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Total Tax Contribution of the UK banking sector

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Foreword

This Total Tax Contribution study has been carried out for the British Bankers' Association with the aim of analysing the contribution in taxes made by its members. The banking sector contributes to the UK economy in many ways but there is currently no robust data to quantify the contribution made by the sector to the UK Exchequer. That contribution is broader than corporation tax - w levy, employment taxes, irrecoverable VAT, business rates, stamp duties and other taxes adding to the total.

The study results are significant, showing that the banking sector contributed £31.3bn in taxes borne and collec .5% of Government receipts. The contribution from irrecoverable VAT is larger than corporation tax and bank levy added together, with employment taxes making up over half of the contribution.

This British Bankers' Association study yields data that has not previously been availa le and gives a clearer picture of the substantial contribution made by the sector. In the current tax environment, with taxation of the banking sector under considerable scrutiny, providing robust data regarding the contribution of the sector is vital to inform policy discussions over bank taxation going forward.

There are mandatory tax transparency reporting regimes currently in place for banks, for example the country-by-country reporting requirements under Capital Requirements Directive IV. However, these regimes are focused on corporation tax and may not tell the full story of all taxes paid. The picture emerging from the Total Tax Contribution analysis on the other hand helps companies to communicate the full picture.

At a time when the relationship between tax policy and competition issues is being hotly debated, it remains in our view more important than ever that the UK maintains a competitive environment for fostering the growth of its banking sector. In this context, we trust that this study advances the debate and we thank the participants for their support.

Executive summary

Purpose and outline of the study

1 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 that contribution over time.

2 There was excellent participation in the study. Data was provided by twenty-nine banks covering 92% by number of employees in the banking sector.

The Total Tax Contribution (TTC) of the UK banking sector

3 The TTC of the UK banking sector in 2014 was estimated as £31.3bn (taxes borne £13.2bn, taxes collected £18.1bn); this is 5.5% of all Government tax receipts.

4 Employment taxes make up £17.6bn of this total (borne £4.4bn, collected £13.2bn), irrecoverable VAT borne is estimated as £4.0bn, bank levy is £2.2bn and corporation tax £1.6bn. Irrecoverable VAT is a larger than corporation tax and bank levy together.

Trends in Total Tax Contribution

5 The Total Tax Contribution is almost at pre-recession levels and (in 2014) they were 95% of their level in 2008[1].

6 The profile of TTC has changed over time. In 2014, irrecoverable VAT borne was 13.8% of TTC (2008 11.9%); employment taxes borne and collected were 56.0% of TTC (2008 37.3%) and bank levy, which was first introduced in 2011, made up 7.7% of the total in 2014. Corporation tax was 4.9% of TTC (2008 26.9%).

7 While corporation tax has fallen, there has been an increase in irrecoverable VAT (79%), employer NIC (21%) and bank levy (85%). The increase in the rate of VAT, the introduction of the one-off bank payroll tax and bank levy and the increases in the rate of NI have offset the falling corporation tax receipts.

Taxes paid by the banking sector

Employment taxes and employment

8 The banking sector employs 425,000 workers which is 1.5% of the entire UK workforce. From Government figures, employment taxes borne and collected total £17.6bn in 2014 (7.2% of UK employment taxes) and are 5% above pre-recession levels in 2008.

9 For every employee working in the banking sector, on average employment taxes of £35,278 were paid to the UK public finances. This is approximately four times larger than the equivalent payment based on the national average wage.

10 A worker on the national average wage pays 22% of their gross salary in taxes; the equivalent figure for a worker earning £150,000 is 40%. Since 2010, a worker on the national average wage (£27,000) has seen a reduction of 10% in the employee taxes paid on their gross salary, a worker on £150,000 has seen an equivalent increase of 8%, showing that the burden on higher salaries is increasing.

Irrecoverable VAT

11 Irrecoverable VAT is 31.8% of total taxes borne in this study, an estimated total of £4.0bn. It has increased by 79% since 2008 for the study participants.

[1] Analysis based on six UK banks providing data from 2008 to 2014

Bank Levy

12 The rate of bank levy has been increased nine times since it was first introduced in 2011 and the study shows the amount paid by the study participants has increased by 85%, comprising 17.8% of total taxes borne. Government figures show an increase from £1.6bn in 2011 to £2.2bn in 2014.

Corporation tax

13 The banking sector paid £1.6bn of corporation tax in 2014. Government figures show that corporation tax has fallen by 78% since 2006.

14 Corporation tax is only 11.4% of total taxes borne. For every £1 of corporation tax paid, there is £7.8 in other taxes borne and £11.5 in taxes collected.

Putting the TTC data in the context of other economic data

15 The TTC paid by study participants represented 49.0% of value distributed by those banks. Payments made to employees in wages represent 34.5% of value distributed while the proportion retained for reinvestment and shareholders was16.5%.

16 Although GVA (to 2012) for the sector and number of employees has fallen, increases in other business taxes means that the TTC is now at pre-recession levels.

Comparing the profile of taxes paid for UK and foreign headquartered banks

17 The UK headquartered banks provided data which showed that taxes paid totalled £12.2bn while foreign headquartered banks contributed £12.5bn. Taking the extrapolated total of £31.3bn, we estimate that £15.3bn was paid by UK headquartered banks and £16.0bn was paid by foreign headquartered banks.

18 The largest tax borne for UK banks was irrecoverable VAT (43.2 %), followed by employment taxes (24.9 %) and bank levy (22.2 %).

19 The largest tax borne for foreign banks was employment taxes (43.9 %) followed by corporation tax (23.2 %), irrecoverable VAT (16.8%) and bank levy (12.1 %).

Looking forward

20 The rate of bank levy will fall but corporation tax payments by the banks are set to increase significantly, reflecting the impact of the loss restriction, non-deductibility of compensation payments, a return to profitability and the introduction of the corporation tax surcharge. Continuing to monitor the tax contributions by the banks in the context of the overall contribution to the UK economy may be valuable.

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. The banking sector contributes to the UK economy in many ways but there is currently no robust data to quantify the contribution made by the banking sector to the UK public finances in taxes. 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.

The members taking part in the study provided data on their tax payments in their accounting period ended in the year to 31 March 2014, for most this was the year ended 31 December 2013. The study also incorporates Total Tax Contribution data collected from banks in other surveys, the Total Tax Contribution survey for the 100 Group of Finance Directors[2] and the Total Tax Contribution of the UK Financial Services sector[3], a survey carried out for the City of London. These surveys hold some data for banks for prior years. It has been collected using the same methodology and we have therefore been able to compare results over a number of years, starting in a pre-recession year, covering the financial crisis and up to the current time.

The data collected by the study is not available elsewhere and therefore provides a valuable resource for the UK banking sector, Government and other stakeholders.

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 and bank levy.

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

[2] Eg 2014 Total Tax Contribution for the 100 Group http://www.pwc.co.uk/total-tax-contribution-100-group/assets/2014-ttc-100-group-survey-report1.pdf
[3] Eg Total Tax Contribution – City of London http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/Research-2014/Total-Tax-Contribution-2014.pdf

Participation in the TTC study

Twenty-nine BBA members participated in this study, providing data on their taxes borne and collected for their accounting period ended in the year to 31 March 2014. Data was received from both large and smaller banks, UK headquartered and foreign headquartered 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 publicly available ONS[4] and Government[5] data.

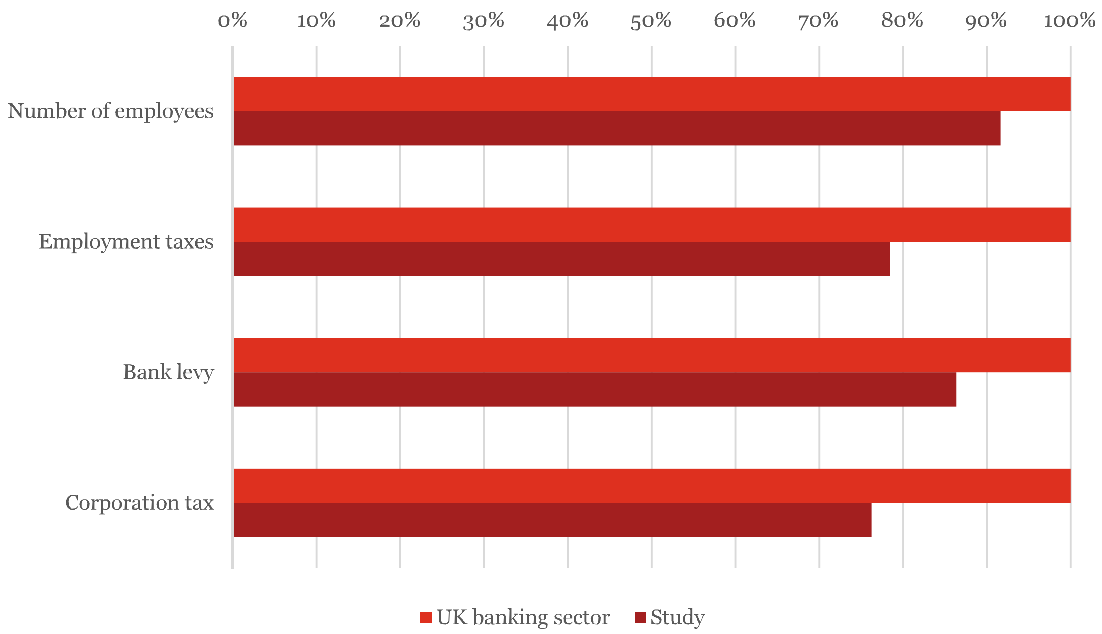
The number of employees in the banking sector is available from ONS data (425,000). The twenty-nine study participants employed 389,000 employees, representing 92% of the sector by this measure, demonstrating that study participants provided good coverage of the sector.

Government provides data for receipts of employment taxes, bank levy and corporation tax from the sector. Using these measures:

- Employment taxes (income tax deducted under PAYE, employer and employee NIC) paid by study participants totalled £13.8bn accounting for 78% of Government receipts from the banking sector (£17.6bn).
- Bank levy paid by participants was £1.9bn comprising 86% of Government receipts from the banking sector (£2.2bn).
- Corporation tax payments made by participants totalled £1.2bn which represents 75% of corporation tax receipts (£1.6bn) from the UK banking sector.

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

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



4 Official National Statics
5 Pay-A -Y -Earn and corporate tax receipts from the banking sector

Total Tax Contribution of the UK banking sector

The banking sector makes a major contribution to the UK Exchequer. The twenty-nine companies taking part in the study reported taxes borne of £10.7bn and taxes collected of £14.0bn, making a UK tax contribution of £24.7bn.

Extrapolating from these figures[6], 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 £31.3bn which amounts to 5.5% of total Government receipts for all taxes in the year to 31 March 2014. Figure 2 shows that the TTC of £31.3bn is estimated to comprise, taxes borne of £13.2bn and taxes collected of £18.1bn.

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: 2014 Total Tax Contribution of the UK banking sector as a percentage of total UK tax receipts[7]

£'bn	Study participants	Extrapolated to the UK banking sector	As a percentage of Government receipts
Corporation tax	1.2	1.6	4.1%[8]
Bank levy	1.9	2.2	100%[9]
Employment taxes borne[10]	3.5	4.4	0.8%
Irrecoverable VAT	3.4	4.0	0.7%
Other taxes borne[11]	0.7	1.0	0.2%
Total taxes borne	**10.7**	**13.2**	**2.3%**
Employment taxes collected[12]	10.3	13.2	2.3%
Other taxes collected[13]	3.7	4.9	0.9%
Total taxes collected	**14.0**	**18.1**	**3.2%**
Total tax contribution	**24.7**	**31.3**	**5.5%**

Within the total of £31.3bn, employment taxes comprise the largest element of £17.6bn, reflecting skilled jobs in this sector.

[6] 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-Y -Earn and corporate tax receipts from the banking sector". Extrapolation uses the ratios of (1) employment taxes to taxes borne and (2) employment taxes to taxes collected for different parts of the sector, as established in the study. Extrapolation is an estimate only, apart from corporation tax and bank levy, where actual figures are included.
[7] The Office for Budget Responsibility (OBR) – Economic and fiscal outlook alongside Budget 2014. Table 2.8 Current receipts (on a cash basis)
[8] Percentage of Government corporation tax receipts
[9] Percentage of Government Bank Levy receipts
[10] Employer national insurance contributions and PAYE agreements
[11] Business rates, stamp duty land tax, stamp duty and stamp duty reserve tax, insurance premium tax, air passenger duty, vehicle excise duty, landfill tax, carbon reduction commitment, climate change levy, congestion charge
[12] Employee national insurance contributions and income tax deducted under PAYE
[13] Tax deducted at source, stamp duty reserve tax, net VAT, insurance premium tax

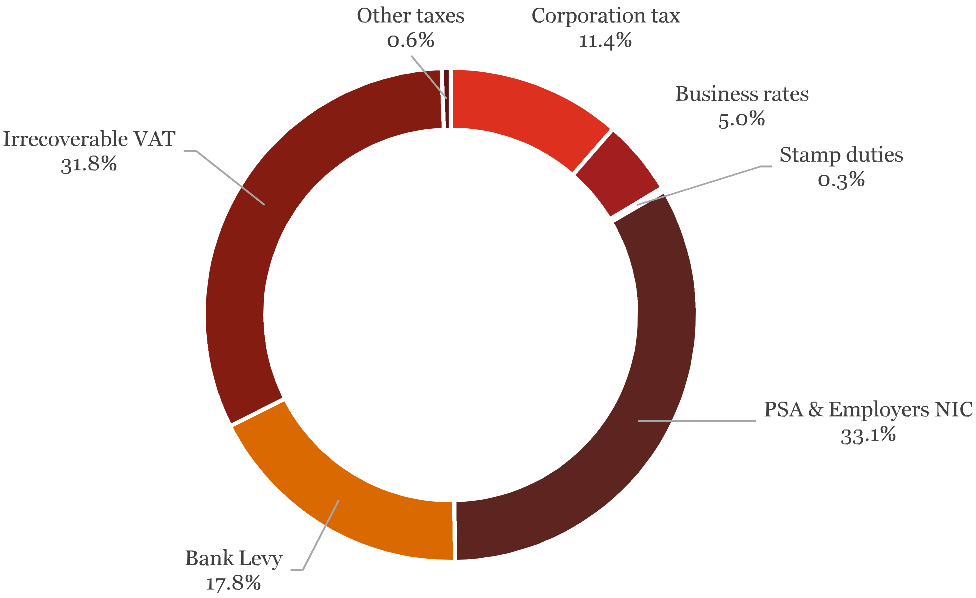
Government data currently shows that the contribution from the banking sector in 2014 (for selected taxes) is £21.3bn[14]. The data in this study provides visibility over other taxes such as irrecoverable VAT, stamp duties and tax deducted at source, to provide a more informed view of the taxes paid by the sector. The extrapolation for the sector is performed at the level of taxes borne, taxes collected using details which are available from Government data (corporation tax, bank levy, employment tax).

The profile of 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 2014 survey is shown in figure 3. Employment taxes, comprising employer NIC and PSA (PAYE settlement agreement, a tax on benefits provided by the company) were the largest taxes borne by the banking sector (33.1%), together with irrecoverable VAT (31.8%). These were followed by the bank levy which accounts for 17.8% of taxes borne. Sector taxes and those which although not labelled as a sector tax fall heavily on this sector are therefore an important element of the profile for these companies with 49.6% of total taxes borne being represented by bank levy and irrecoverable VAT. Corporation tax made up 11.4% of taxes borne in the study. Please refer to Appendix I for a detailed list of taxes borne by study participants.

For every £1 of corporation tax, the banking sector in the UK paid £7.77 of other taxes borne. Of this total, £2.90 was paid in PSA and employer NIC, £2.79 was paid in irrecoverable VAT and £1.56 was paid in bank levy.

Figure 3 - Taxes borne profile for the participant companies



Source: Study participants

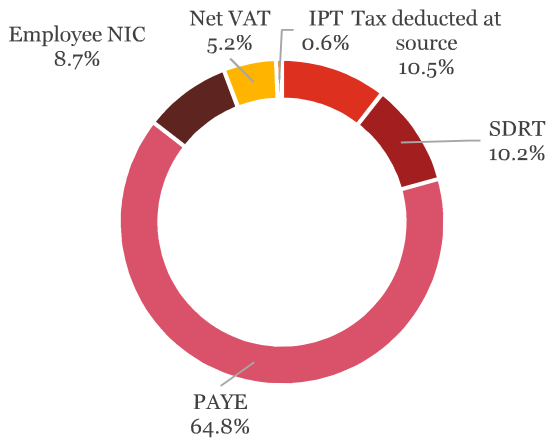
The profile of taxes collected

Taxes collected are those which reflect the impact 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. For every £1 corporation tax, there is £11.50 in taxes collected.

[14] Pay-A -Y -Earn and corporate tax receipts from the banking sector

Figure 4 shows the profile of taxes collected for the twenty-nine participants. Employment taxes (income tax deducted under PAYE and employee NI) were the largest taxes collected (73.5% of taxes collected) which is not surprising given the skilled jobs in the banking sector. The tax deducted at source was 10.5% of taxes collected, mainly arising from tax deducted from interest paid to customers by the retail banks. Stamp duty reserve tax made up 10.2% of taxes collected. Please refer to Appendix II for a detailed list of taxes collected by study participants.

Figure 4 - Taxes collected profile for the participant companies

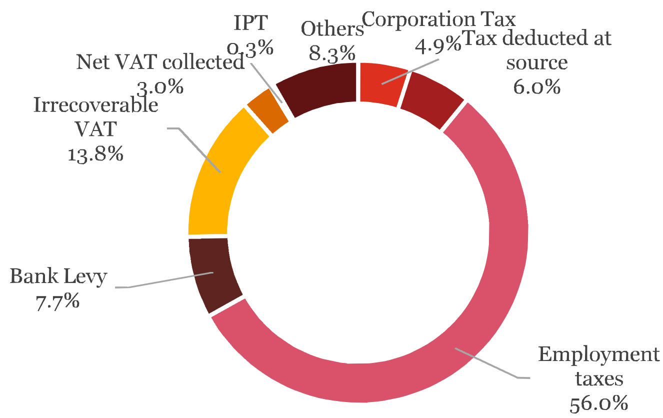


Source: Study participants

The Total Tax Contribution profile

Looking at both taxes borne and taxes collected together, figure 5 shows that corporation tax made up 4.9% of the TTC in the study while employment taxes were 56.0% of the total. There are other significant taxes for the sector - irrecoverable VAT and bank levy were 13.8% and 7.7% of the TTC respectively. For the study participants, corporation tax and bank levy together (12.6% in total) were less significant than irrecoverable VAT (13.8%).

Figure 5- The TTC profile for the participant companies



Source: Study participants

The financial crisis and subsequent legislative changes have resulted in a fundamental shift in taxation of the banking sector. The next section provides an insight into the changing profile of taxes borne and collected by the banking sector over time.

Trends in Total Tax Contribution

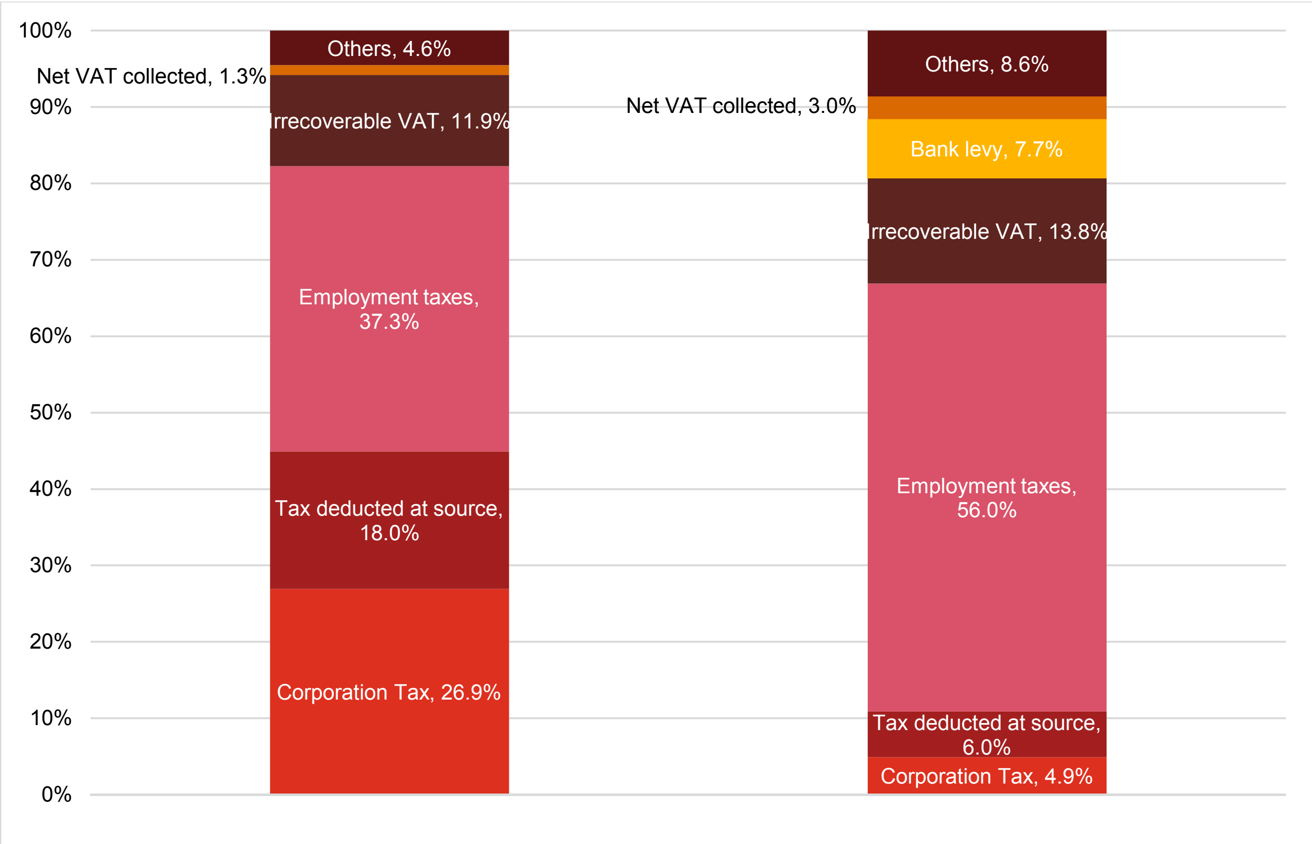
The changing profile of the TTC of the banking sector

The profile of TTC in 2014 was shown in figure 5 and is repeated below in figure 6 (2014 bar). Figure 6 also shows the profile of TTC in 2008, before the financial crisis, and the change in profile between 2008 and 2014 is marked. As profits fell during the recession, corporation tax fell but other taxes, which are not dependent on profit have increased. In 2008, corporation tax was 26.9% of TTC while the equivalent figure was 4.9% in 2014.

By contrast, there have been increases in other business taxes. Employment taxes borne and collected have increased by 18.7 percentage points, irrecoverable VAT has increased by 1.9 percentage points and bank levy, which did not exist in 2008, makes up 7.7% of the total. These increases have been driven by legislative changes and this is explored further in the following sections.

Figure 6 – Change in total tax contribution profile

The analysis of trends shows that Total tax contribution has decreased by 5% between 2008 and 2014



Source: Study participants in each year

Trends in tax payments

The BBA TTC study requested data for one year, but data for banks for previous years is available from TTC surveys carried out for the 100 Group of Finance Directors and the City of London. In order to gain insight into the movement of individual taxes over time, we can compare the data for those companies that have provided TTC data over a number of years. Figure 7 shows the data available since 2005.

Figure 7 – prior year TTC data available

Y						10	2011	2012	2013	2014
Number of banks providing data in previous surveys	3	4	5	6	7	10	12	12	14	14

With a view to both confidentiality of client data and a desire to start the trend analysis from before the financial crisis, 2008 has been taken as the base year. The analysis has been carried out with the six companies providing data from 2008 to 2014. The trends are shown relative to the first year of the time series (2008), taking the first year as 100%.

The data includes employment taxes (income tax deducted under PAYE, employer and employee NIC), corporation tax, bank levy and one-off bank payroll tax, all of which can be found in the Government data. In addition, the study data provides trends in irrecoverable VAT, tax deducted at source, taxes borne, taxes collected and TTC, which are not available from Government data. This provides insight into the all taxes that the sector is subject to, highlighting the impact of the financial crisis and legislative changes, a picture which cannot be fully identified from Government figures.

We have also reviewed trends in Government data which are available over a longer time series (from 2006), but do not include all taxes. Data is available from 2006 to 2014 for employment taxes (income tax deducted under PAYE, employer and employee NIC), corporation tax, bank levy and one-off bank payroll tax.

Changes in tax legislation

In order to understand the trends in the taxation of the banking sector, a summary of the relevant changes in tax rates and regulation are summarised in figure 8.

Figure 8 – changes in tax legislation

Decrease in Corporation tax: Corporation tax rate decreased from 28% to 23% between 2008 and 2014

Introduction of Bank Levy: Introduced in 2011, the basis of the bank levy is a bank's equity and liabilities. The charge (from January 2014) is 0.0156% on short term and 0.078% on long term chargeable equity or liabilities

Increase in the rate of VAT: The first increase in the rate of VAT was in 2010 from 15.0% to 17.5% and the second increase was enacted in 2011 which increased the rate to 20.0%.

Increase in employment taxes:

- A 50% additional rate of income tax was introduced in 2010-2011 on wages over £150,000. It was reduced to 45% in 2014.
- The lower income tax threshold has increased gradually since 2012 and the upper threshold lowered.
- Employer NIC and employee NI increased by one percentage point in 2011 and 2012 respectively.
- A one-off bank payroll tax was paid in 2011

Trends in study data from 2008 to 2014

Trend in taxes borne

Taxes borne in 2014 have almost returned to 2008 pre-recession levels (95%) for companies providing TTC data in each year. The fall in corporation tax was offset by an increase in irrecoverable VAT, employer NIC and bank levy. As profits fell during the recession, corporation tax receipts also fell but other taxes, which are not dependent on profits increased. This reflects policies applied by successive Governments over the period. As shown in figure 9, certain taxes are becoming increasingly significant for the sector.

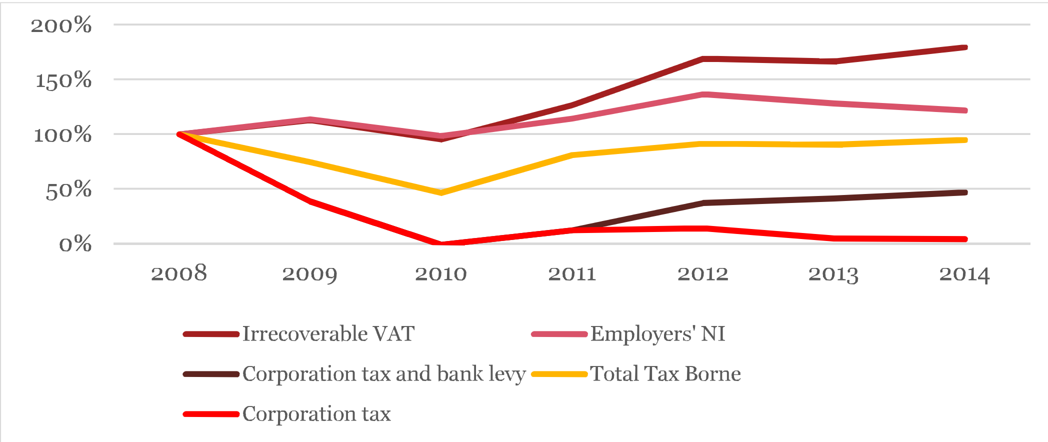
Irrecoverable VAT increased by 79% for this group of banks from 2008 to 2014, driven by the increase in the rate of VAT in 2010 and 2011, together with structural business changes, which are explored in more detail in the irrecoverable VAT section.

Likewise, employer NIC increased by 21% from 2008 to 2014 which has been driven by an increase in rate in 2011. The decrease in 2014 can be attributed to changes in earnings thresholds and falling number of employees in the sector.

Taking corporation tax and bank levy together in 2014, they total 53% of corporation tax payments made in 2008.

Looking at total taxes borne, the impact of the one off bank payroll tax can be seen in 2011. Together with increases in the bank levy, irrecoverable VAT and employer NIC, taxes borne have been maintained at a relatively constant level since then. Taxes borne in 2014 have almost returned to 2008 levels, although corporation tax has decreased by 96%.

Figure 9 - Trend in taxes borne from 2008 to 2014



Source: Analysis based on six UK banks providing data from 2008 to 2014

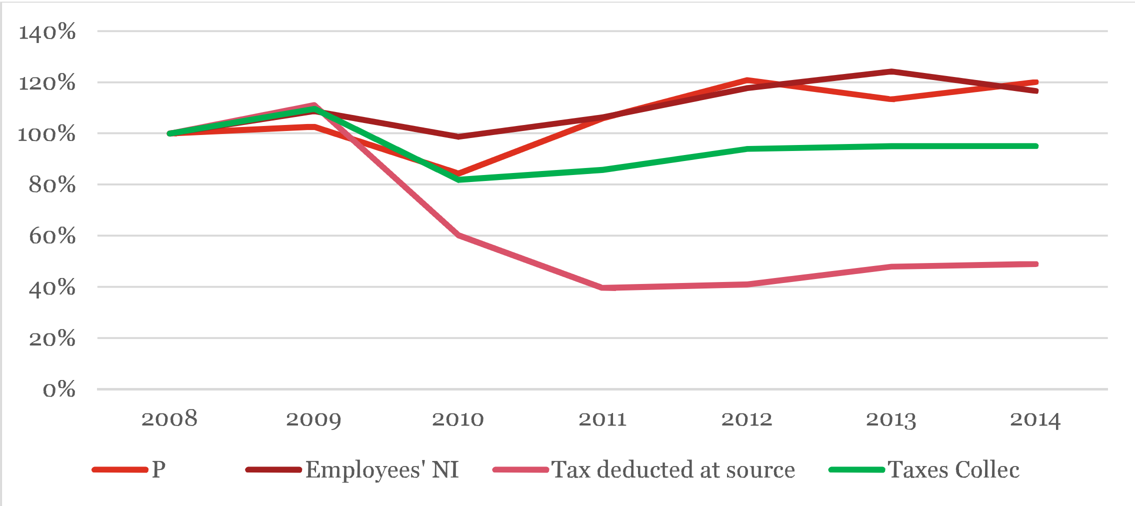
Trend in taxes collected

Taxes collected in 2014 have almost returned to pre-recession levels (95%). The introduction of the 50% rate of income tax deducted under PAYE is seen in 2011 which has driven an increase in this tax over the period by almost 20% (figure 10). Employee NIC shows a similar trend.

The decline in tax deducted at source can be attributed to the decrease in interest rates between 2008 and 2009 while the impact has continued between 2010 and 2011.

All taxes collected are part of the company's contribution to the public finances. However, employment taxes collected are an indication of the value contribution made 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 - Trend in taxes collected from 2008 to 2014

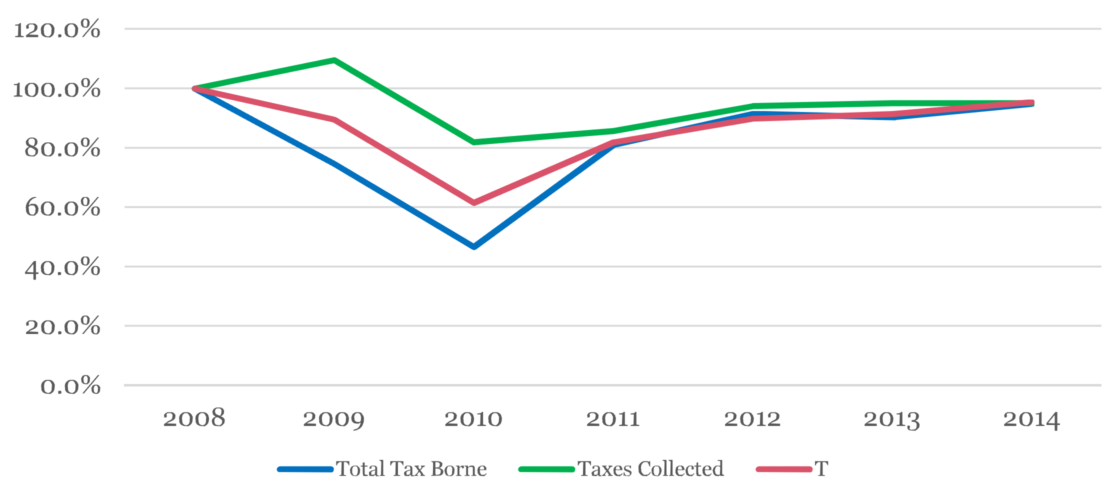


Source: Analysis based on six UK banks providing data from 2008 to 2014

Trend in TTC from 2008 to 2014

Figure 11 shows that the decrease in taxes borne, taxes collected and TTC following the recession in 2008 has almost recovered by 2014 and returned to pre recession levels, although as is evident from the analysis above, there has been a shift in profile from taxes based on profits to taxes based on people, property and production.

Figure 11 - Trend in TTC, taxes borne and taxes collected from 2008 to 2014



Source: Analysis based on six UK banks providing data from 2008 to 2014

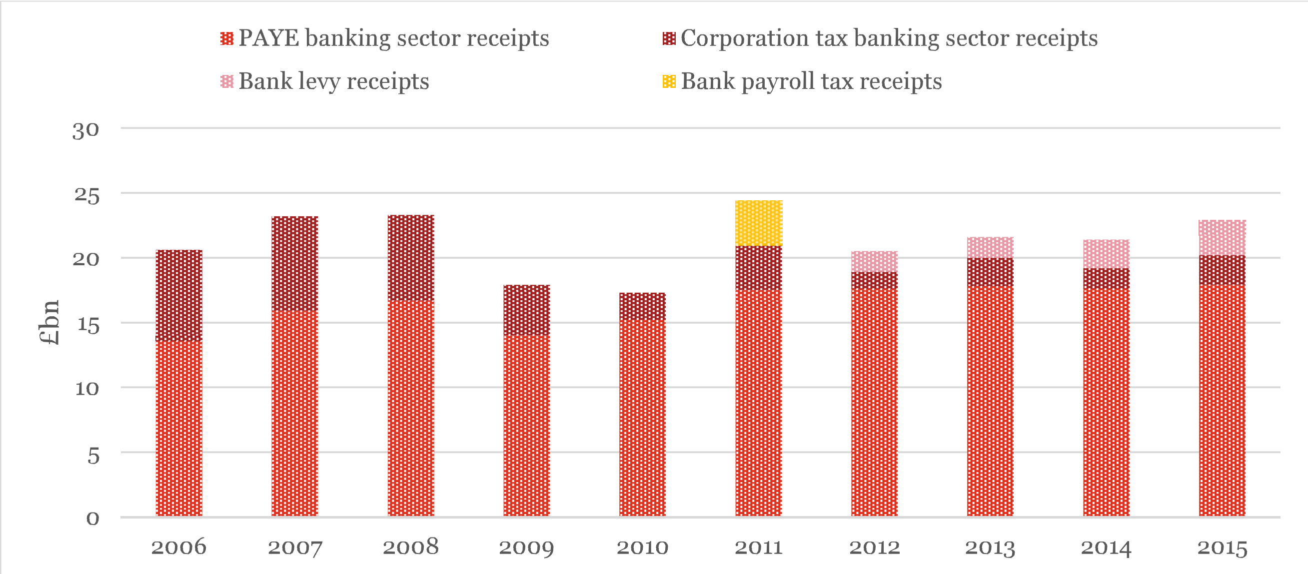
Trends in Government data for the banking sector

HMRC provide details of receipts from the banking sector for corporation tax, bank levy, bank payroll tax and employment taxes for 2006 to 2015. It is therefore possible to look at the longer term trends since 2006, for selected taxes.

Figure 12 shows that there was a 78% decrease in corporation tax receipts from the banking sector based on Government figures between 2006 and 2014 (67% between 2006 and 2015). However, when combined with the bank levy, the total has been broadly level between 2011 and 2014, when the rate of corporation tax started to fall from 28% to 23% in 2014.

Employment taxes (income tax deducted under PAYE, employer NIC and employee NIC) have increased by 30%, although there has been a decrease in the number of employees in the banking sector (figure 14). Overall, the total in 2014 is 3% above 2006 levels and this figure has risen to 11% by 2015.

Figure 12- Tax receipts from banking sector based on Government figures

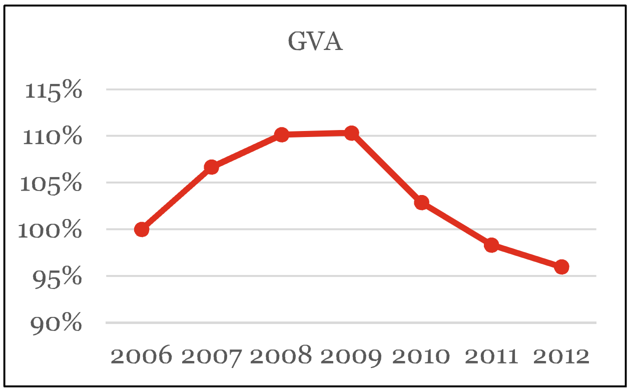


Source: HMRC

Trend in Gross value added (GVA) and number of employees for the UK banking sector

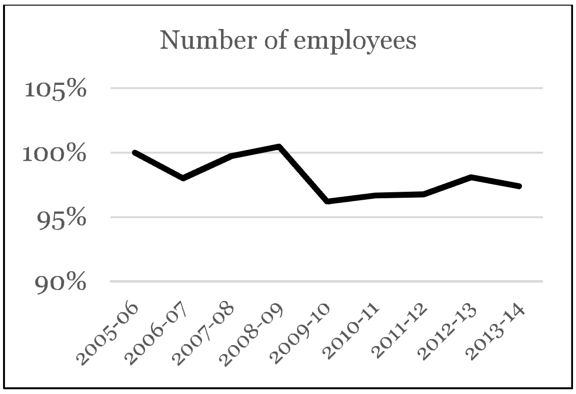
To put the trend analysis into context, it's helpful to review other indicators of the banking sector. At a national level, economic activity is commonly measured by the GDP which is generally regarded as one of the most reliable economic indicators. The contribution made to GDP is typically measured by calculating the Gross Value Added (GVA) which is a measure of the economic value of a company. Figure 13 shows a falling trend in GVA for the banking sector from 2006 to 2012. Similarly, the number of employees (figure 14) has also fallen over the period.

Figure 13 Gross Value Added by the banking sector



Source: Eurostat

Figure 14 Number of employees by years



Source: BBA

Taxes paid by the banking sector

Employment taxes

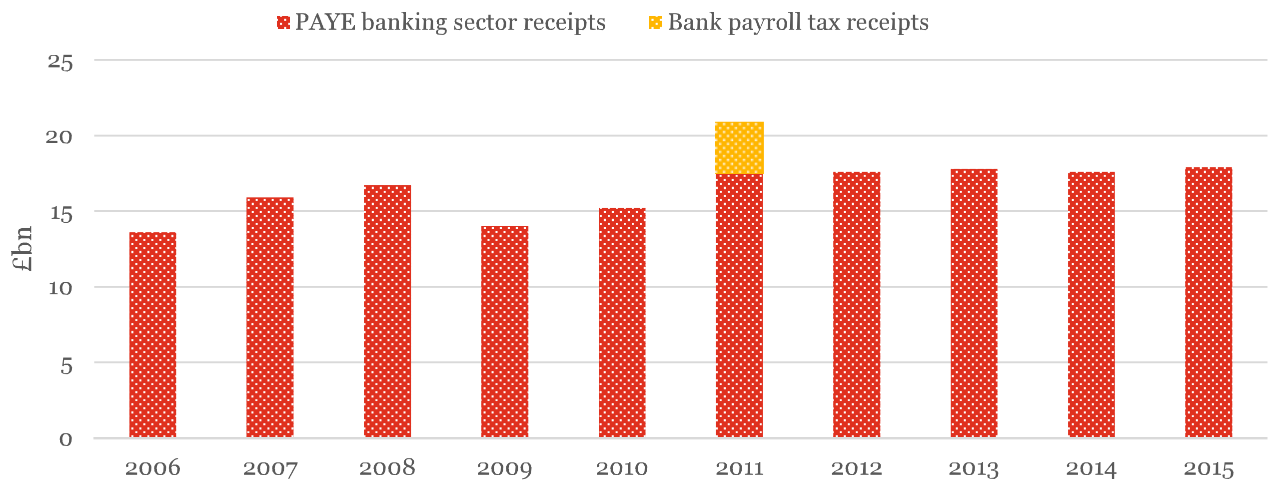
The banking sector employs highly skilled workers and employment is an important way in which the sector contributes to the UK economy.

Government data

The UK banking sector employed 39% of the UK Financial Services workforce[15] in 2014, which was 1.5% of the total UK workforce[16]. Employment taxes paid by the sector in 2014 amounted to £17.6bn, 7.2% of all UK employment tax receipts[17].

Legislative changes to employment taxes have had a significant impact on the UK banking sector. In particular, the one off bank payroll tax[18], 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 that are summarised in appendix 3. Figure 15 shows the trend in employment taxes (income tax deducted under PAYE, employer and employee NIC and bank payroll tax) based on Government receipts.

Figure 15 – Employment tax receipts



Source: HMRC

[15] ONS 2013 Financial services workforce is 1.1 million
[16] Office for National Statistics (ONS) – Employees ONC table 22013p_tcm 77
[17] The Office for Budget Responsibility (OBR) – Economic and fiscal outlook alongside Budget 2014.Table 2.8 Current receipts
18 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

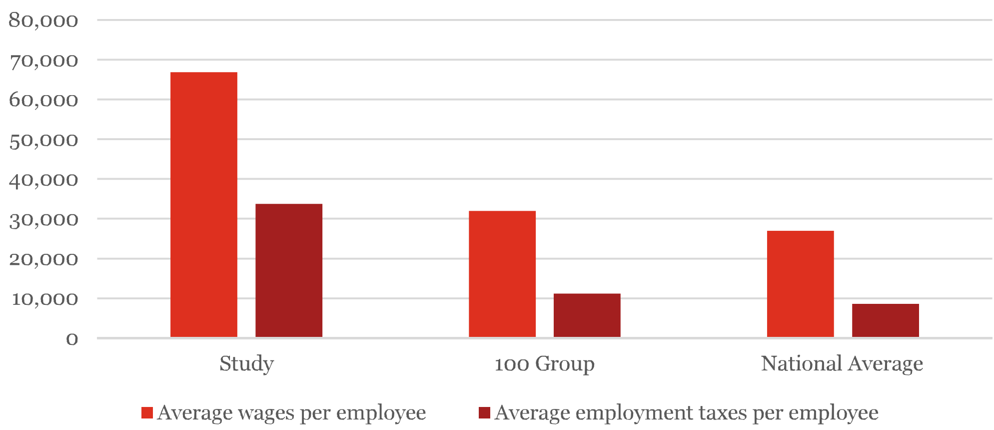
Study data

The twenty-nine participants in the study employed 389,000 workers comprising 92% of the total employment in the UK banking sector[19]. Study participants paid total employment taxes of £13.8bn comprising employment taxes borne of £3.5bn (employer NIC and PSA) and employment taxes collected of £10.3bn (income tax deducted under PAYE and employee NI).

It is possible to calculate an average salary for workers in the sector from study data. Taking the total wages for the survey population and dividing it by the total number of employees within that population, the average salary in 2014 was £66,847 which compares to the 100 Group study average of £31,929, demonstrating skilled and well paid jobs created by the sector in the UK. The national average wage is £27,000. The study participants included both retail and investment banks that employed seventy-nine percent of study employees had an average wage per employee of below £66,000.

For every employee, an amount is paid to the public finances in employment taxes. Looking at the employment taxes borne and collected, the average was £35,278 for the banking sector which was almost three times higher than the average employment taxes paid by the 100 Group companies (£11,214) and approximately more than four times the amount paid for the average national wage, see figure 16.

Figure 16 – Average wages and employment taxes per employee for different groups



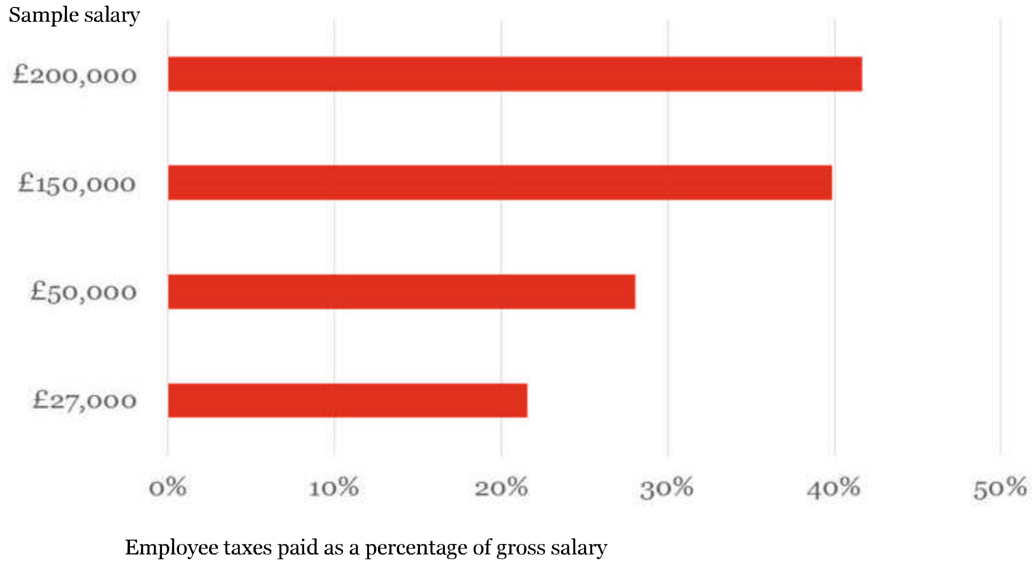
Model data – the burden of employment taxes

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 17 shows the percentage of gross salary that is paid as tax by employees (income tax deducted under PAYE and employee NIC) in 2014 for a range of example salaries. For the national average salary of £27,000, 22% is paid employee income tax and employee NIC. The equivalent figure for a salary of £150,000 is 40%. Although salaries are higher in the banking sector, a greater percentage of the salary is paid in taxes.

[19] Office for National Statistics- UK level employment by divisions

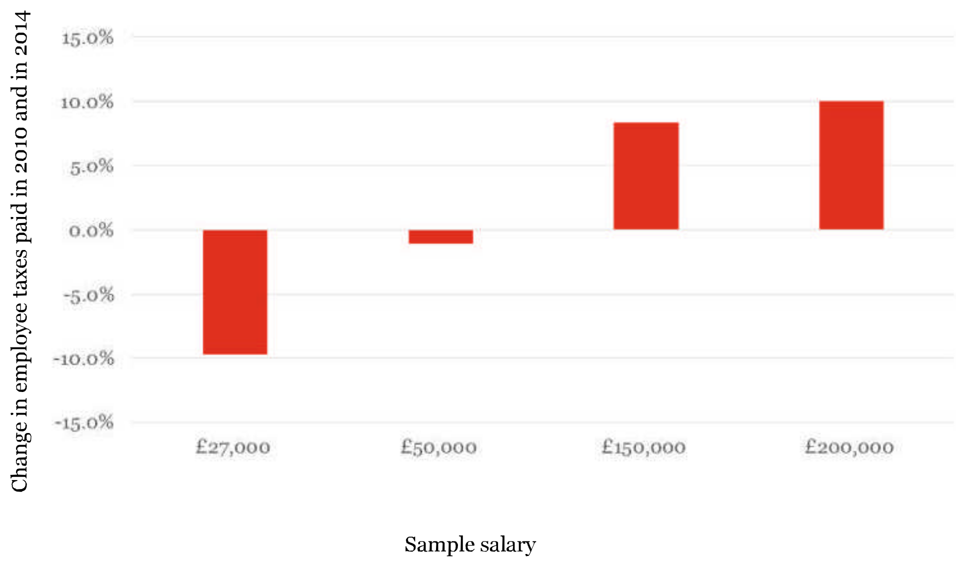
Figure 17 – Model data for taxes paid by employee as a percentage of gross salary in 2014 for a range of selected salaries.



Source: PwC analysis

Changes to employment tax legislation in the last five years increased the burden of taxes on higher salaries. Figure 18 shows the change in employee taxes paid between 2010 and 2014, as a percentage of gross salary, for a range of selected salaries. Changes in PAYE thresholds and rates and NIC thresholds and rates means that the employee tax paid on a salary of £27,000 has fallen by 10% since 2010. By contrast, a salary of £150,000 has seen an increase of 8%.

Figure 18 - Model data for the change in employee taxes paid in 2010 and in 2014 for a range of example salaries



Source: PwC analysis

Irrecoverable VAT

Irrecoverable VAT was the second largest tax payment for the study participants accounting for 31.8 % 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, VAT is not charged to customers and the company cannot recover its input VAT. This input VAT is called irrecoverable VAT and, as shown in figure 9, has increased by 79% since 2008.

The increase is partly driven by legislative changes. The rate of VAT increased in 2010 from 15.0% to 17.5% and the second increase was enacted in 2011 which increased the rate of VAT to 20.0%. But there have been changes to the way business in the sector is carried out as well which has added to the burden of irrecoverable VAT.

Many services supplied by the banking sector are exempt from VAT, contributing to the high level of irrecoverable VAT incurred. In 2010, there were changes in the EU VAT system, business trends and legislative / case law changes in the banking sector which resulted in increased input VAT in services purchased from overseas coming within the scope of VAT. 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[20] irrecoverable VAT for the UK banking sector between £4.0bn and £4.5bn in 2014. Total irrecoverable VAT was £3.4bn for the 29 companies.

Bank levy

Bank levy was introduced in 2011, based on the equity and liabilities of banks. The rate of the levy has been increased nine times 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. The levy is currently applied to the worldwide balance sheet of a UK headquartered bank, but only to the UK balance sheet of a foreign headquartered bank.

Changes were announced in the Summer 2015 Budget. The Budget 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 would be 0.10% for short term liabilities and 0.05% for long term liabilities.

In addition to the rate decrease, the Budget 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 19 shows the increase in the rate of bank levy since its introduction.

Figure 19- Changes in the rate of bank levy

Financial year	Charge on short term equity or liabilities	Charge on long term equity or liabilities	Increase in the short term rate of bank levy percenta ts (base year 2011)	Increase in the long term rate of bank levy percenta ts (base year 2011)
2011	0.075%	0.038%	1.00	1.00
2012	0.088%	0.044%	1.17	1.15
2013	0.130%	0.065%	1.73	1.71

[20] Irrecoverable VAT was extrapolated using the study data, Government figures for employment taxes, and the profile of different types of banks in the study.

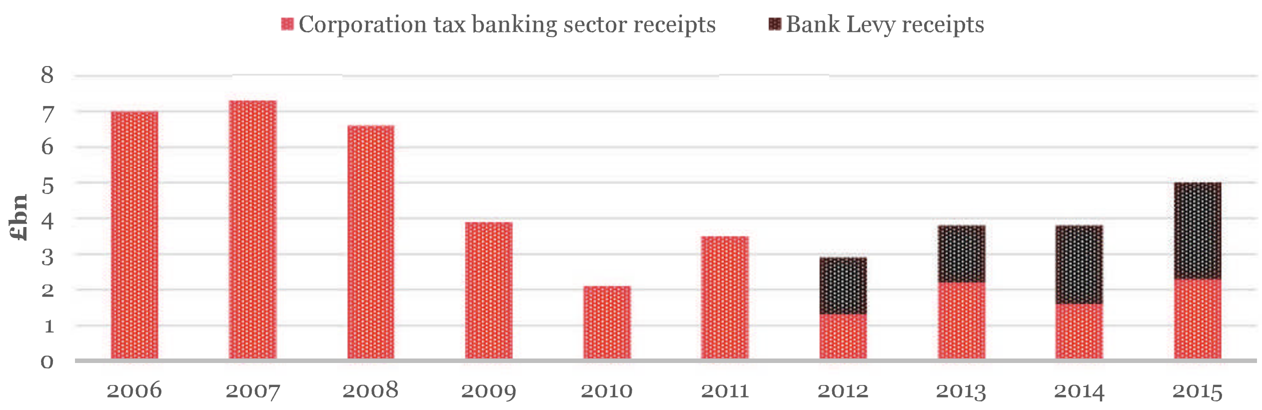
2014	0.156%	0.078%	2.08	2.05

In 2014, the Government received £2.2bn in bank levy from the sector. Study participants paid bank levy of £1.9bn making up 17.8% of taxes borne.

Corporation tax

Corporation tax payments by the banking sector have been heavily affected by the financial crisis as well as the reduction in statutory rate of corporation tax. Government figures show that corporation tax receipts from the sector were £1.6bn in 2014 and £2.3bn in 2015, down from £7.3bn in 2007, see figure 20.

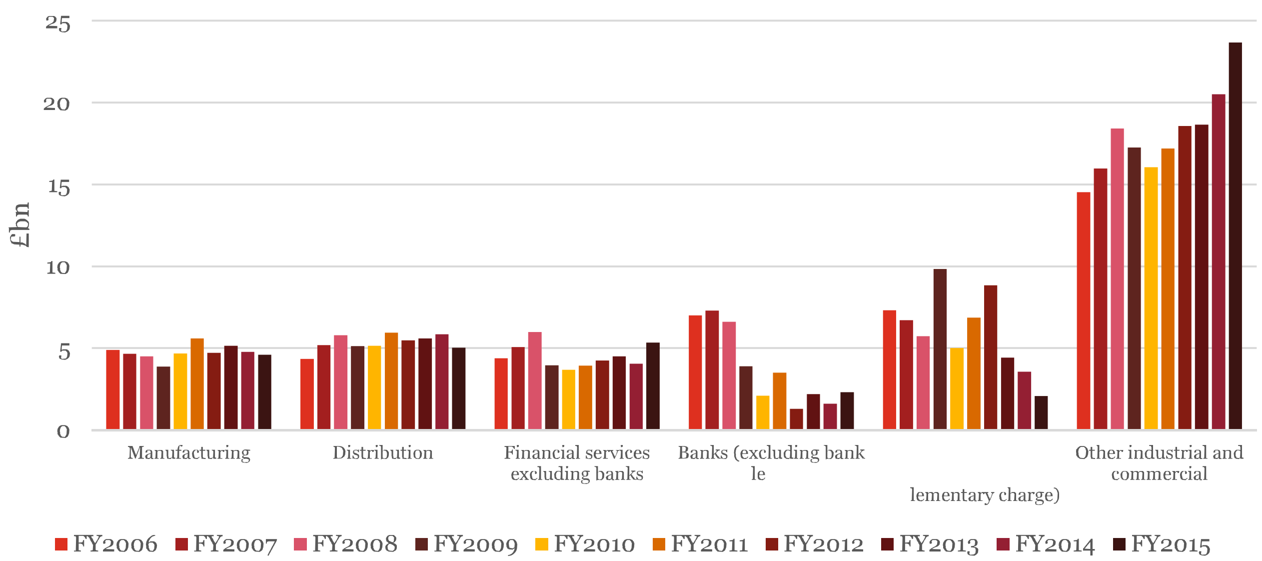
Figure 20 – Government receipts of corporation tax and bank levy from the banking sector



Source: HMRC data

This fall in corporation tax is marked, but as this study has shown, increases in other business taxes means that total taxes borne are now at pre-recession levels, although GVA (to 2012) for the sector and number of employees has fallen. Figure 21 shows Government data on corporation tax receipts from different sectors.

Figure 21 – Corporation tax receipts by sector



Source: HMRC data

Looking forward, corporation tax payments made by the sector can be expected to increase. New legislation has been introduced to restrict utilisation of brought forward losses in any particular period and in addition, to restrict the deductibility of compensation expenditure arising on or after 8 July 2015, covering all direct compensation costs.

In addition, in the Summer 2015 Budget, the Government announced that a corporation tax surcharge of 8% will apply to the banking sector from 1 January 2016. This will mean that the banking sector will pay corporation tax at a rate higher than the headline rate which will be reduced from the current rate of 20% to 19% in 2017 and 18% in 2020.

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.

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:

1. 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 gi larger banks.

For each individual participant

2. 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.

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

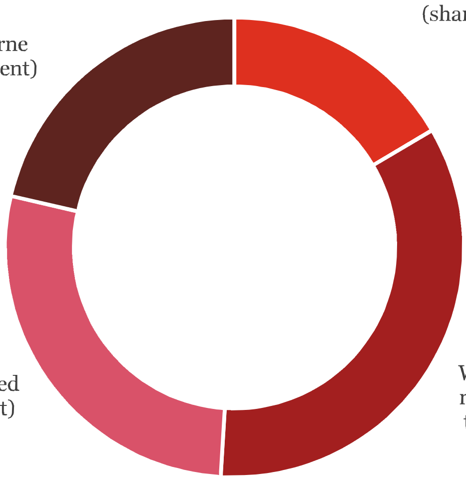
Taxes borne and collected as a percentage of value distributed

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 and 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. Total Tax Contribution paid to Government represents 49.0% of the value distributed while a further 34.5% is paid to employees as wages and salaries.

The taxes borne accounts for 21.4% of the total for the twenty-nine banks which was 8.4 percentage points higher than the equivalent picture in the 100 Group Total Tax Contribution study of 13.0%. The taxes collected were a higher percentage for the 100 Group companies (34.6%) compared to the banks in the study (27.6%) due to the large amount of taxes collected such as fuel duties and net VAT.

Figure 22 – Taxes borne and collected as a percentage of value distributed



Total Tax Rate (TTR)

The TTR is a measure of the cost of all taxes borne in relation to UK profitability before all of those taxes. The average for the BBA members is 37.0% (taking the mean average) but there is volatility in the ratios between individual participants due to losses in the sector (the range was over 75 percentage points). On an overall basis, the burden of taxes compared to profit is 51.7%, see figure 23. Appendix 4 gives further details on the Total Tax Rate calculation.

Figure 23 – Total Tax Rate

Overall	51.7%
Mean Average	37.0%
Median Average	31.9%

Total Tax Contribution as a percentage of turnover

For the banks participating in the study, TTC as a percentage of the total UK revenue was on average 22.4%, 10.0% taxes borne and 12.4% taxes collected. There was limited volatility in the ratios, as seen from the close distribution in figure 24.

Figure 24 – TTC as a percentage of turnover

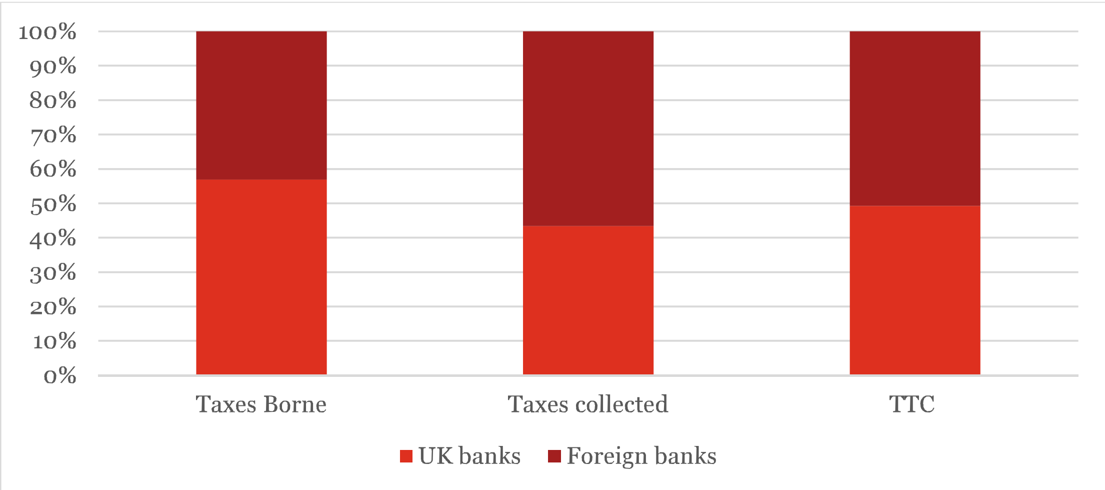
Overall	21.8%
Mean Average	22.4%
Median Average	23.3%

Comparing the tax profile for UK and foreign banks

The twenty-nine banks participating in the study represent a significant part of the banking sector, employing 92% of the total employees working in the sector. Within this total, there are UK headquartered and foreign headquartered banks, and this section provides further detail on the TTC of each type of bank. The study participants included 8 UK banks and 21 foreign banks. The UK headquartered banks provided data on taxes paid totalling £12.2bn while foreign headquartered banks contributed £12.5bn.

Based on companies participating in the study, the contribution made by the UK banks and foreign banks is broadly the same, but the UK banks contribute a greater percentage of taxes borne, see figure 25.

Figure 25 – Taxes borne, taxes collected and TTC for UK and foreign banks



Source: Study participants

Taking the extrapolated total of £31.3bn, we estimate[21] that £15.3bn was paid by UK headquartered banks and £16.0bn was paid by foreign headquartered banks.

Taxes borne profile for UK and foreign banks

UK banks and foreign banks have a different profile for taxes borne. For UK banks, irrecoverable VAT is the largest tax borne (43.2%), followed by PSA & employer NIC (24.9%) and bank levy (22.2%). Corporation tax accounts for 2.5% of taxes borne. While for foreign banks, the largest tax borne is PSA & employer NIC (43.9%), followed by corporation tax (23.2%), irrecoverable VAT (16.8%) and bank levy (12.1%).

[21] Estimation based on BBA data for number of employees

Figure 26 – Taxes borne profile for UK banks

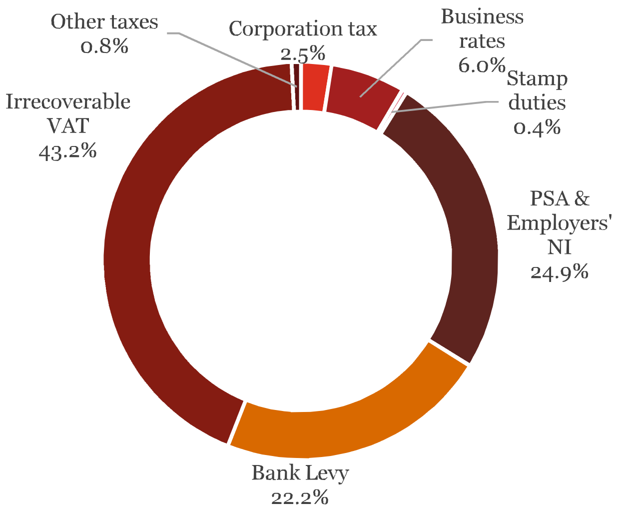
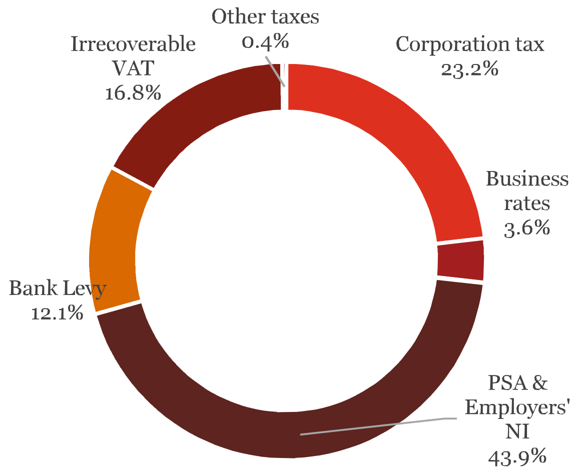


Figure 27 – Taxes borne profile for foreign banks



Taxes collected profile for UK and foreign banks

Income tax deducted under PAYE and employee' NIC is the largest tax collected for both UK banks and foreign banks (76.7% and 70.9% respectively). Tax deducted at source accounts for the second largest tax collected for the UK banks (18.2%), which is mainly driven by tax deducted from interest paid to customers by the UK retail banks.

Figure 28 – Taxes collected profile for UK banks

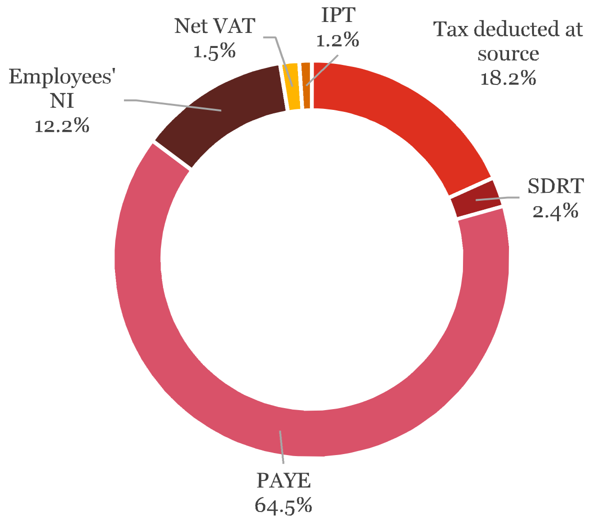
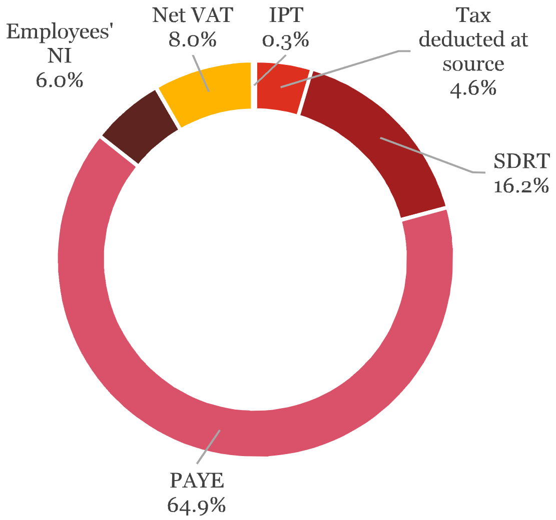


Figure 29 – Taxes collected profile for foreign banks

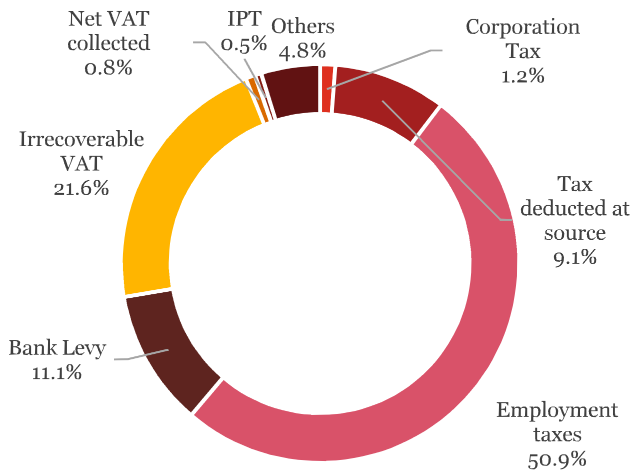


Total tax contribution profile for the UK and foreign banks

For the UK banks, corporation tax made up 1.2% of TTC in the study, while employment taxes were 50.9% of TTC. Irrecoverable VAT and bank levy were 21.6% and 11.1% of TTC respectively.

By contrast, for foreign banks, employment taxes make up the largest portion of TTC in the study (61.0%), corporation tax was 8.5% of TTC and irrecoverable VAT and bank levy were 6.2% and 4.5% respectively.

Figure 30 – T



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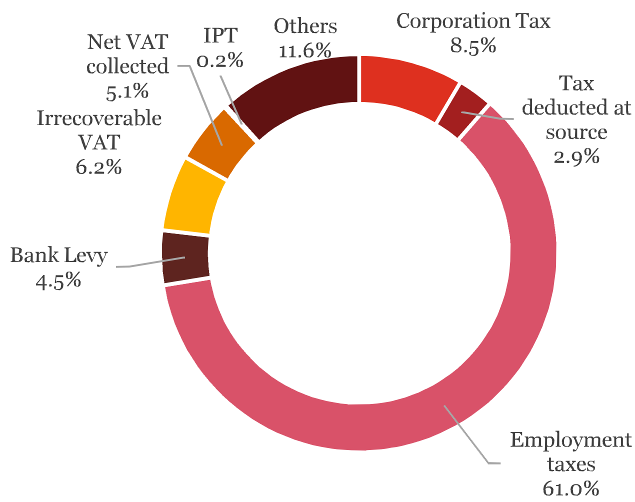

lmost returned to the pre-recession levels, a result of employment taxes, bank levy, and other non-profits based taxes.

The rate of bank levy will fall but corporation tax payments made by the banking sector are set to increase significantly, reflecting the impact of the loss restriction, non-deductibility of compensation payments, return to profitability and the corporation tax surcharge. Continuing to monitor the payments by the banks in the context of the overall contribution to the UK economy may be valuable .

Appendices

Appendix 1 – Taxes borne reported by survey participants

Taxes borne	**£s 2014**
Taxes on profits (profit taxes)	
Corporation tax	1,217,613,623
Taxes on property (property taxes)	
Business rates	531,414,117
Stamp duty land tax	23,609,161
Stamp duty and stamp duty reserve tax	1,550,000
Bank levy	1,903,796,879
Taxes on employment (people taxes)	
PAYE agreements (tax on benefits)	50,456,407
Employer NIC	3,482,398,436
Taxes on consumption (product taxes)	
Irrecoverable VAT	3,399,065,171
Insurance premium tax	4,821,796
Air passenger duty	12,083,021
Vehicle excise duty	32,386,855
Environmental taxes (planet taxes)	
Landfill tax	112,967
Carbon Reduction Commitment	8,608,136
Climate change levy	4,847,689
Congestion charge	13,859
Total	**10,672,778,117**

Appendix 2 – Taxes collected reported by survey participants

Taxes collected	**£s 2014**
Taxes on profits (profit taxes)	
Taxes deducted at source	1,473,752,107
Taxes on property (property taxes)	
Stamp duty reserve tax	1,430,409,195
Taxes on employment (people taxes)	
Income tax deducted under PAYE	9,074,916,920
Employee NIC	1,217,924,237
Taxes on consumption (product taxes)	
Net VAT	733,934,244
Insurance premium tax	82,506,665
Total	**14,013,443,368**

Appendix 3 – Changes in employment taxes

- In 2010/11, an additional rate of income tax under PAYE was introduced, taxing income over £150,000 at 50% (this tax rate was reduced to 45% in 2013/14 onwards).
- In 2011/12 both employer and employee NIC increased by one percentage point for employers and employees, counteracted in part by an increase in the primary and secondary thresholds.
- In 2011/12 the threshold above which the 40% rate of income tax applies was lowered from £37,400 to £35,000 while the personal allowance was increased from £6,475 to £7,475.

Table xx- Changes in employment taxes rates and thresholds since 2008-09

Financial year	Basic rate (20%)	High rate (40%)	Additional rate (50%~45%)
2008-09	0-34,800	34,801 - over	NA
2009-10	0-37,400	37,401 – over	NA
2010-11	0-37,400	37,401 – 150,000	150,001 – over (50%)
2011-12	0-35,000	35,001 – 150,000	150,001 – over (50%)
2012-13	0-34,370	34,371 - 150,000	150,001 – over (50%)
2013-14	0-32,010	32,010 – 150,000	150,001 – over (45%)

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.*

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)