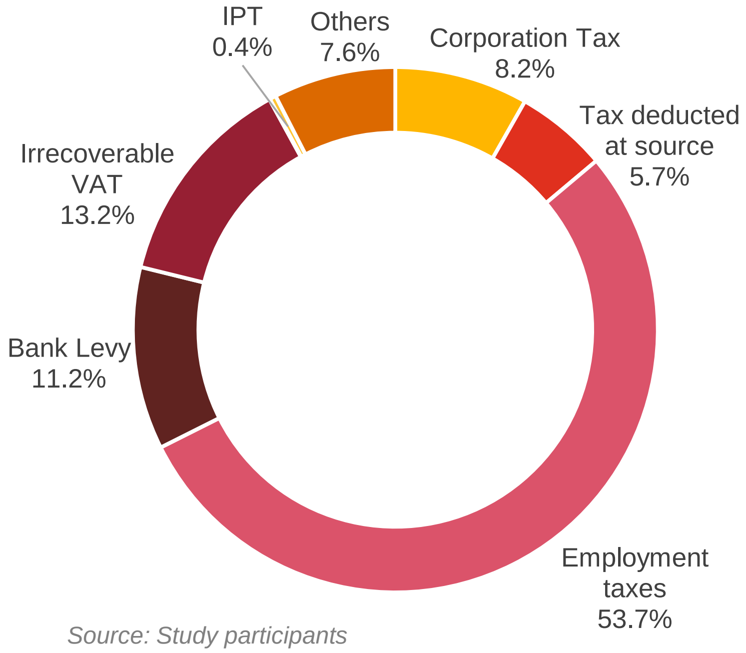


Source: Study participants

Total tax contribution

Looking at both taxes borne and taxes collected together, figure 6 shows that employment taxes made up 53.7% of the TTC in the study while corporation tax made up 8.2% of the total. There are other significant taxes for the sector - irrecoverable VAT and bank levy were 13.2% and 11.2% of the TTC respectively.

Figure 6 - Total tax contribution profile for the participant companies



Source: Study participants

The largest tax for the banking sector was employment taxes. The contribution from irrecoverable VAT (13.2%) is larger than corporation tax (8.2%) and bank levy (11.2%).

Comparing the tax profile for UK and foreign banks

Thirty- six companies participated in the study. Within this total, there are UK banks and foreign banks, and this section provides further detail on the TTC of each type of bank. The study participants included 14 UK banks and 22 foreign banks. The UK banks provided data on taxes paid amounting to £14.6bn while foreign banks contributed £12.9bn.

Figure 7 shows taxes borne, taxes collected and TTC for UK banks and foreign banks as a percentage of the totals.

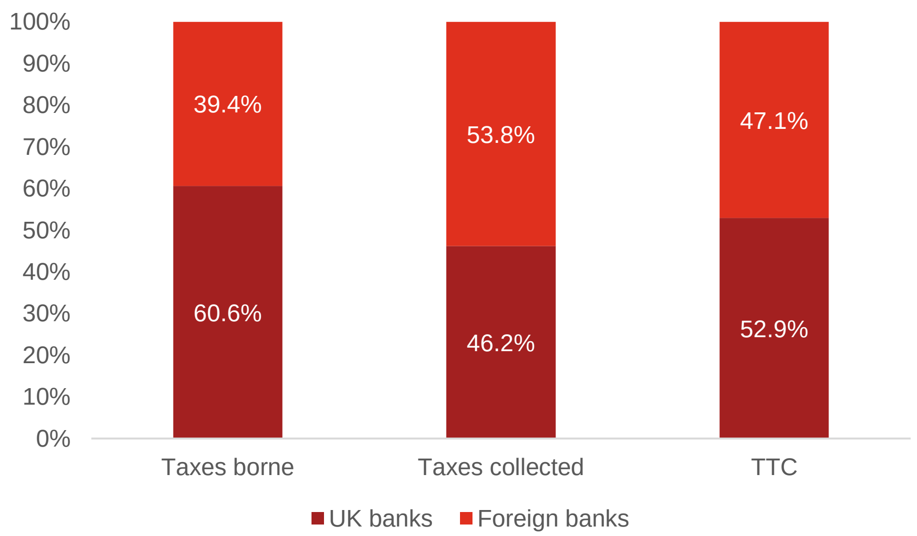
Based on the companies participating in the study, the contribution made by the UK banks and foreign banks is broadly the same.

Taxes borne by UK banks are 60.6% of the total. Bank levy and irrecoverable VAT are more significant for UK banks.

Taxes collected by foreign banks are 53.8% of the total. Employment taxes are more significant for foreign banks.

Taking the extrapolated total of £34.2bn, we estimate[15] that £17.4bn was paid by UK banks and £16.8bn was paid by foreign banks.

Figure 7 - Taxes borne, taxes collected and TTC for UK and foreign banks



Source: Study participants

Profile of tax for UK and foreign banks

- The largest tax was employment taxes for both UK banks and foreign banks.
- For other taxes, the UK banks and foreign banks have a different tax profile.
- For the UK banks, irrecoverable VAT was the second largest tax payment followed by bank levy.
- Corporation tax was the second largest taxes borne for foreign banks.

[15] Estimation based on number of employees and the profile of taxes borne and taxes collected for UK banks and for foreign banks

Trends in Total Tax Contribution

Change in tax legislation

In order to understand the trends in the taxation of the banking sector, the recent changes in tax rates and regulation are summarised below.

Corporation tax	Rate decreased from 23% in 2013/14, to 21% in 2014/15 and to 20% in 2015/16. It is expected to fall to 19% in 2017 and 17% in 2020.
Loss-relief restriction	In the Autumn Statement 2014 it was announced that the amount of taxable profit that could be offset by banks' historic carried-forward losses would be restricted to 50% from April 2015. In the budget 2016 it was announced that the restriction would be increased to 25% from April 2016
Compensation expenditure restriction	Legislation was introduced to restrict the deductibility of compensation expenditures arising on or after 8 July 2015 covering all compensation costs.
Bank levy	The Bank Levy rate for long term chargeable equity & liabilities increased from 0.065% in 2013 to 0.078% in 2014 and 0.105% in 2015. The rate for short term chargeable equities increased from 0.130% in 2013 to 0.156 in 2014 and 0.210% in 2015.
Surcharge	The Government introduced an 8% surcharge tax on banks' profits arising after 1 January 2016. The profits will be calculated on the same basis as for corporation tax, but with some adjustments. In this study the impact was immaterial since the majority of companies' accounting periods ended in December 2015. Bank surcharge receipts were forecast to be £1bn in 2016-2017 in the 2015 Autumn Statement.
Income tax deducted under PAYE	Personal allowance threshold increased from £10,000 to £10,600 in 2015/16. Higher rate threshold decreased from £31,865 to £31,785 in 2015/16.

Trend in Total Tax Contribution between 2014 and 2016

Twenty-five companies provided data for both 2014 and 2016 studies and we are able to analyse the trends on a like for like basis for these 25 companies.

There is an increase in taxes borne, mainly driven by corporation tax and bank levy (Figure 8).

The increase in corporation tax, despite the fall in rate from 23% to 20% in the period studied, is mainly driven by the loss restriction and compensation payments restriction coming into force in 2015. Please see the corporation tax section of this report for more details.

The increase in bank levy is largely a result of rate increases.

Taken together, these movements result in an increase of +27.0% for taxes borne as compared to 2014.

Employment taxes collected increased by +3.4% (see commentary on employment taxes), however, this is offset by the decrease in other taxes collected (figure 9), primarily tax deducted at source.

Figure 8: Trend in taxes borne 2014-2016

	Trend as % of total taxes borne
Corporation Tax	+12.7%
Bank Levy	+12.0%
Employment taxes borne	+0.6%
Irrecoverable VAT	+1.3%
Other	+0.4%
Taxes borne	**+27.0%**

Figure 9: Trend in taxes collected 2014-2016

	Trend as % of total taxes collected
Employment taxes collected	+3.4%
Tax deducted at source	-2.1%
Stamp Duty Reserve tax	-0.7%
Net VAT	-0.9%
Total taxes collected	**-0.3%**

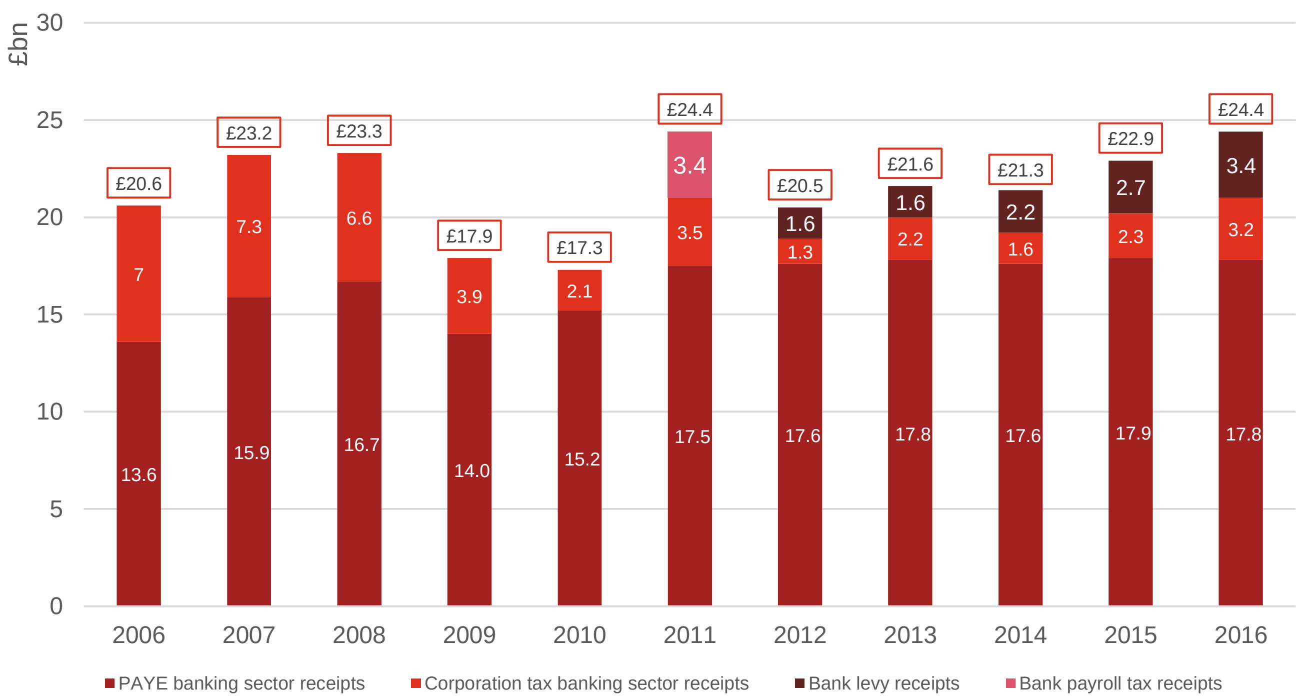
Data based on companies participating in both studies

Trends in selected taxes from Government data

All taxes collected are part of the company's contribution to the public finances. However, employment taxes collected are an indication of the value contributed by the banking sector and are distinct from other taxes collected, such as tax deducted at source, which create an administrative burden for the company, but are not equivalent in terms of the broader contribution to the economy.

Figure 10 shows that the Government tax receipts from the banking sector in 2016 (for selected taxes) is £24.4bn. Tax receipts of corporation tax, bank levy and employment taxes are the highest levels seen for the banking sector since 2006 and equal to receipts in 2011 the year of the bank payroll tax (commonly known as bank bonus tax).

Figure 10: PAYE, Corporation Tax, Bank Payroll Tax, Bank Levy and Bank Surcharge receipts from the banking sector[16]



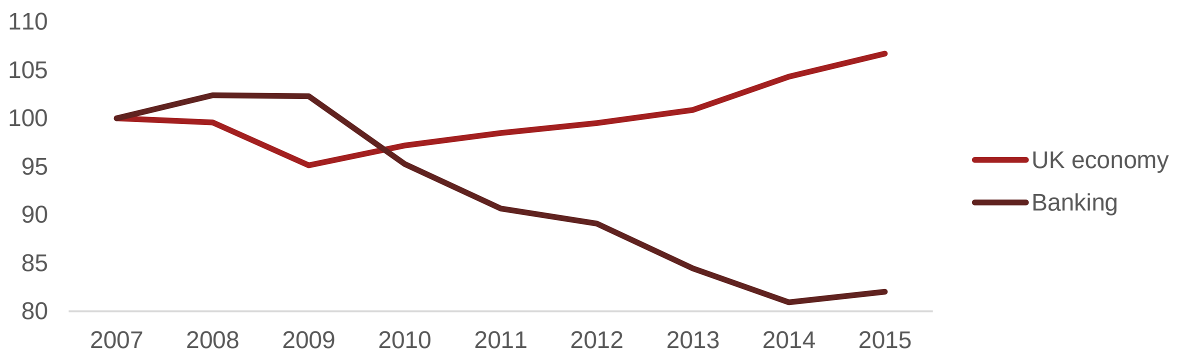
Source: HMRC

[16] HMRC "Pay-As-You-Earn and corporate tax receipts from the banking sector- Released: 31 August 2016

Gross Value Added (GVA) and Return on Equity (RoE) for the UK banking sector

To put the trend analysis into context, we reviewed other indicators of the banking sector. At a national level, economic activity is commonly measured by GDP which is generally regarded as one of the most reliable economic indicators. The contribution made to GDP is typically measured by calculating the Gross Value Added (GVA) which is a measure of the economic value of a company. Figure 11 shows a falling trend in GVA for the banking sector from 2009 to 2014, with a small increase in 2015. By comparison, the GVA for the economy as a whole as increased steadily over this period. The GVA for the banking sector in 2015 was 4.2% of the GDP of the UK economy[16] which compares to tax receipts for the banking sector in the same year of 5.5% of total Government tax receipts.

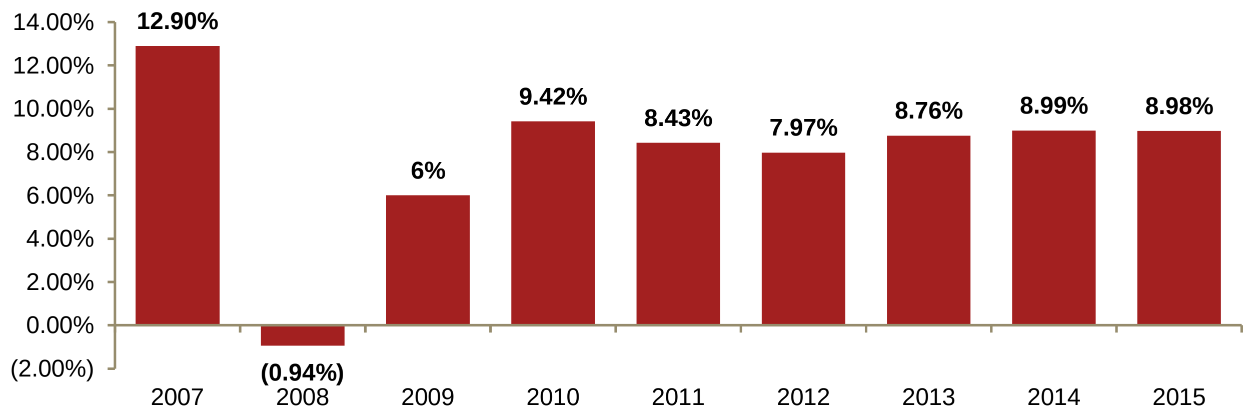
Figure 11: Gross Value Added by the banking sector



Source: Eurostat

Another ratio commonly used for the banking sector is Return on Equity (RoE) which measures profitability compared to shareholders equity. Figure 12 shows that with declining profits the RoE has fallen for the banking sector from 12.9% in 2007 to 9.0% in 2015.

Figure 12: Return on Equity for the banking sector



Source: Reuters

16 The Office for Budget Responsibility (OBR) – Economic and fiscal outlook alongside Budget 2015. Table 2.8 Current receipts (on a cash basis)

Taxes paid by the banking sector

Employment taxes

The banking sector employs highly skilled workers and employment is an important way in which the sector contributes to the UK economy.

The largest tax payment for the banking sector is employment taxes which accounts for **53.7%** *of the TTC*

Study participants paid total employment taxes of £14.7bn comprising employment taxes borne of £3.5bn (employer NIC and PSA) and employment taxes collected of £11.2bn (income tax deducted under PAYE and employee NI).

Figure 13 – Number of employees for UK banks and foreign banks

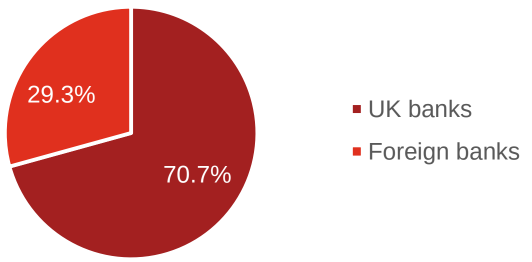
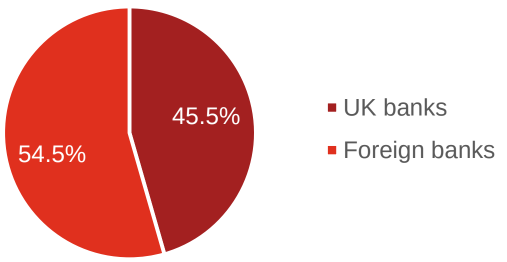


Figure 14 – Employment taxes for UK banks and foreign banks



- It is possible to calculate an average salary for workers in the sector from the study data. Taking the total wages for the study population and dividing it by the total number of employees within that population, the average salary in 2016 was £71,912 (2014: £66,847). This increase is due to combination of factors. The number of relatively lower paid employees has dropped while the total of wages paid is increased by redundancy payments in 2016. Excluding the banks that reduced their workforce, the average wage per employee showed an increase of +1.8% compared to 2015.

- Banks that employed 65% of study employees had an average wage per employee of below £50,000. The banks employ highly skilled, well paid workers and the average salary exceeds the national average (£27,600)[17], emphasising the contribution that the banking sector makes through employment.

- For every employee, an amount is paid to the public finances in employment taxes. Looking at employment taxes borne and collected, the average (calculated by taking the total employment taxes for the study population and dividing it by the total number of employees within that population) was £37,331 (2014: £35,278). As explained above, this increase reflects redundancy payments. Excluding the banks that reduced their workforce, the increase in employment taxes per employee was +0.6% compared to 2015.

- Employment taxes per employee differ for UK banks and foreign banks. Figure 13 shows the number of employees and figure 14 employment taxes as a percentage of the total data provided by study participants.

- UK banks largely represent the commercial retail banks where the number of employees is large, often part-time, and salaries are below the sector average. In contrast, foreign banks employed a smaller proportion of the total employees in the study (29.3% of total) but paid 54.5% of the total employment taxes.

[17] Annual Survey of Hours and Earnings, 2015 Provisional Results

Government data for employment taxes

The banking sector paid 6.9% of UK receipts of employment tax[18] in 2016

The banking sector is a major employer in the UK Financial services workforce.

Figure 15 shows the trend in employment tax receipts in the sector since 2006.

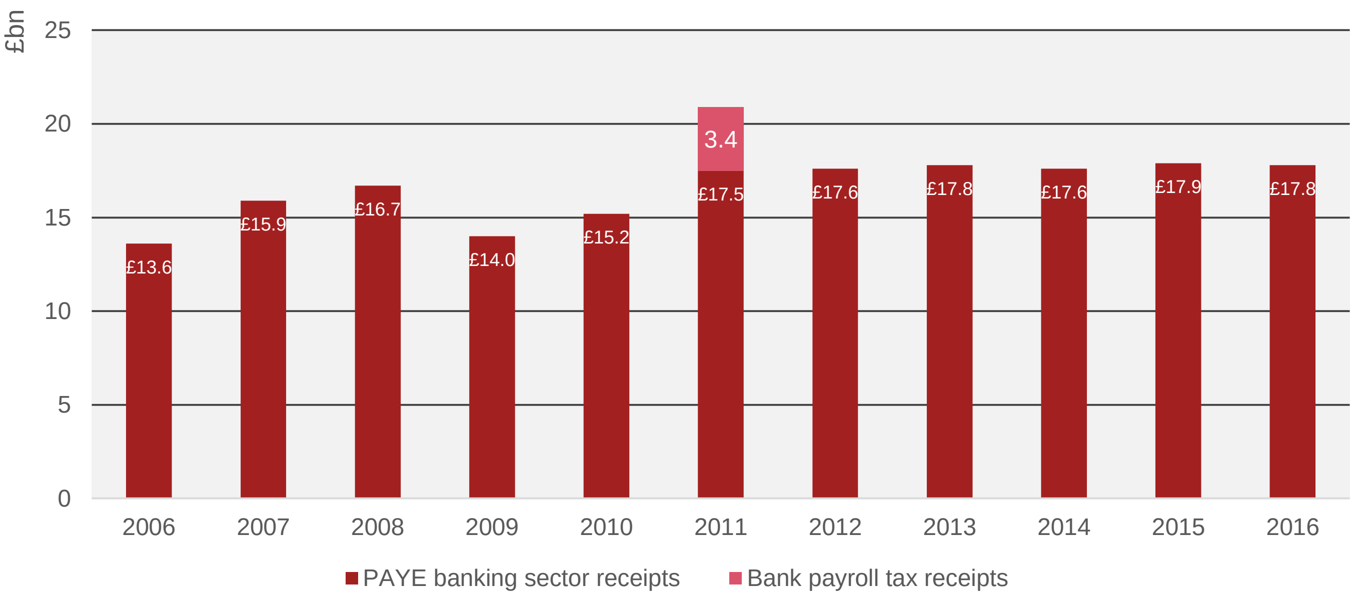
Legislative changes to employment taxes have had a significant impact on the UK banking sector. In particular, the one off bank payroll tax[19], which was paid in 2011, increased Government receipts from the banking sector by £3.4bn.

In addition to this, there were other changes in employment taxes over the period. Figure 15 shows the impact of the introduction of the 50% rate of income tax in 2011.

Changes in PAYE thresholds and rates and NIC thresholds also increased employment taxes.

ONS data shows a fall in employees working in financial service activities[20] excluding insurance and pension funding. Banking employees make up a large element of this total.

Figure 15 – Employment tax receipts



Source: HMRC

[18] The Office for Budget Responsibility (OBR) – Economic and fiscal outlook alongside Budget 2015. Table 2.8 Current receipts (on a cash basis)
[19] This one-off tax was paid in 2011 and applied to bonuses awarded by the banking sector from 9 December 2009 to 5 April 2010
[20] Looking at ONS data from UK level employment by 2 digit SIC 2007 for " 64-Financial service activities; except insurance and pension funding" the number of employees decreased from 522,300 to 512,800

Corporation tax

Corporation tax payments from study participants totalled £2,261 million. Looking at the companies which provided data for both corporation tax and profit, profitability increased between 2014 and 2016, but there was a larger percentage increase in corporation tax due to loss-relief restrictions and compensation expenditure restrictions which came into force in 2015.

The increase can be attributed to loss-relief restrictions and compensation expenditure restrictions.

Government figures provide data (figure 16) over a longer period and show that receipts of corporation tax and bank levy are £6.6bn in 2016, 90% of pre-recession 2007 levels.

Corporation tax increased from £1.6bn to £3.2bn (+100%) from 2014 to 2016. Bank levy increased from £2.2bn to £3.4bn (+54%) over the same period.

Loss-relief restrictions:

From 1 April 2015, the proportion of banks' taxable profit that can be offset by carried-forward losses was restricted to 50%. The restriction applies to carried forward trading losses, non-trading loan relationship deficit and management expenses.

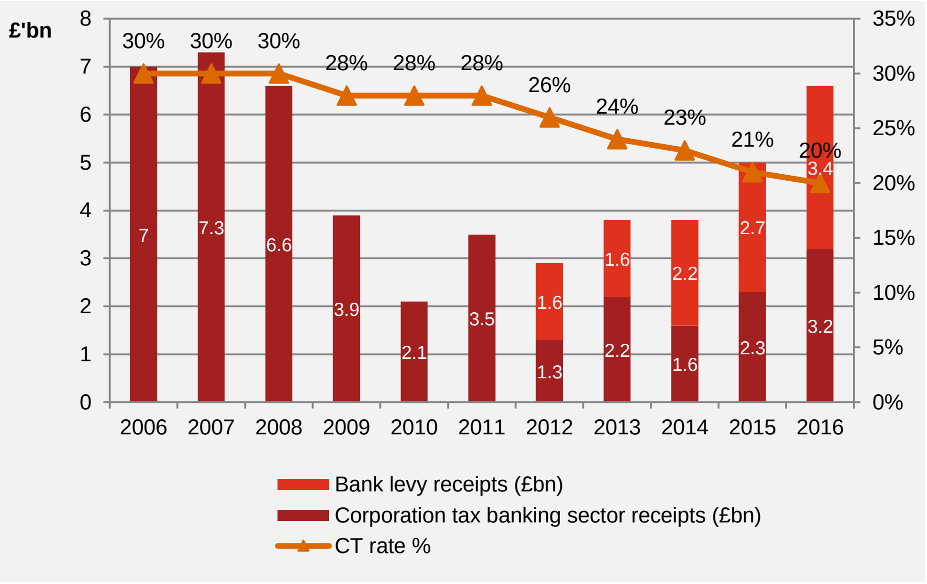
The measure was expected to generate £695m in 2015-16 and looking forward, this can be expected to increase further as the restriction is increased from 50% to 25% from 1 April 2016.

Compensation payments restriction for banks:

Compensation expenditure arising on or after 8 July 2015 is not deductible for corporation tax purposes.

The measure was expected to generate £150m in 2015-16.

Figure 16 – Government receipts of corporation tax and bank levy from the banking sector

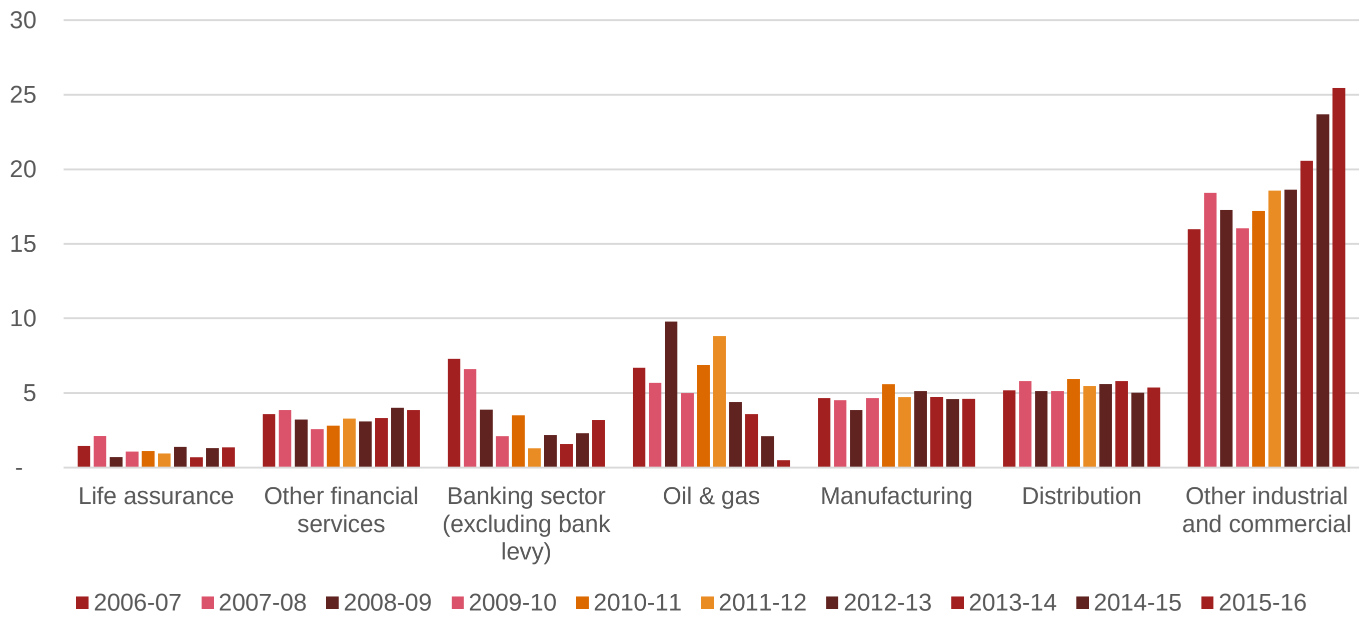


Source: HMRC

Corporation tax

The banking sector showed the largest percentage increase in corporation tax in 2015-16 compared to other sectors (see figure 17).

Figure 17 – Receipts of corporation tax by sector



Source: Corporation tax receipts Table 11.A

Looking forward, corporation tax payments made by the sector can be expected to increase. In addition to restrictions on loss-relief and compensation expenditure, in 2015, the Government announced that a corporation tax surcharge of 8% will apply to the banking sector from 1 January 2016. Bank Surcharge receipts were small (£22m) in 2015-16 as most banks are not due to start paying the surcharge until 2016-17.

Although the corporation tax rate will be reduced (the main rate is expected to reduce to 17% in 2020), the banking sector will pay corporation tax at a higher rate than the headline rate due to the surcharge.

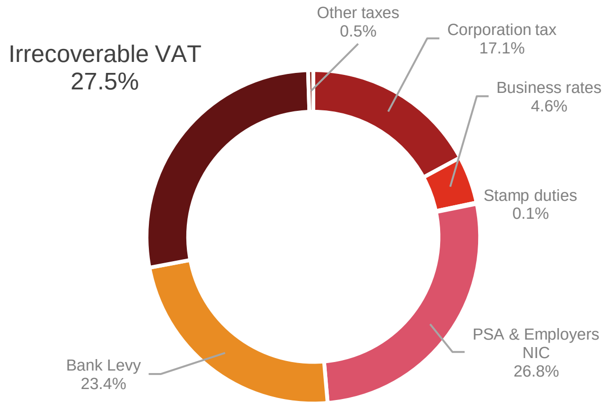
The surcharge will apply to the taxable total profits of banks (as for corporation tax), but certain reliefs will not be allowed.

Specifically, the tax base for the surcharge may not be offset by losses brought forward or by group relief claimed from non-banking companies. An annual allowance of £25m may be used against the liability arising from the surcharge, applied on a group basis, but specific anti-avoidance provisions will be introduced targeting arrangements that seek to avoid or reduce the surcharge.

Irrecoverable VAT

Figure 18 shows the profile of taxes borne for study participants. Irrecoverable VAT was the largest tax borne for the study participants accounting for 27.5% of total taxes borne. There is often limited understanding of the significance of this tax for the banking sector. When a business supplies goods and services, it generally charges VAT, and offsets any VAT it has incurred on purchases used to run the business (input VAT). Where the supplies of a company are exempt as is the case for banks, VAT is not charged to customers and the company cannot recover its input VAT.

Figure 18 - Taxes borne profile for the participant companies

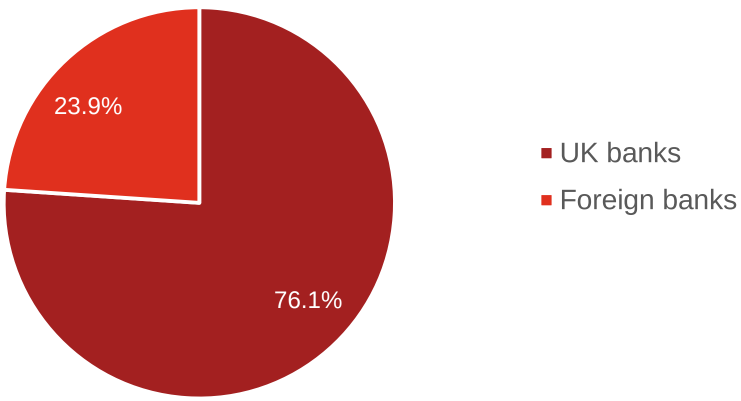


Source: Study participants

There is limited publicly available data on irrecoverable VAT. Study participants provided data on irrecoverable VAT amounting to £3.6bn and the data shows an increase in irrecoverable VAT from 2014 to 2016 of +3.7%. Irrecoverable VAT has increased significantly since 2011 as explained in the first TTC study[21]. Apart from the increases in the rate of VAT (from 15% to 17.5% in 2010 and 17.5% to 20% in 2011), there has also been increasing investment in information technology and infrastructure throughout the sector, a drive towards outsourcing administrative business functions and a move towards employing more contractors following the financial crisis, all of which increase the cost base and level of input VAT.

We have estimated[22] irrecoverable VAT for the UK banking sector as £4.2bn in 2016. Total irrecoverable VAT was £3.6bn for the 36 participating companies. Figure 19 shows the comparison of irrecoverable VAT for UK banks and foreign banks as a percentage of total that was provided by study participants.

Figure 19 – Irrecoverable VAT for UK banks and foreign banks



Study data shows 76.1% of the total irrecoverable VAT is paid by UK banks.

Source: Study participants

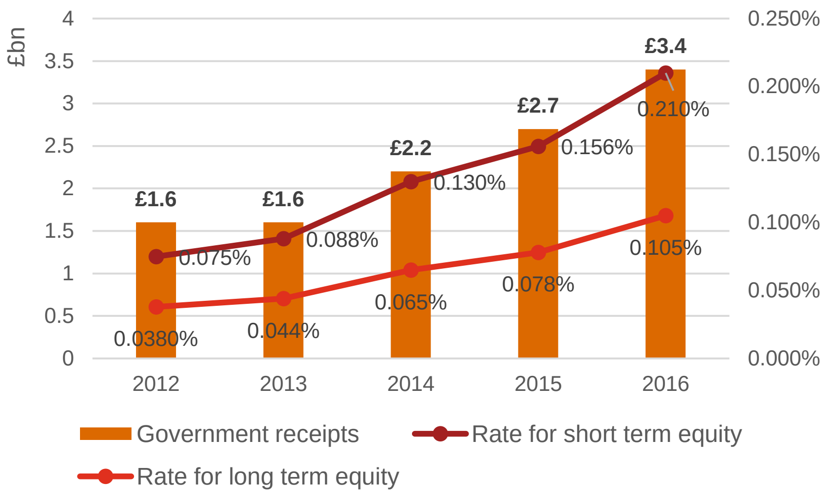
[21] 2015 Total Tax Contribution of the UK banking sector
[22] Irrecoverable VAT was extrapolated using the study data, Government figures of employment taxes, and the profile of different types of banks in the study.

Bank levy

Receipts from bank levy have more than doubled since 2011 due to increases in the rate of bank levy

The financial crisis and subsequent legislative changes have resulted in a fundamental shift in taxation of the banking sector. Bank levy was introduced in 2011, based on the equity and liabilities of banks. The rate of the levy has been increased since it was introduced, in an attempt to meet the dual targets of encouraging the banking sector to move away from risky funding models and raising a set amount of revenue. Figure 20 shows the increase in receipts of bank levy and the rate of bank levy since its introduction. Bank levy showed an increase of +54% (from £2.2bn to £3.4bn) since 2014.

Figure 20– Bank levy receipts



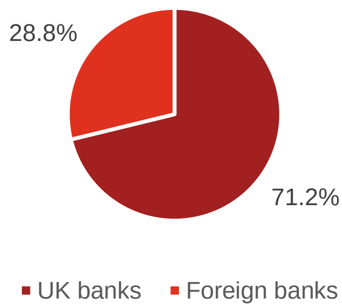
Source: HMRC data

- The study participants reported bank levy of £3.1bn (90.9% of all UK bank levy receipts) in 2016 which accounts for 23.4% of taxes borne for the banking sector.
- Figure 21 shows bank levy for UK banks and foreign banks. 71.2% of the total bank levy paid by study participants is paid by UK banks in the study.

In the summer 2015 budget, it was announced that current rates of 0.21% for short term liabilities and 0.105% for long term liabilities would gradually be reduced over the next 6 years. The rates applicable from 1 January 2021 will be 0.10% for short term liabilities and 0.05% for long term liabilities.

In addition to the rate decrease, it was announced that the scope of the Bank Levy would be restricted to UK operations only with effect from 2021. This is particularly relevant for UK-headquartered banks where the Bank Levy currently applies to the global consolidated Balance Sheet.

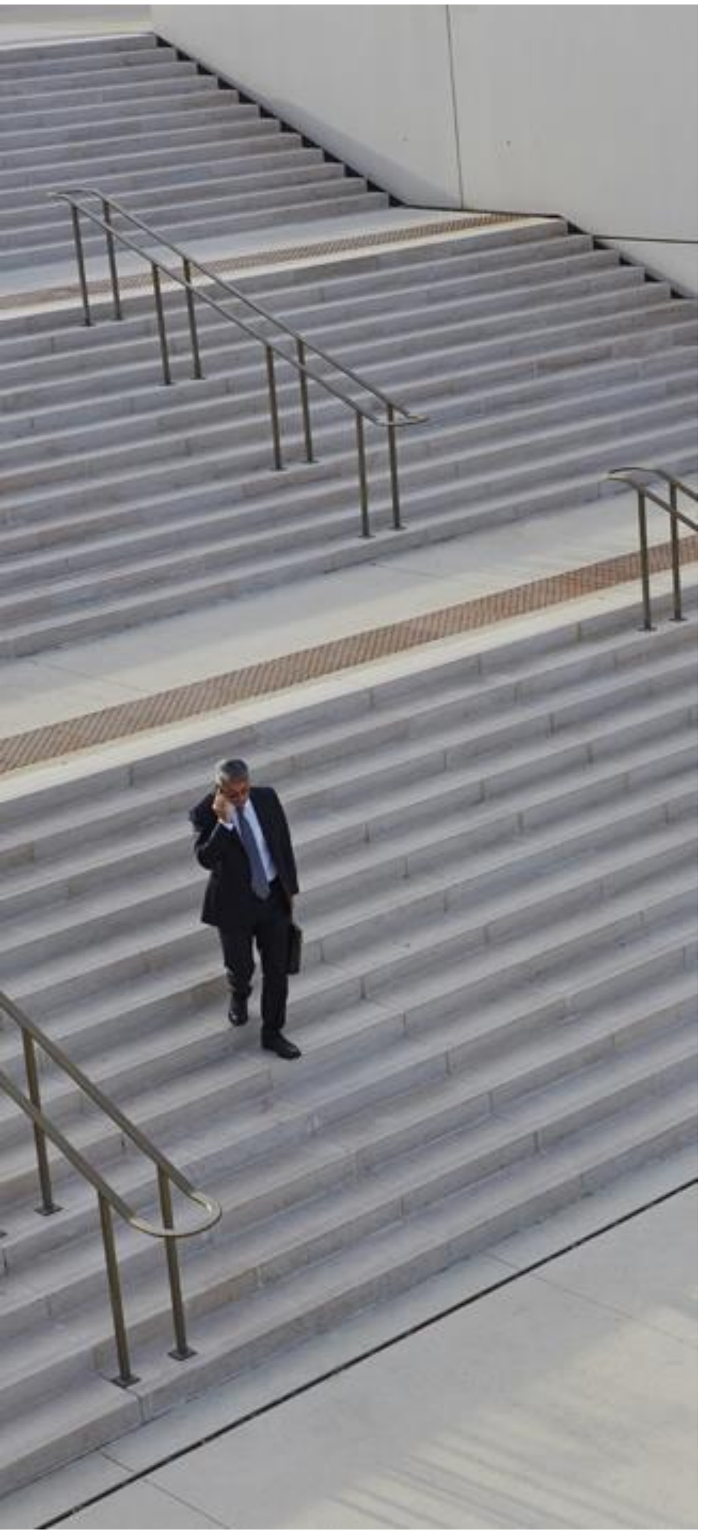
Figure 21–Bank levy for UK banks and foreign banks



Source: Study participants

Putting the TTC data into the context of other economic indicators

Putting the TTC data into the context of other economic indicators



It is possible to put the TTC data in the context of other economic measures, such as turnover, profit (where available) and value distributed. The following calculations were generated using the study data:

- Taxes borne and collected as a percentage of value distributed
- Total Tax Rate (TTR) which is the total tax borne as a percentage of Profit before business taxes (PBBT)
- Taxes borne and collected as a percentage of turnover

These calculations have been done in three ways. Taking TTC as a percentage of turnover:

   – For the study participants as a whole (overall basis), we take the TTC for all participants as a percentage of turnover for all participants. This metric reflects the position for the BBA members as a whole, but will give weight to the larger banks.

For each individual participant:

   – Mean average - we calculate the TTC/turnover ratio for each participant separately and then take a simple average. The mean average gives equal weight to all companies in the group and more accurately reflects the burden faced by individual companies.

   – Median average – this is the value that separates the higher calculation results from the lower results of study participants, effectively the mid point.

- We have shown the results using each calculation for the three indicators.

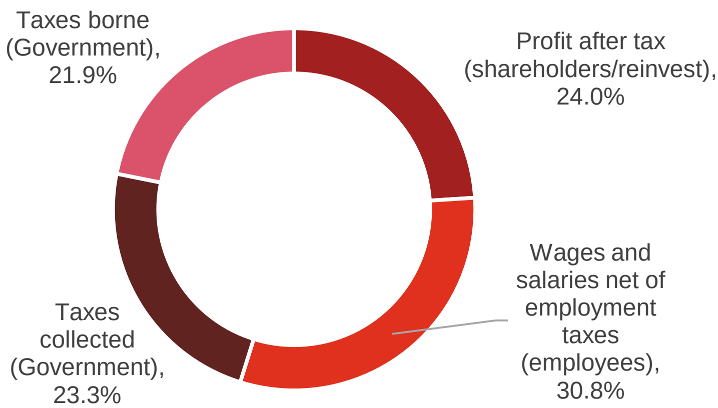
Taxes borne and collected as a percentage of value distributed

The TTC can be put in the context of value distributed by companies. Value is distributed to the Government in taxes, to employees in wages and is retained in the business for reinvestment or is distributed to shareholders. With the information gathered through the study, we are able to put the TTC in the context of value distributed by companies for those providing this data.

Figure 22 shows the profile of value distributed by the participants on an overall basis. Total Tax Contribution paid to Government represents 45.2% of the value distributed[23] while a further 30.8% is paid to employees as wages and salaries.

The taxes borne accounts for 21.9% of the total for the study participants.

Figure 22 – Taxes borne and collected as a percentage of value distributed on an overall basis

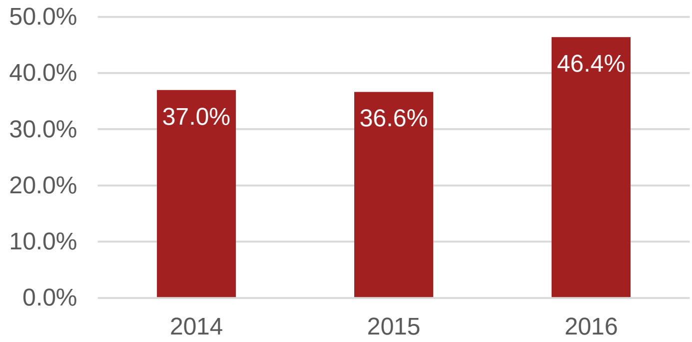


Source: Study participants

[23] he value distributed to Government in taxes on an average basis was 41.4%, the median average 41.0%, and the range 20.0% to 61.7%.

Total tax rate

Figure 23 – Total Tax Rate



Source: Study participants

The TTR is a measure of the cost of all taxes borne in relation to UK profitability before all of those taxes. It is calculated for total taxes borne (corporation tax plus all other taxes borne) as a percentage of profit before total taxes borne.

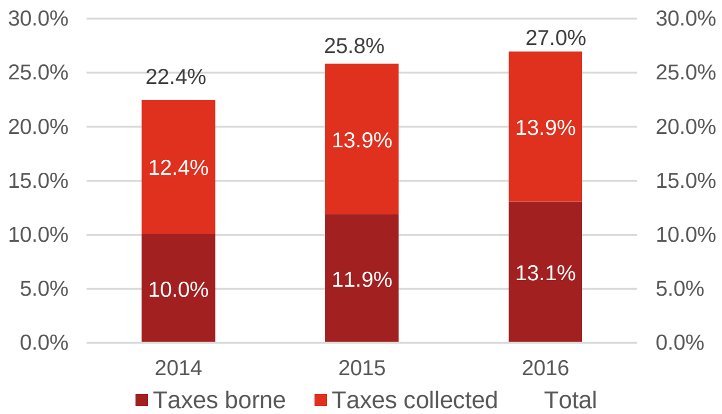
The average TTR for the BBA members was 37.0% in 2014 and 46.4% in 2016[24] (taking the mean average, figure 23). The higher ratio in 2016 can be attributed to an increase in corporation tax and bank levy. Appendix 4 gives further details of the Total Tax Rate calculation.

TTC as a percentage of turnover

The burden of tax on the banking sector has increased from 22.4% of turnover in 2014 to 27.0% in 2016

For the banks participating in the study, TTC as a percentage of total UK turnover was on average 27.0%[25], comprising 13.1% taxes borne and 13.9% taxes collected. Figure 24 shows that study participants have experienced an upward trend since the first study mainly due to taxes borne.

Figure 24 – TTC as a percentage of turnover



Source: Study participants

[24] The overall average Total Tax Rate was 48.4%, the median average 37.0%, and the range 12.7% to 150.7%. Total Tax Rates above 100% may arise in loss making companies. (2014: The overall average Total Tax Rate was 51.7%, the median average 31.9%, and the range 7.7% to 81.9%).

[25] The overall average TTC as a percentage of turnover was 24.7%, the median average 25.7%, and the range 11.3% to 54.2%. (2014: the overall average TTC as a percentage of turnover was 21.8%, the median average 23.3%, and the range 14.9% to 80.4%).

Business perceptions

Participating members of the BBA were asked to give their views on current Government fiscal policy as part of the 2016 study.

UK banks are experiencing a period of unprecedented interest in the tax payments that they make and tax strategies and policies they adopt. This year the study included some questions to assess business perceptions on BEPs, country by country reporting and greater transparency.

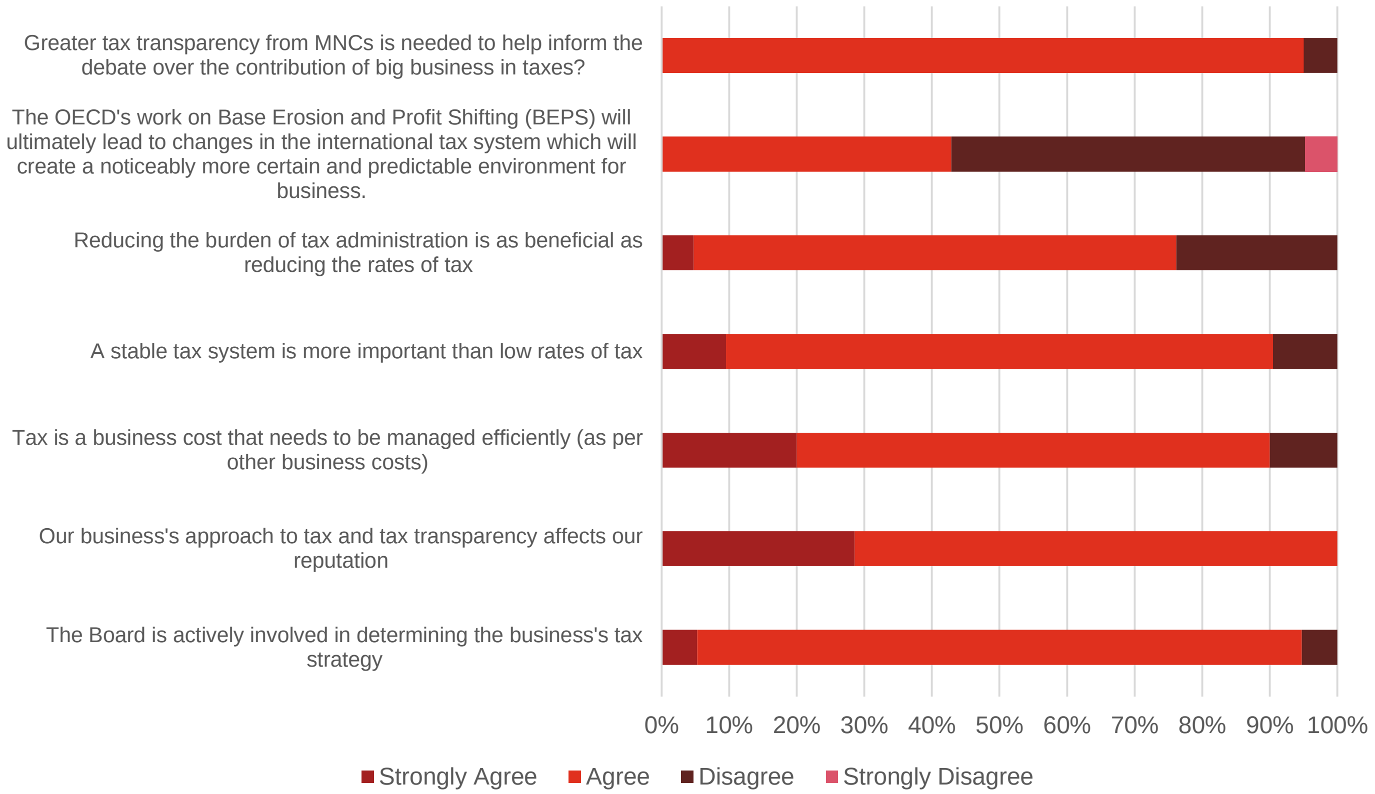
Figure 25 summaries the key responses. 95% of respondents agreed that greater tax transparency from multi-national companies (MNCs) is needed to help inform the debate around the contribution of big business in taxes. This is a reflection of the view that all companies in the study believe their business' approach to tax and tax transparency affects their reputation, with 71% agreeing and 29% strongly agreeing.

But only 43% of the participants think that the OECD's Base Erosion and Profit Shifting initiative will lead to changes in the international tax system that will create a more predictable environment for business indicating continuing uncertainty over the initiative.

Over 76% agreed or strongly agreed that reducing the burden of tax administration is as beneficial as reducing the rates of tax. Linked to this point, 90% of participants either agreed or strongly agreed that a stable tax system is more important than low rates of tax and that tax is a business cost that needs to be managed efficiently (as per other business costs).

Only 5% of study participants do not have boards actively involved in determining the business's tax strategy emphasising senior involvement in banks' tax affairs.

Figure 25: Companies' view on tax transparency and BEPs



Appendices

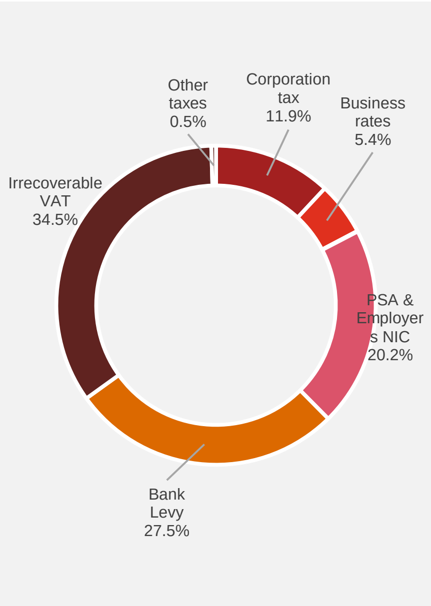
Appendix 1 – Taxes borne and collected reported by study participants

Taxes borne	£s 2016
Taxes on profits (profit taxes)	
Corporation tax	2,261,426,203
Taxes on property (property taxes)	
Business rates	606,520,659
Stamp duty land tax	8,680,550
Stamp duty and SDRT	6,627,168
Bank levy	3,092,056,236
Taxes on employment (people taxes)	
PAYE agreements (tax on benefits)	49,323,413
Employer’s national insurance contributions	3,492,357,353
Taxes on consumption (product taxes)	
Irrecoverable VAT	3,627,987,819
Insurance premium tax	6,466,531
Air passenger duty	18,658,804
Vehicle excise duty	30,871,000
Environmental taxes (planet taxes)	
Carbon Reduction Commitment	8,856,750
Climate change levy	1,193,121
EU ETS	293,299
Total	**13,211,318,906**

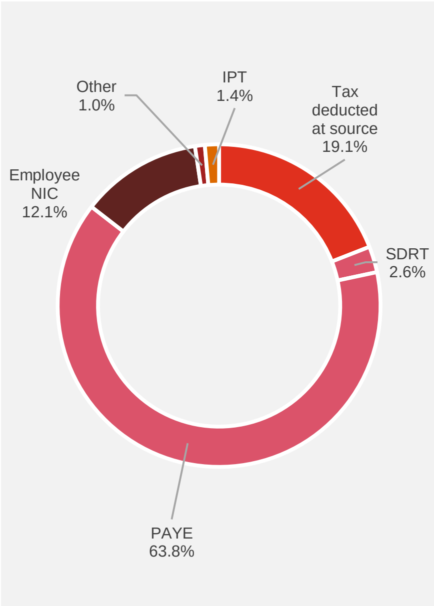
Taxes collected	£s 2016
Taxes on profits (profit taxes)	
Taxes deducted at source	1,555,952,667
Taxes on property (property taxes)	
Stamp duty reserve tax	1,384,083,340
Taxes on employment (people taxes)	
PAYE	9,895,721,323
Employer’s national insurance contributions	1,335,803,908
Taxes on consumption (product taxes)	
Net VAT	-10,736,501
Insurance premium tax	107,565,076
Air passenger duty	11,000
Total	**14,268,400,813**

Appendix 2 - Taxes borne, taxes collected and TTC profile for UK banks* and foreign banks for the study participants

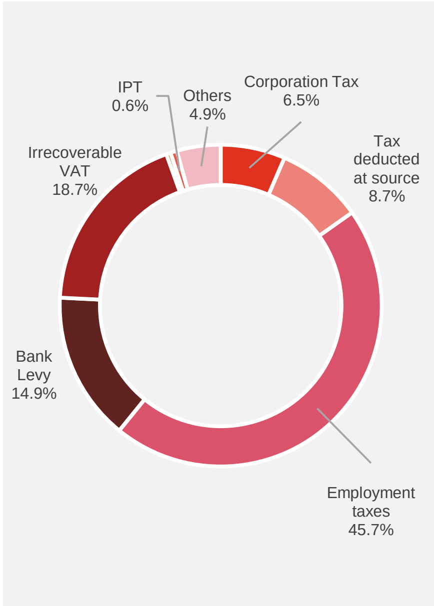
Taxes borne profile for UK banks



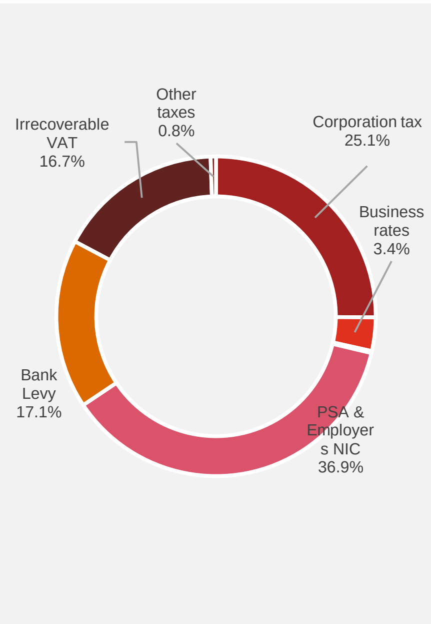
Taxes collected profile for UK banks



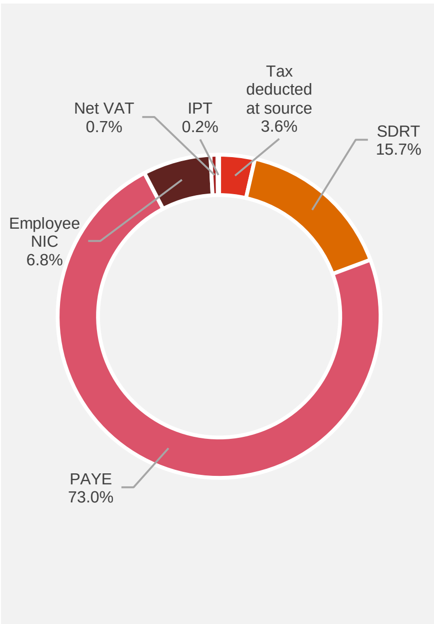
TTC profile for UK banks



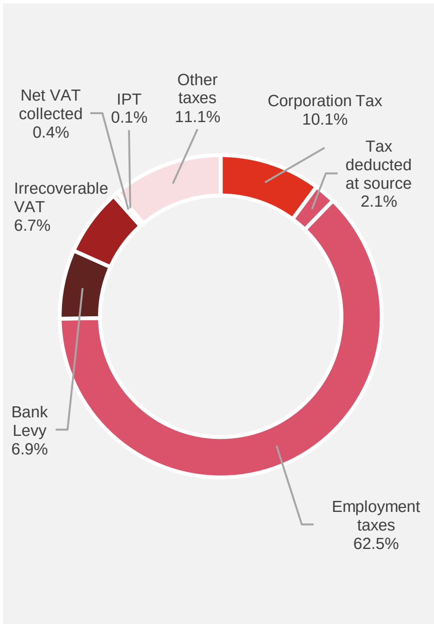
Taxes borne profile for foreign banks



Taxes collected profile for foreign banks



TTC profile for foreign banks



** "UK bank" refers to a bank which is headquartered in the UK.*

Appendix 3 - The burden of employment taxes- Model data

UK employment tax legislation is structured so that higher salaries are taxed at higher rates. Using selected salaries, it is possible to model the employment tax burden.

Figure 1a shows the percentage of gross salary that is paid as tax by employees (income tax deducted under PAYE and employee NIC) in 2010 and in 2016 for a range of example salaries. From the national average salary of £27,600, 20.8% is paid in employee income tax and employee NIC in 2016, while this ratio was 24.0% in 2010. The equivalent figure for a salary of £150,000 is 40% in 2016 and 36.8% in 2010, a 3.2 percentage point increase. Although salaries are higher in the banking sector, a greater percentage of the salary is paid in taxes.

Figure 1a - Percentage of gross salary that is paid as tax by employees

Employee taxes paid as a percentage of gross salary

Changes to employment tax legislation in the last six years increased the burden of taxes on higher salaries. Changes in PAYE thresholds and rates and NIC thresholds and rates means that the employee tax paid on a salary of £27,600 has fallen by 3.2 percentage points since 2010. By contrast, a salary of £150,000 has seen an increase of 3.2 percentage points.

Appendix 4 – Total Tax Rate calculation

An example of the Total Tax Rate calculation is illustrated as follows.

Assumptions:

1. Profit before total taxes borne £40
2. Book-to-tax adjustments (£10)
3. Statutory corporate income tax rate 25%
4. For every £1 of corporate income tax paid, there is another £1 of other business taxes paid.

Table 1b: An example of the TTR calculation

Items	£	Reference
Profit before total taxes borne	40	(A)
Other business taxes borne	6	(B)
Profit before income tax	34	(C)=(A)-(B)
Book-to-tax adjustments	-10	(D)
Taxable profit	24	(E)=(C)+(D)
Statutory corporate income tax rate	25%	(F)
Corporate income tax	6	(G)=(E)*(F)
Total taxes borne	12	(H)=(B)+(G)
Total Tax Rate	**30%**	**(I)=(H)/(A)**