2020 Total Tax Contribution of the UK banking sector

A publication prepared by PwC for UK Finance

Sixth edition

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pwc

Contents

Foreword

Welcome to the sixth edition of the Total Tax Contribution (TTC) study of the UK banking sector. The TTC data, covering participants' financial years ended in the year to 31 March 2020, shows that the estimated TTC for the sector was £39.6bn. While the tax data largely precedes the coronavirus pandemic, the report includes data on how the banks have responded to the crisis in 2020.

The scale of the support to the wider economy, and the speed it was facilitated by the banks, demonstrates the importance of a strong and efficient banking sector. There have been over 1.5 million government loans approved with a total value of £68bn, with over 744,000 loans being approved during April and May when businesses needed vital support during the initial period of national lockdown. 98.8% of approved loans were facilitated by the banks participating in this survey.

To support individuals, the banks participating in this survey have granted 2.7 million mortgage payment deferrals (relating to 21% of all residential mortgages in the UK), 1.2 million credit card payment deferrals, 841,000 personal loan deferrals, and over 27 million interest and fee-free £500 overdraft facilities since the crisis began.

The period covered by this survey was one of continuing political uncertainty and slowing economic growth. Within this context, falling profitability and lower equity trading volumes in 2019 drove a decrease in TTC on a like-for-like basis compared to the prior year. Taxes borne decreased as falling profitability led to a decrease in corporation tax. While taxes collected decreased as a result of lower trading volumes leading to lower stamp duties, along with a decrease in net VAT collected.

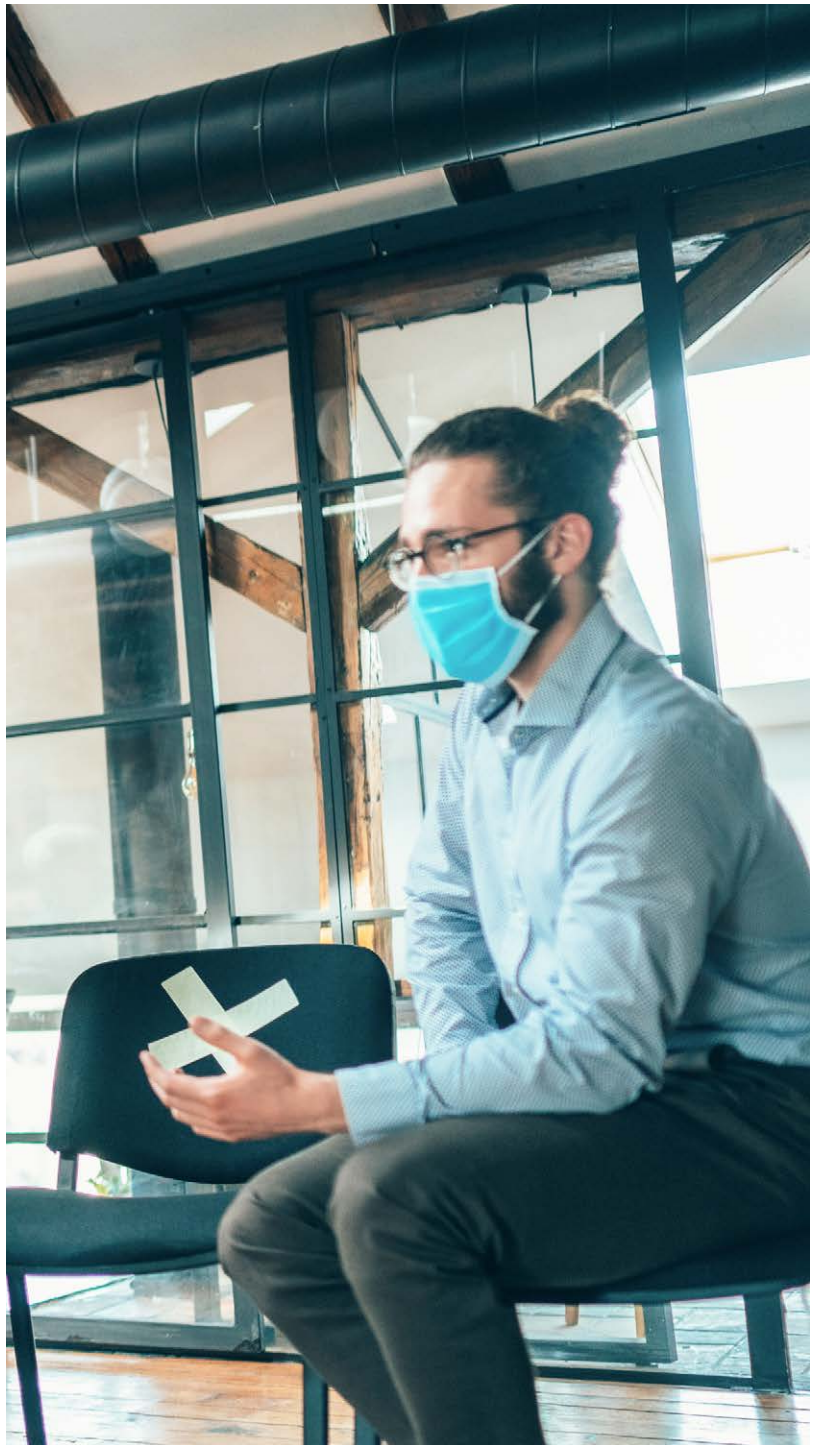
As a result of falling profitability, and the significant share of taxes borne that are not dependent on profit, the total tax rate[1] for the banks in the survey has reached 51.1% in 2020, an increase of 3.5 percentage points compared to 2019.

The final section of the report includes an update to the international comparison model for 2020, comparing the total tax rates for a model bank in London, Frankfurt and New York. Produced for the first time in the 2018 report, the model continues to demonstrate that the total tax rate in London is higher than in Frankfurt and considerably higher than in New York. The 2020 analysis shows that there is a 13 percentage point difference in the total tax rate of the model bank operating in London (46.5%) compared to New York (33.5%).

At a time of global economic uncertainty together with significant changes impacting on the banking sector, from technological developments through to regulatory pressures, many banks are reviewing the structure of their global operations. In this context, maintaining fiscal competitiveness is more important than ever. This is also vital to ensure a healthy domestic banking market which can continue to provide credit to support future growth of the UK economy.

It is our hope that an increased understanding of the full contribution to the government finances, and how this compares with other financial centres, should go some way to informing the debate over bank taxation. We thank the participants for their support for the study.

Andrew Packman
PwC, Total Tax Contribution and
Tax Transparency Leader



[1] Total Tax Rate (TTR) is the cost of all taxes borne as a percentage of profit before business taxes (PBBT).

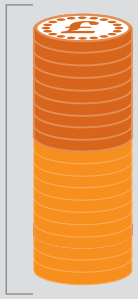
Executive summary

The Total Tax Contribution of the UK banking sector

The estimated **Total Tax Contribution is £39.6bn** made up of **£21.6bn in taxes borne** and **£18.0bn in taxes collected**, and representing **5.4% of total government receipts**.

£39.6bn
Total Tax Contribution

5.4%
Total government receipts



£18.0bn
Taxes collected

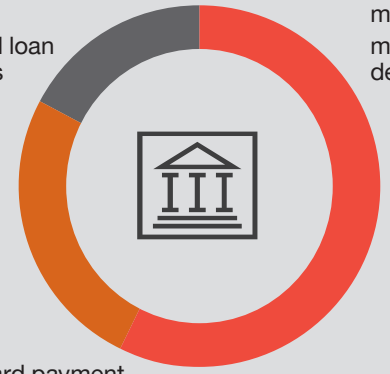
£21.6bn
Taxes borne

Covid-19 crisis support – payment deferrals

Banks participating in the survey have granted **2.7 million mortgage payment deferrals** (relating to 21% of all residential mortgages in the UK), **1.2 million credit card payment deferrals** and **0.8 million personal loan deferrals.**

0.8
million
personal loan deferrals

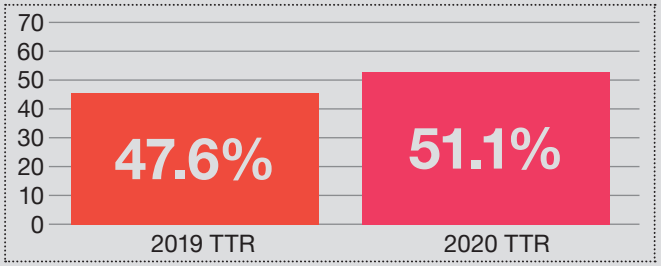
2.7
million
mortgage payment deferrals



1.2
million
credit card payment deferrals

Total Tax Rate

Falling profitability has led to an increase in the TTR – the cost of all taxes borne in relation to commercial profit – of 3.5 percentage points.



'Sector taxes' that are not dependent on profit make up a significant share of taxes borne

Over half of total taxes borne (52.2%) are made up of bank surcharge, bank levy and irrecoverable VAT. Of these 'sector taxes', bank levy and irrecoverable VAT (together 44.6% of the total) are not dependent on profits.

Taxes borne have increased by over 50% since 2014, due to corporation tax, bank surcharge and bank levy.

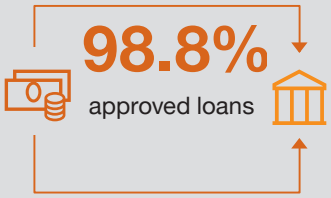
Covid-19 crisis support – facilitation of the government business loan schemes

UK banks have supported the wider economy throughout the Covid-19 pandemic in 2020, approving **1.5 million government-backed loans** with **a total value of £68bn.**

98.8% of approved loans were facilitated by the banks participating in this survey.

1.5
million of government loans

£68bn
2020

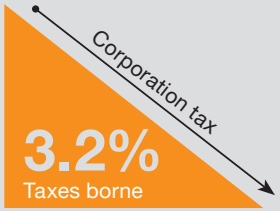


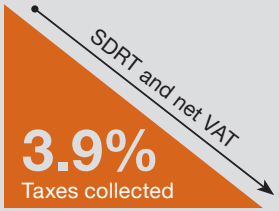
98.8%
approved loans

2-year TTC trends

There has been a decrease in both taxes borne and taxes collected compared to last year's report, which is being driven by the foreign-headquartered banks in the survey.

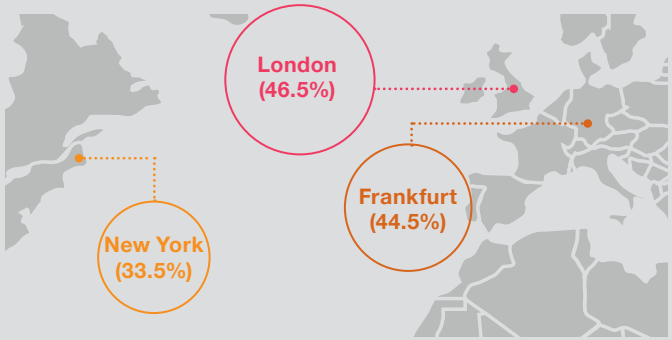
The decrease in taxes borne is being driven by corporation tax. The decrease in taxes collected is being driven by stamp duty reserve tax and net VAT.





TTR for a model bank

The Total Tax Rate (TTR) for a model bank operating in **London (46.5%)** is higher than the TTR in **Frankfurt (44.5%)** and **New York (33.5%)**.



Total Tax Contribution of the UK banking sector

The banking sector makes a significant contribution to the public finances. The thirty-nine companies taking part in the study reported taxes borne of £14.6bn and taxes collected of £12.1bn, making a UK tax contribution of £26.7bn.

Extrapolating from these figures[2], we estimate that the Total Tax Contribution for the entire UK banking sector is £39.6bn, which represents 5.4% of total government receipts for all taxes in the year to 31 March 2020.

Figure 1 shows that the TTC of £39.6bn is estimated to comprise taxes borne of £21.6bn and taxes collected of £18.0bn. The totals for corporation tax, bank surcharge, bank levy, and employment taxes for the whole of the sector are not extrapolated from study data but are taken from published government figures. We estimate that there is a relatively equal contribution from UK-headquartered and foreign-headquartered banks. However, the tax profile of UK and foreign banks varies significantly, with UK banks contributing a greater share of taxes borne, and foreign banks contributing a relatively equal share of taxes collected despite employing just over a quarter of total employees in the study (see section: Profile of taxes borne and collected for UK and foreign banks).

Figure 1: 2020 Total Tax Contribution of the UK Banking Sector as a percentage of total tax receipts[3]

	Study participants £bn	Extrapolated to the UK banking sector £bn	% of total government receipts
Corporation tax	2.6	5.0	
Bank surcharge	1.1	2.0	
Bank levy	2.3	2.5	
Employment taxes borne	3.5	5.7	
Irrecoverable VAT	4.2	5.0	
Other taxes borne	0.9	1.4	
Total taxes borne	**14.6**	**21.6**	**2.9%**
Employment taxes collected	9.9	15.5	
Tax deducted at source	0.8	0.8	
Other taxes collected	1.4	1.7	
Total taxes collected	**12.1**	**18.0**	**2.4%**
Total Tax Contribution	**26.7**	**39.6**	**5.4%**

[2] 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'. Note that HMRC has revised PAYE data from 2013-14 onwards with new banks included and improved data matching.

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, bank surcharge, bank levy, and employment taxes, where actual figures are included.

[3] The Office for Budget Responsibility (OBR) – 2020 November Economic and fiscal outlook – supplementary fiscal tables: receipts and other. Table 2.8 Current receipts (forecast).

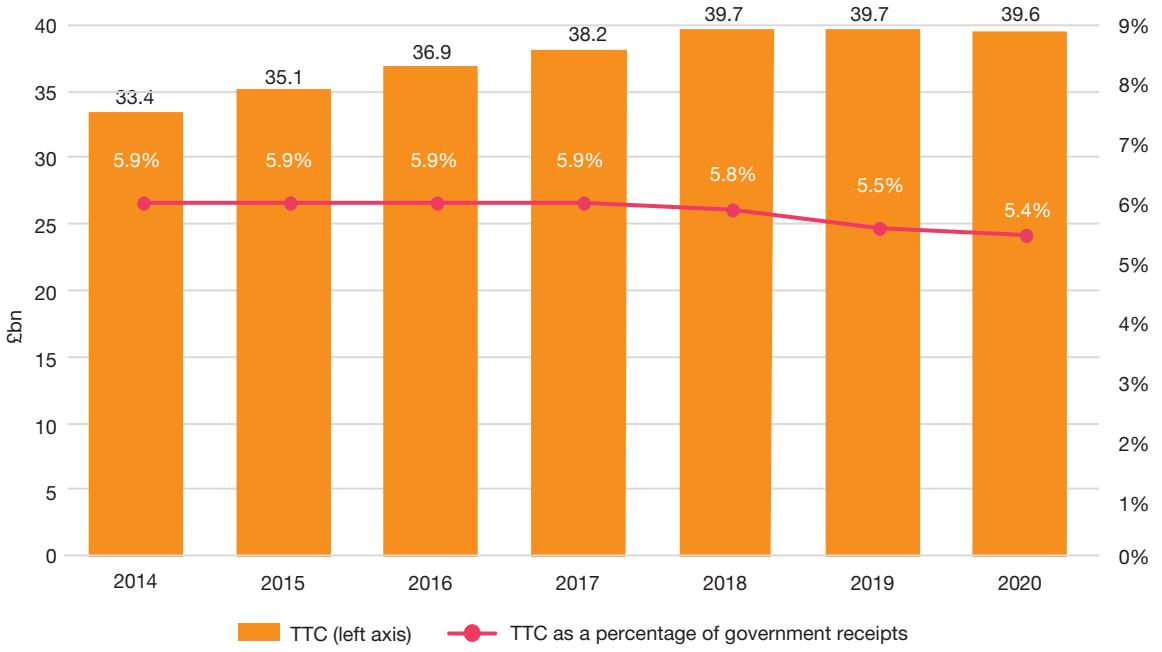
The increase in corporation tax and bank surcharge is a result of the new payments regime introduced by HMRC which brings forward the quarterly instalments for the largest banks. As the new payments regime was applicable to accounting periods beginning on or after 1 April 2019, there is no impact on the survey data as the majority of the study participants have December year ends.

The 2020 tax contribution of the UK banking sector remained broadly flat compared to the previous year, and represents 5.4% of total government receipts (Figure 3). The decrease from 5.5% to 5.4% in government receipts can be explained by two reasons:

(a) Total tax receipts increased by 2.4%, primarily driven by increases in national insurance contributions (NIC) and corporation tax. The NIC increase is a reflection of an increase in overall employment, together with an uplift in the Upper Earnings Limit from £46,384 in 2018-19 to £50,024 in 2019-20, resulting in an additional £3,640 of income being taxed at the higher 12% rate rather than 2% for each employee affected. The corporation tax increase was largely driven by the change to the quarterly instalment regime for large companies, which increased the number of payments that were due in 2019-20.

(b) For the banking sector, the increases in corporation tax, bank surcharge, and irrecoverable VAT were offset by reductions in bank levy, stamp duty reserve tax (SDRT), employment taxes collected and net VAT. The largest movement for the sector was seen in corporation tax and bank surcharge which is a reflection of the new payment regime introduced by Her Majesty's Revenue and Customs (HMRC); bringing forward quarterly payments for the largest banks[4]. The decline in bank levy is due to the ongoing annual rate reductions, and the decline in stamp duty reserve tax collected reflects lower equity trading volumes in 2019, as a result of lower volatility in equity markets[5].

Figure 2: The Total Tax Contribution of the UK banking sector, 2014 – 2020



Within the total of £39.6bn, employment taxes comprise the largest element (£21.2bn[6]), reflecting the skilled jobs in this sector. 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 government data.

For further explanations please see the next section: 'Total Tax Contribution analysis for the study participants'

[4] The increase in corporation tax and bank surcharge is a result of the new payments regime introduced by HMRC which brings forward the quarterly instalments for the largest banks. As the new payments regime was applicable to accounting periods beginning on or after 1 April 2019, there is no impact on the survey data as the majority of the study participants have December year ends.

[5] Total UK order book trading volumes were 19% lower in 2019 compared to 2018 https: docs.londonstockexchange.com sites default files reports LSEG%20market%20report%20December%202019.pdf

[6] Government data has been revised for Pay-As-You-Earn figures from 2014. For this reason, the 2019 and 2020 reports are not directly comparable to studies prior to 2019.

Total Tax Contribution analysis for the study participants

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 2020 survey is shown in Figure 3. Irrecoverable VAT is the largest tax borne, at 28.8% of the total. Corporation tax (including the bank surcharge) is 25.3% of the total. Employment taxes, comprising employer NIC, PSA (PAYE Settlement Agreement, a tax on benefits provided by the company) and net apprenticeship levy, made up the third largest element at 23.6%.

Bank levy as a percentage of taxes borne in this year's study has remained at 15.8% despite the reduction in rates. However, this is within the context of an overall decrease in total taxes borne in 2020. Bank levy rates have been gradually decreasing each year since their peak in the 2016 survey, and will continue to decrease until 2021 when 0.10% will be applied to short term liabilities, and 0.05% to long term liabilities (Figure 33). The scope of the bank levy is also due to be reduced in the future. The levy currently applies to the global consolidated balance sheet of a UK-headquartered bank, but only to the UK balance sheet of a foreign-headquartered bank. This scope will be restricted to UK operations only with effect from 2021.

Sector taxes, and other taxes that impact the banking sector, are an important element of the tax profile of these companies. Over half of the total taxes borne (52.2%) are made up of bank surcharge, bank levy and irrecoverable VAT. Of these 'sector taxes', bank levy and irrecoverable VAT (together 44.6% of the total) are not dependent on profits, and represent a fixed cost for the sector. For every £1 of corporation tax (including bank surcharge), the banking sector in the UK paid £2.96 of other taxes borne.

Please refer to Appendix 3 for a detailed list of taxes borne by study participants.

Taxes collected

Taxes collected are those that are generated by a company's operations, but are collected from others, e.g. income tax deducted under PAYE, employee NIC and net VAT. The company generates the commercial activity that gives rise to the taxes and then collects and administers them, on behalf of HMRC.

Taxes collected, however, reflect the wider economic contribution generated by the banking sector.

Figure 4 shows the profile of taxes collected for the thirty-nine participating banks. Employment taxes (income tax deducted under PAYE and employee NIC) were the largest element (82.0% of total taxes collected), reflecting skilled jobs in the banking sector. Stamp duty reserve tax (SDRT) continued as the second largest tax collected, at 8.5% of the total, despite a decrease in SDRT collected in 2020.

Please refer to Appendix 4 for a detailed list of taxes collected by study participants.

Figure 3: Taxes borne profile for participating banks

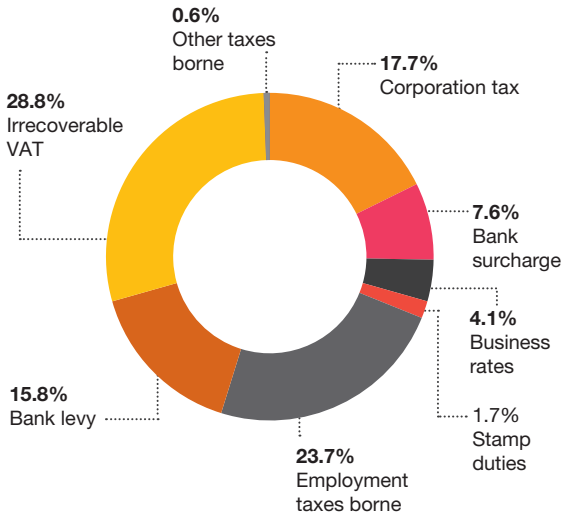
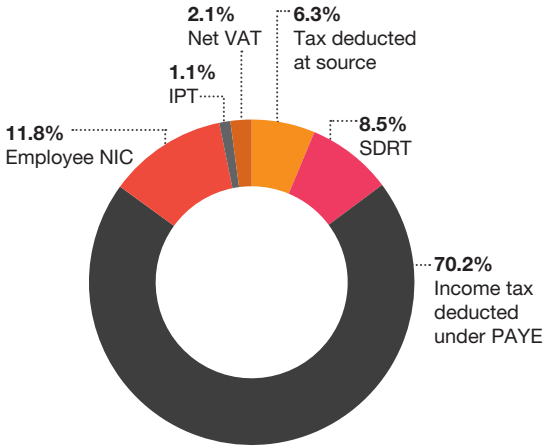


Figure 4: Taxes collected profile for participating banks



Comparing the tax profile for UK and foreign banks

Out of the thirty-nine study participants, seventeen were UK-headquartered banks and twenty-two were foreign-headquartered banks. Based on study participants, there has been a slight increase in the TTC of the UK banks in 2020, while the foreign banks have seen their TTC decrease. As a result, there has been an increase in the share of the UK-headquartered banks' taxes borne and taxes collected in 2020 (Figure 5).

Taxes borne profile for UK and foreign banks

The profile of taxes borne differs between UK-headquartered and foreign-headquartered banks (Figure 6). It highlights the greater proportions of irrecoverable VAT (76.7% of the total) and bank levy (72.7%) that were borne by UK-headquartered banks.

Foreign-headquartered banks provide employment to just over a quarter of the total employees in this study. However, compared to the share or total employees, foreign banks paid a far greater share of employment taxes borne, corporation tax and bank surcharge, indicating a greater contribution per employee.

Figure 5: Taxes borne, taxes collected and TTC for UK and foreign banks

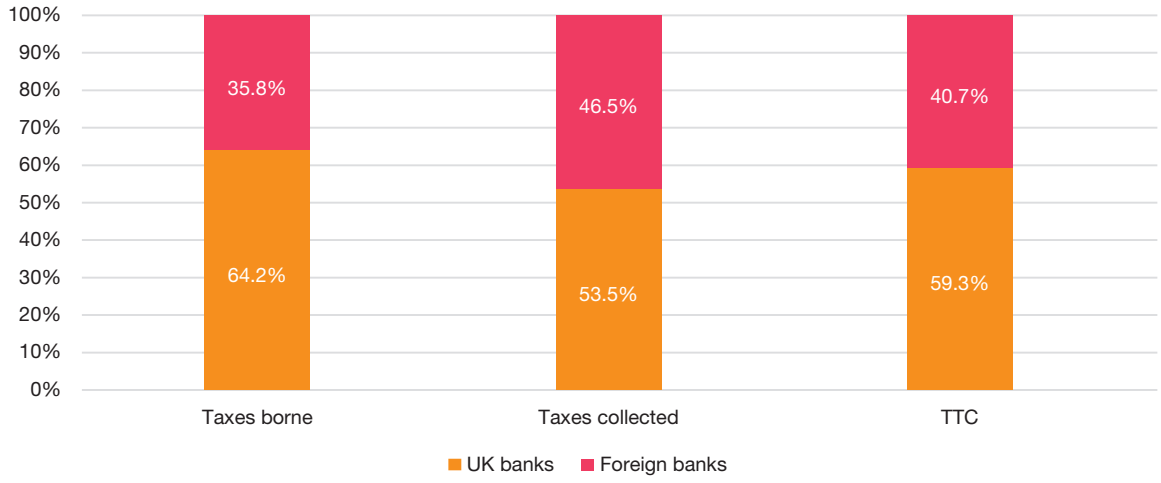
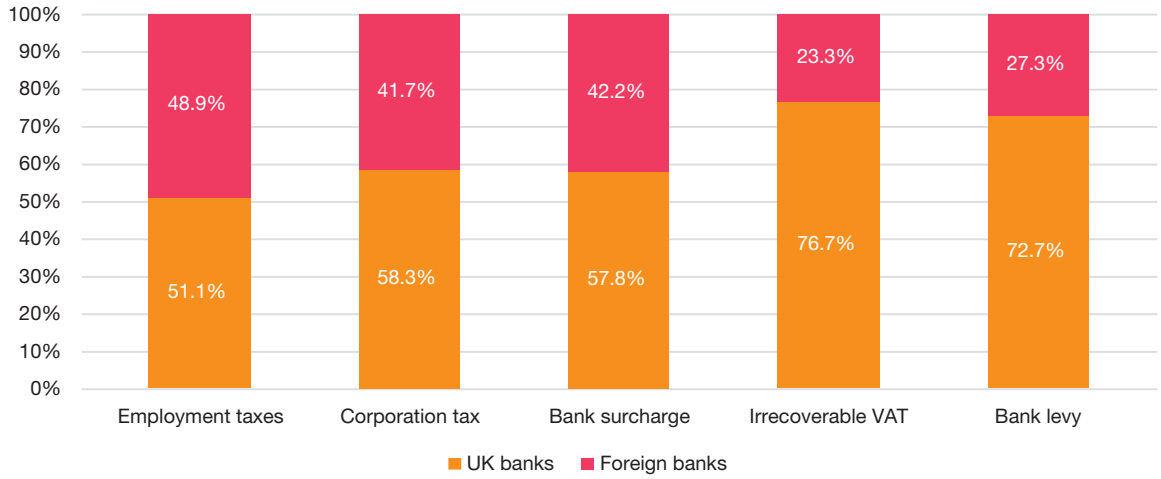


Figure 6: Comparison of taxes borne for UK and foreign banks



Taxes collected profile for UK and foreign banks

Employment taxes make up the largest share of taxes collected for banks. Foreign-headquartered banks account for almost half of all employment taxes collected, reflecting the concentration of highly-skilled employees within foreign banks (Figure 7). Aside from employment taxes, other taxes collected include tax deducted at source, stamp duty reserve tax (SDRT) and insurance premium tax (IPT). While UK retail banks collect the majority of net VAT and tax deducted at source from interest paid to customers, SDRT is largely collected by foreign-headquartered banks.

Total Tax Contribution profile for UK and foreign banks

Figure 8 shows the proportion of taxes borne and taxes collected as a percentage of TTC. For the study participants, taxes borne makes up 59.2% of TTC for UK banks and 48.2% for foreign banks. In the 100 Group study , in which PwC surveys the largest companies in the UK, taxes borne made up 31.8% of the TTC figure. Figure 11 shows the taxes borne by both UK and foreign banks within the UK are significantly higher than other sectors, reflecting the impact of the bank surcharge, the bank levy and irrecoverable VAT.

Figure 7: Comparison of taxes collected for UK and foreign banks

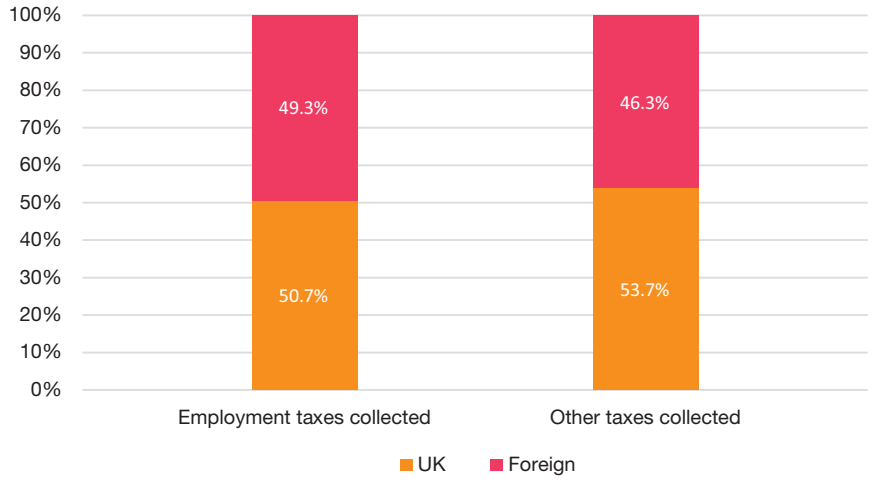
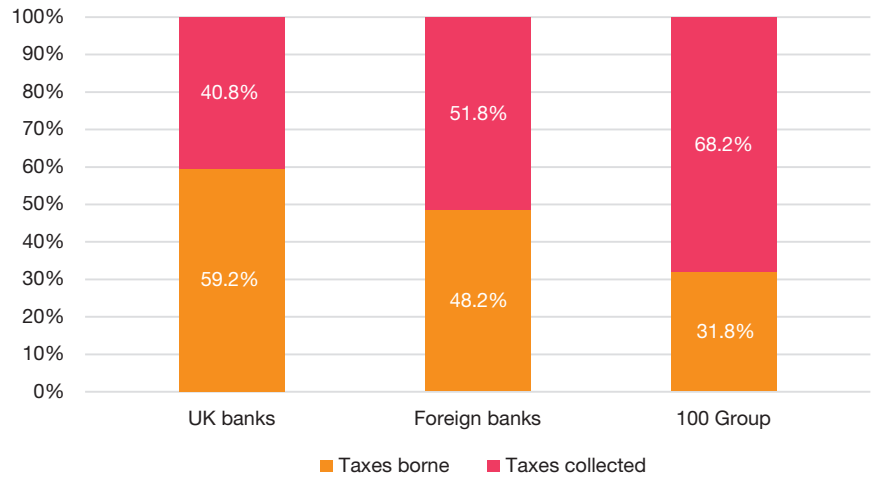


Figure 8: TTC profile for UK and foreign banks and 100 Group



[7] 2019 Total Tax Contribution study for the 100 Group: presents the analysis of data received from the largest companies in the UK.

Supporting the UK economy through Covid-19

Introduction

The coronavirus pandemic led to a sharp drop in economic output[8] in the first half of 2020 as the nation went into a protracted period of lockdown restrictions. On top of the devastating cost of the crisis in terms of lives lost and the impact on society through restrictions imposed to limit the spread of the virus, the economic impact has also been severe and is likely to have long-term consequences. Almost one-third of all eligible jobs (9.6 million) were furloughed for at least part of the period between March and June 2020, with young people most affected. Younger generations have also been severely affected by disruption to education.

Throughout this challenging period, the banking sector has played an important role in facilitating government support and minimising the disruption to the economy, our communities and people's lives, through a range of loan schemes, payment deferral schemes and other measures.

The scale of the support provided and the speed that loans and deferral schemes were processed and approved at the beginning of the crisis demonstrate the importance of a strong and efficient banking sector. This section of the report presents data on the main government support schemes and the additional measures that banks have taken to support businesses and individuals.

This year we collected additional data through the survey, relating to the impact that the crisis had on the participating banks, covering the government furlough scheme and graduate recruitment.

Coronavirus business loan support schemes

The economic crisis caused by the Covid-19 pandemic and the restrictions imposed in order to limit its spread has had a significant impact on businesses nationwide. Many industries that are heavily reliant on in-person trade or interactions, such as the retail or hospitality sectors, were required to temporarily close down as part of a nationwide effort to curb the spread of the virus. Many businesses effectively had to cease operations immediately for an unknown period of time. In response, a number of support schemes were launched by the government to help businesses as a result of the Covid-19 restrictions.

The UK banking sector has been central in the facilitation of the various schemes; processing and approving loan applications and providing finance to businesses across the UK. The main schemes covered in this report are[9]:

- Coronavirus Business Loan Interruption Scheme (CBILS)
- Coronavirus Large Business Loan Interruption Scheme (CLBILS)
- Bounce Back Loan Scheme (BBLS)

[8] In April, when full national lockdown restrictions were in place, the UK economy was 25.6% smaller than in February 2020. Modest growth was recorded in the following months as restrictions were eased, but the economy in August remained 9.2% smaller than in February.

https: www.ons.gov.uk peoplepopulationandcommunity healthandsocialcare conditionsanddiseases articles coronaviruscovid19in10charts 2020-09-24

https: www.ons.gov.uk economy grossdomesticproductgdp articles coronavirusandtheimpactonoutputintheukeconomy august2020

[9] Statistics concerning the CBILS, CLBILS, and BBLS were sourced directly from the HM Treasury website (below) which began tracking the data from April 2020. Data was also provided by UK Finance directly which tracked the data from its members from March 2020. https: www.gov.uk government collections hm-treasury-coronavirus-covid-19-business-loan-scheme-statistics

Coronavirus Business Loan Interruption Scheme (CBILS)

The Coronavirus Business Loan Interruption Scheme was launched by the UK government at the end of March 2020. The scheme provides financial support to small and medium-sized businesses (SMEs) across the UK that experienced a decline in revenue and saw their cashflow disrupted as a result of the Covid-19 pandemic. As at 13 December 2020 the total number of approved facilities was 82,618 with a total value of £19.64 billion.

Figure 9 illustrates the cumulative total of CBILS facilities approved and shows the scale of the support and the speed at which assistance was provided – particularly during the initial stages of the UK nationwide lockdown. During April 2020, the total number of CBILS facilities approved totalled 22,091 with a combined value of £3.65 billion (representing 19% of the total value reached by December). By the end of May 2020, both the number of facilities approved and their value had more than doubled, reaching 45,843 facilities approved with a combined value of £8.92 billion (representing 45% of the total December value).

Figure 10 shows the monthly total of CBILS facilities approved, emphasising the scale of support and the speed at which it was provided at the early stages of crisis. April and May 2020 saw the highest volume of facilities approved at 22,091 and 23,752, respectively.

Study participants provided 79% of the CBILS in terms of total loan value, and 75% of the total number of approved facilities as at 13 December 2020. The remainder were provided by other accredited lenders.

Figure 9: CBILS facilities approved cumulative totals

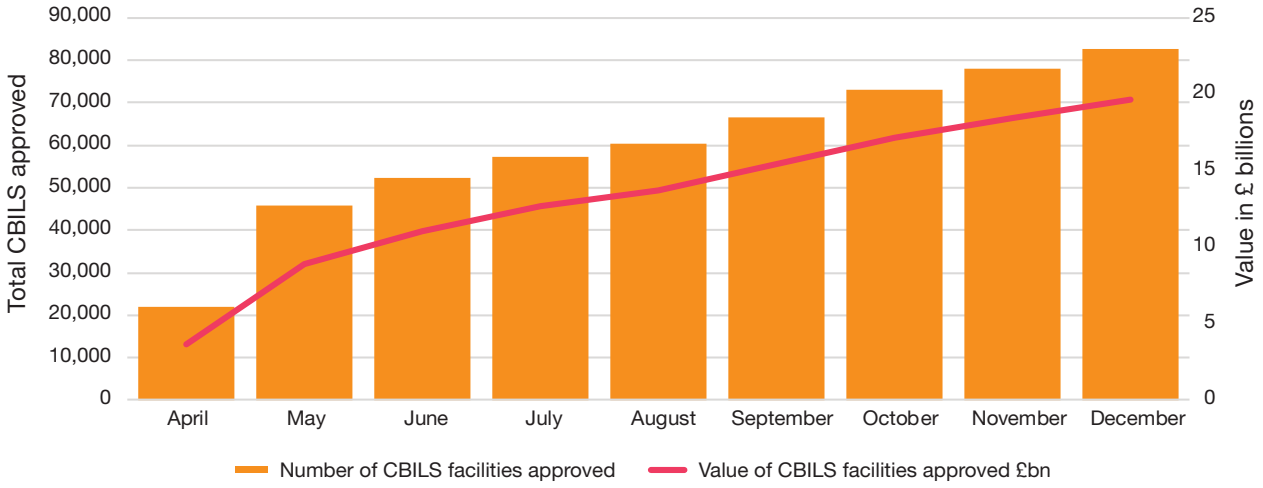
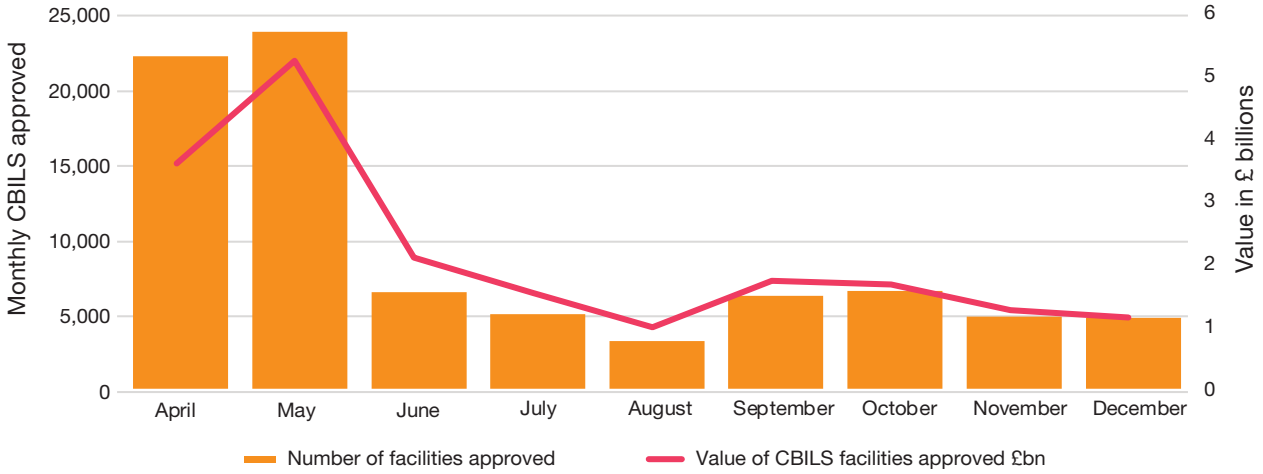


Figure 10: CBILS facilities approved monthly totals



Coronavirus Large Business Interruption Loan Scheme (CLBILS)

The Coronavirus Large Business Interruption Loan Scheme provides finance to mid-sized and larger UK businesses with a group turnover of more than £45 million that are experiencing a disruption to their cashflow due to lower revenue during the Covid-19 pandemic. The scheme was launched by the UK government in early April 2020. As at 13 December 2020, there had been 675 facilities approved with a combined loan value of £4.97 billion.

Figure 11 shows the cumulative total of CLBILS facilities approved with the same trend as seen with the CBILS; the bulk of the support was provided during the initial stages of the crisis. In May 2020, 191 CLBILS facilities were approved at a total combined value of £1.1 billion (representing 22% of the December value). During June, the number of approved facilities increased by 88% to 359, and the combined value of those facilities more than doubled to £2.33 billion (representing 47% of the December value). The increase in approved facilities and the value of those facilities continued to rise at a steadier pace during the July to December period.

Figure 12 shows the monthly total of CLBILS facilities approved. May and June 2020 saw the highest volume of facilities approved at 191 and 168, respectively. From June onward the number of CLBILS facilities approved increased at a slower pace as some Covid-19 restrictions were gradually lifted over the summer months and trading conditions improved for some sectors of the economy.

Study participants provided 93% of the CLBILS in terms of the total loan value, and 99% of the total number of approved facilities as at 13 December 2020.

Figure 11: CLBILS facilities approved cumulative monthly totals

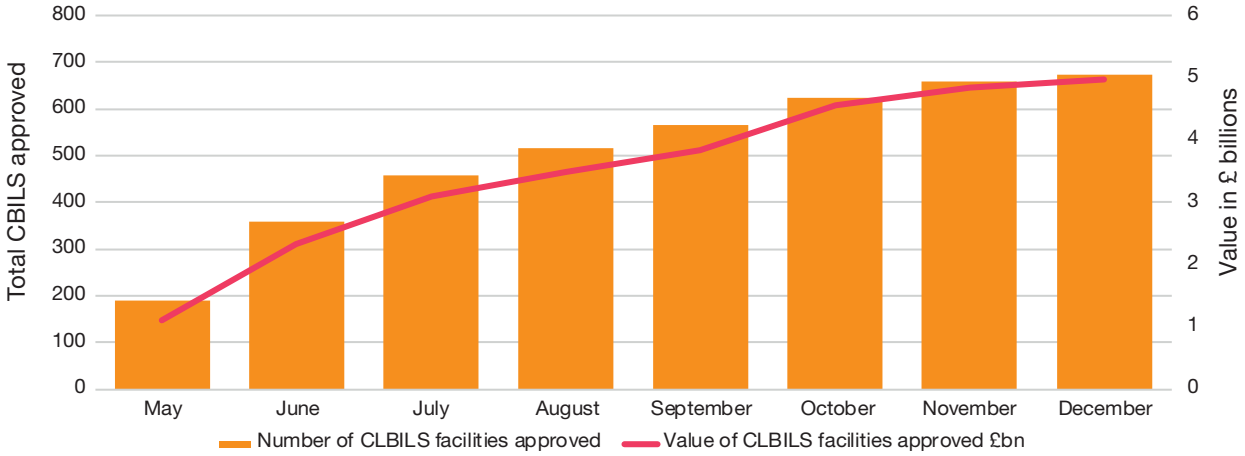
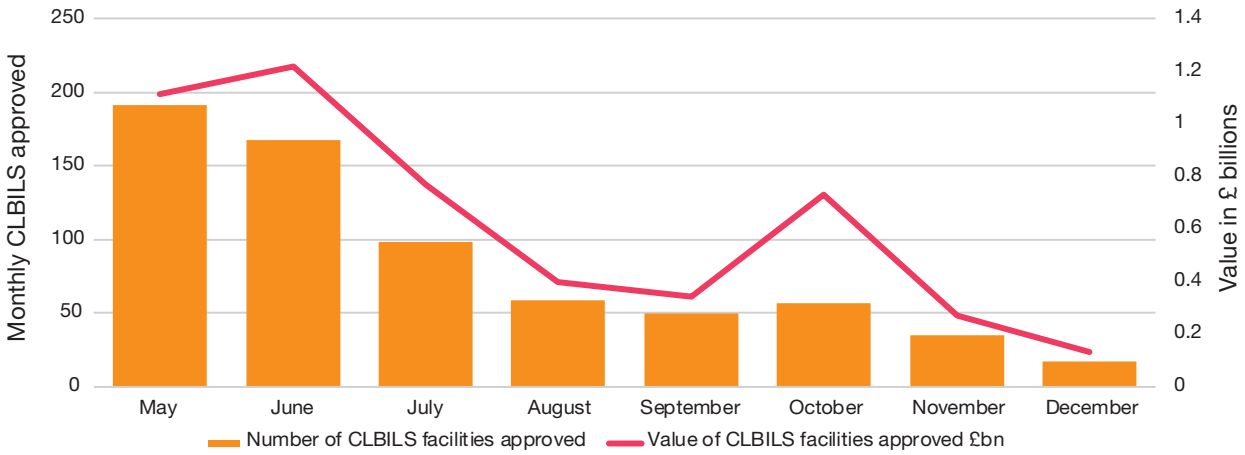


Figure 12: CLBILS monthly facilities approved



Coronavirus Bounce-Back Loan Scheme (BBLS)

The Coronavirus Bounce-Back Loan Scheme was launched by the UK government in May 2020. The scheme provides financial support of £50,000 or less to businesses across the UK which have been adversely affected by the Covid-19 pandemic. As at 13 December 2020, the number of approved facilities was 1,431,987 with a combined total loan value of £43.54 billion.

Figure 13 illustrates the cumulative total number of BBLS facilities approved. In May 2020, the month the scheme was launched, 699,354 facilities were approved with a total combined loan value of £21.29 billion (representing 49% of the December value).

Figure 14 shows the monthly total of BBLS facilities approved, with an average number of 483,661 facilities approved per month in May and June. The number of approved facilities then declines and levels off between July and December with an average of 77,000 facilities approved monthly during the latter period.

Study participants provided 99% of the BBLS in terms of total loan value, and of the total number of approved facilities as at 13 December 2020.

Figure 13: BBLS cumulative total facilities approved

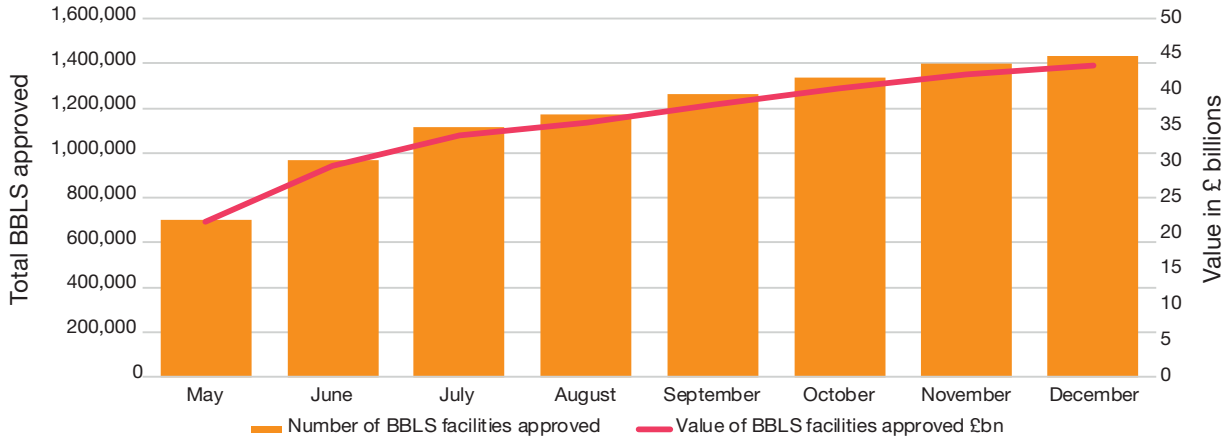
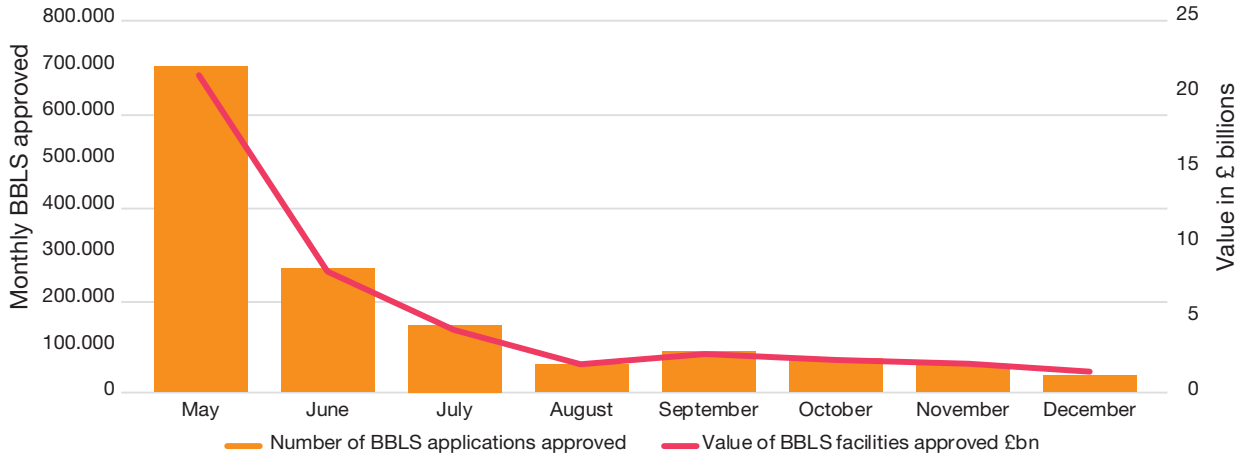


Figure 14: BBLS monthly total facilities approved



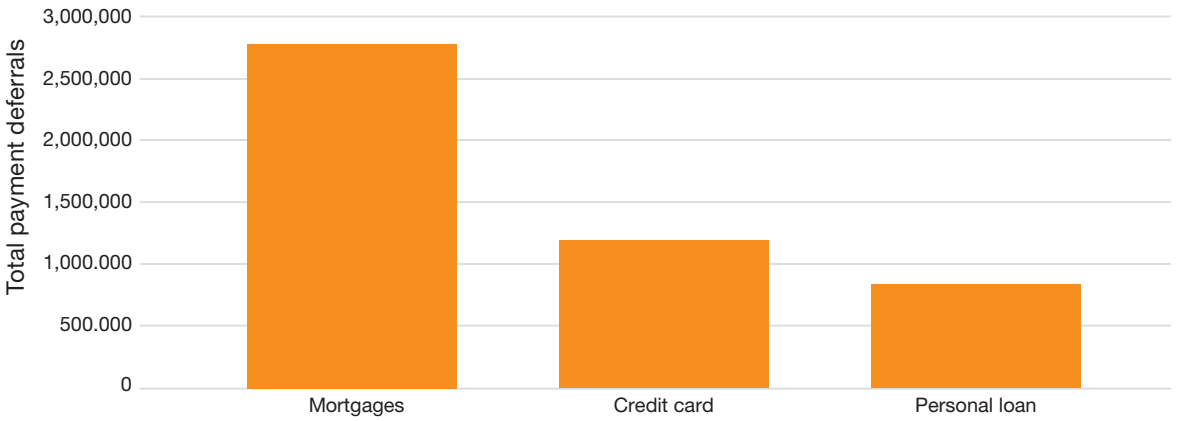
Coronavirus payment deferrals

As many businesses and households were experiencing cashflow and income disruption owing to the restrictive measures required to curb the spread of the coronavirus, the UK banking sector provided additional support through a range of payment deferral agreements[10].

Figure 15 provides an overview of the total payment deferrals across three main categories: mortgage payment deferrals, credit card payment deferrals and personal loan payment deferrals.

As at 11 December 2020, 2,728,000 mortgage payment deferrals had been granted, representing 21% of all residential mortgages. A total of 1,187,000 credit card payment deferrals and 841,000 personal loan deferrals had also been granted.

Figure 15: Payment deferrals granted by banks in the UK during 2020 as a result of the crisis

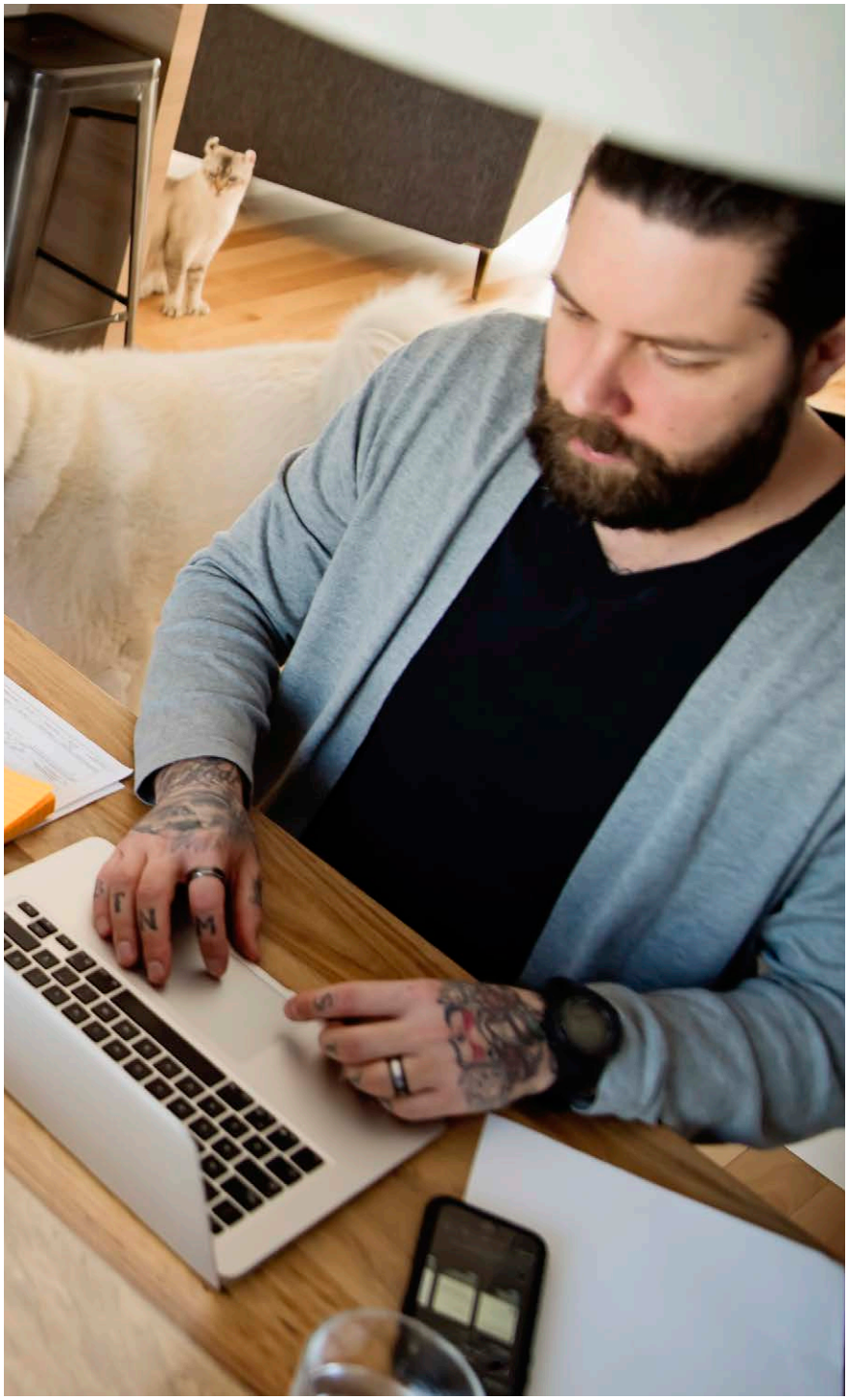


Coronavirus job retention scheme

The Coronavirus Job Retention Scheme was launched by the UK government in April 2020. It is intended to support employers who are unable to maintain their workforce because their business operations have been affected by Covid-19. Companies can apply for a government grant to cover a portion of their wage costs for employees that have been furloughed.

This year's survey asked participants to confirm whether they had made use of the Coronavirus Job Retention Scheme. All participating banks confirmed that they had not made use of the scheme and therefore had not furloughed staff as a result of the Covid-19 pandemic.

[10] Data concerning payment deferrals is sourced directly from UK Finance and its members.



Graduate recruitment

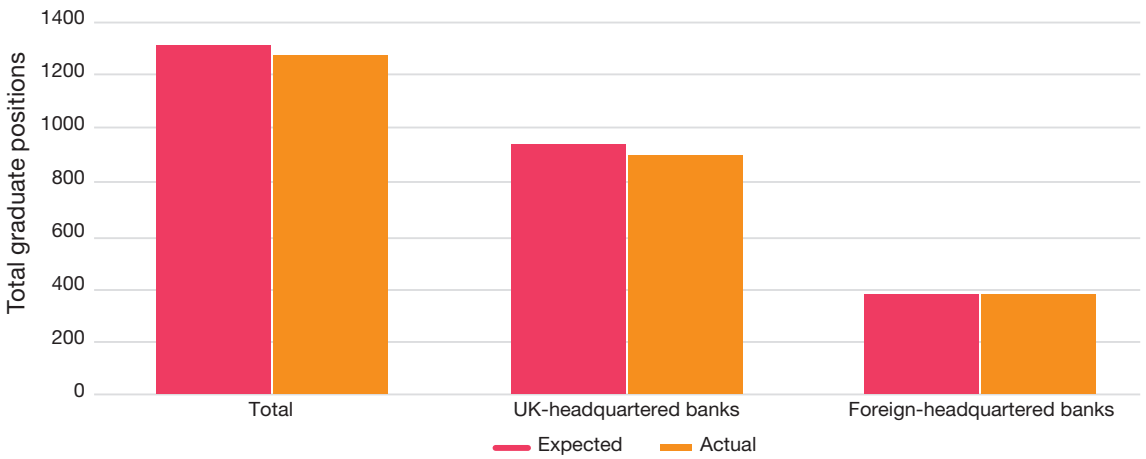
Younger generations have been severely affected by the Covid-19 pandemic. School and university closures have left many young people uncertain about their future career prospects as they make the transition from education into the labour market. In addition, many industry sectors which have been significantly impacted by the pandemic have either reduced their labour force or have furloughed staff until economic conditions improve.

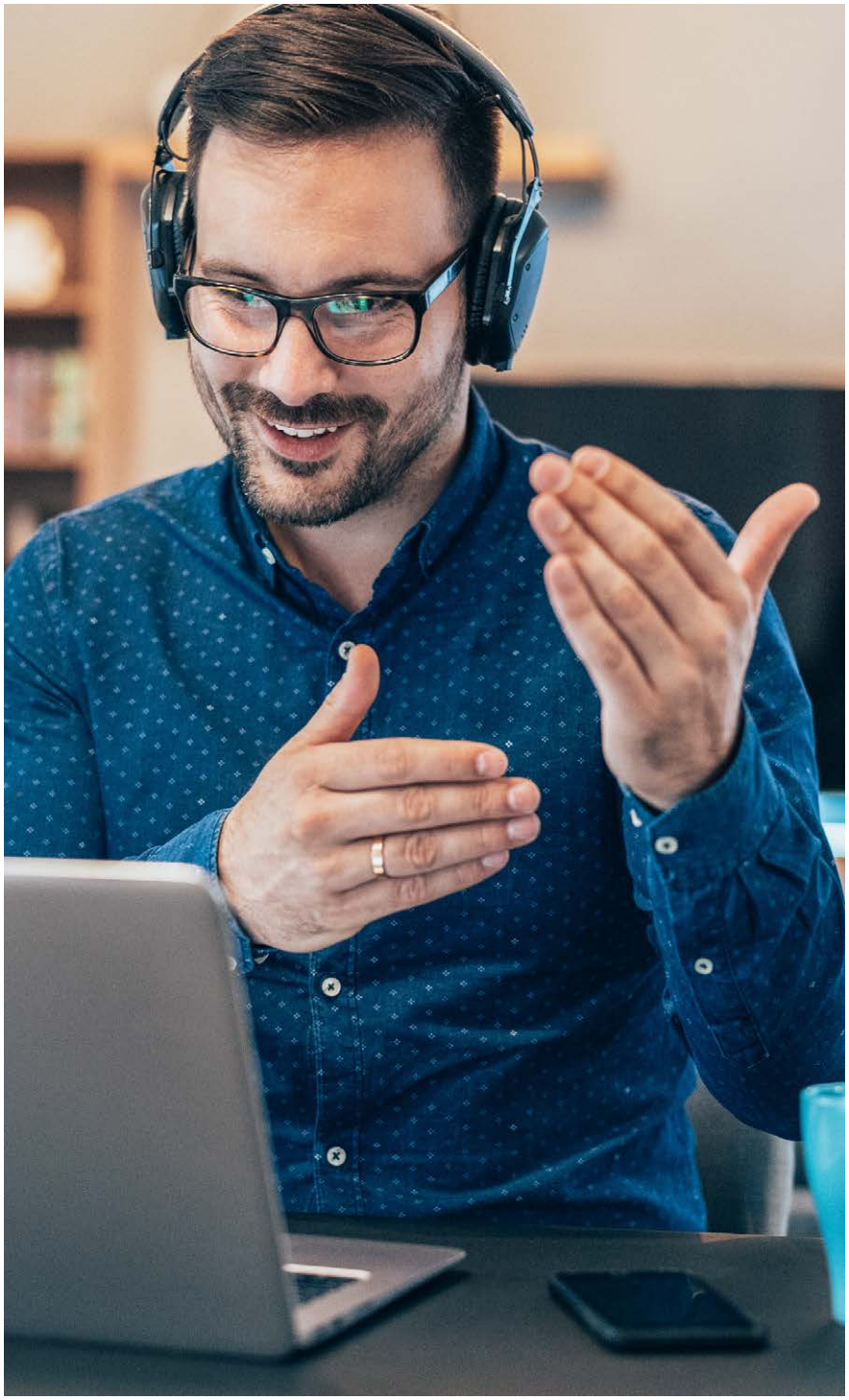
Graduate recruitment is perceived by many to be a performance indicator for the wider economy. Many companies who employ graduates or apprentices do so via training contracts which can last up to three or four years, and the additional education costs attached to the contract are borne by the employer over the duration of the agreement. For many employers, training agreements are viewed as longer-term investments with substantial up-front costs.

The UK banking sector as a whole employs thousands of graduates every year on training contracts and invests significantly in their careers. As part of the study, participants were asked to confirm what impact the Covid-19 pandemic had on actual graduate recruitment levels in 2020. Figure 16 highlights that the actual level of graduate recruitment decreased marginally, by 3%, compared to the expected level of recruitment.

Participant banks employed just under 1,300 graduates in 2020.

Figure 16: 2020 graduate recruitment (expected versus actual)





International comparison

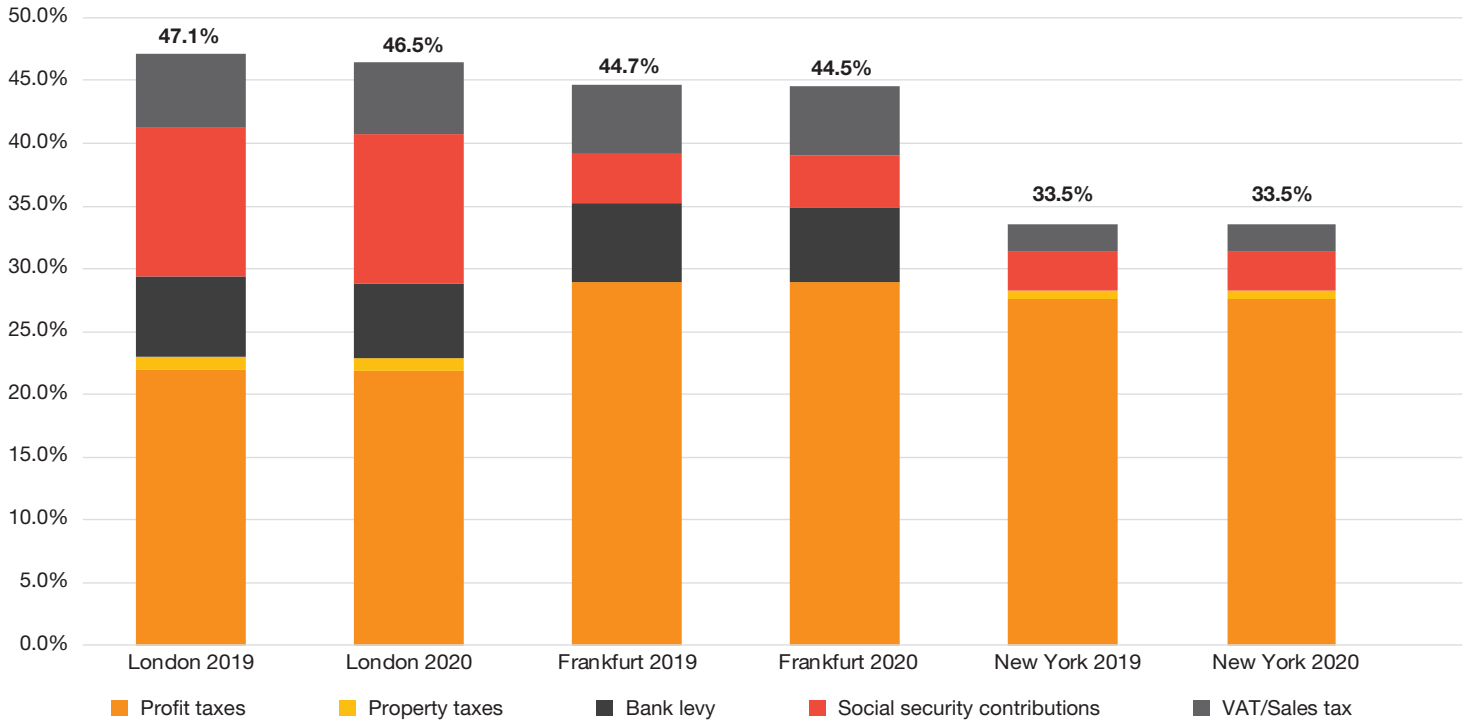
We are often asked how the taxation of banks in the UK compares with that in competitor jurisdictions. It is however not possible to use TTC data to compare bank taxation in the UK with that of other jurisdictions as, to date, similar TTC exercises have not been carried out in other significant financial centres.

It is important that governments and businesses understand not just the differences between headline tax rates in different jurisdictions, but also their practical implications and how the different taxes interact with each other. This understanding will be even more important as governments determine their fiscal response to the Covid-19 pandemic.

To aid this understanding, we have again compared bank taxation in the UK with that in New York and Frankfurt, using a high-level modelling approach based on that used by the World Bank for the Paying Taxes indicator in their Doing Business study[11].

As explained in Appendix 2, our model includes various assumptions and is intended for illustrative comparative purposes only. Specific facts and circumstances may of course give rise to different outcomes on a case by case basis. The model comparison of Total Tax Rates in these jurisdictions has allowed us to understand the significant taxes which are currently levied on banks, including but not limited to corporate income tax, bank levy, social security contributions and VAT. While the model provides a more accurate comparison than looking at statutory tax rates alone, it does not consider all of the complexities of taxation that banks would face in practice. It also does not consider differences between the various regulatory, legal and economic environments.

Figure 17: Total Tax Rate of the model bank in 2019 and 2020



As shown in Figure 17 the Total Tax Rates for the model banks were largely unchanged between 2019 and 2020. In last year's study we predicted a reduction in the UK's Total Tax Rate to 45.3% in 2020 as a result of the planned reduction in the corporation tax rate from 19% to 18% from 1 April 2020. In the 2020 Budget, however, the planned reduction was cancelled and the rate was kept at 19%.

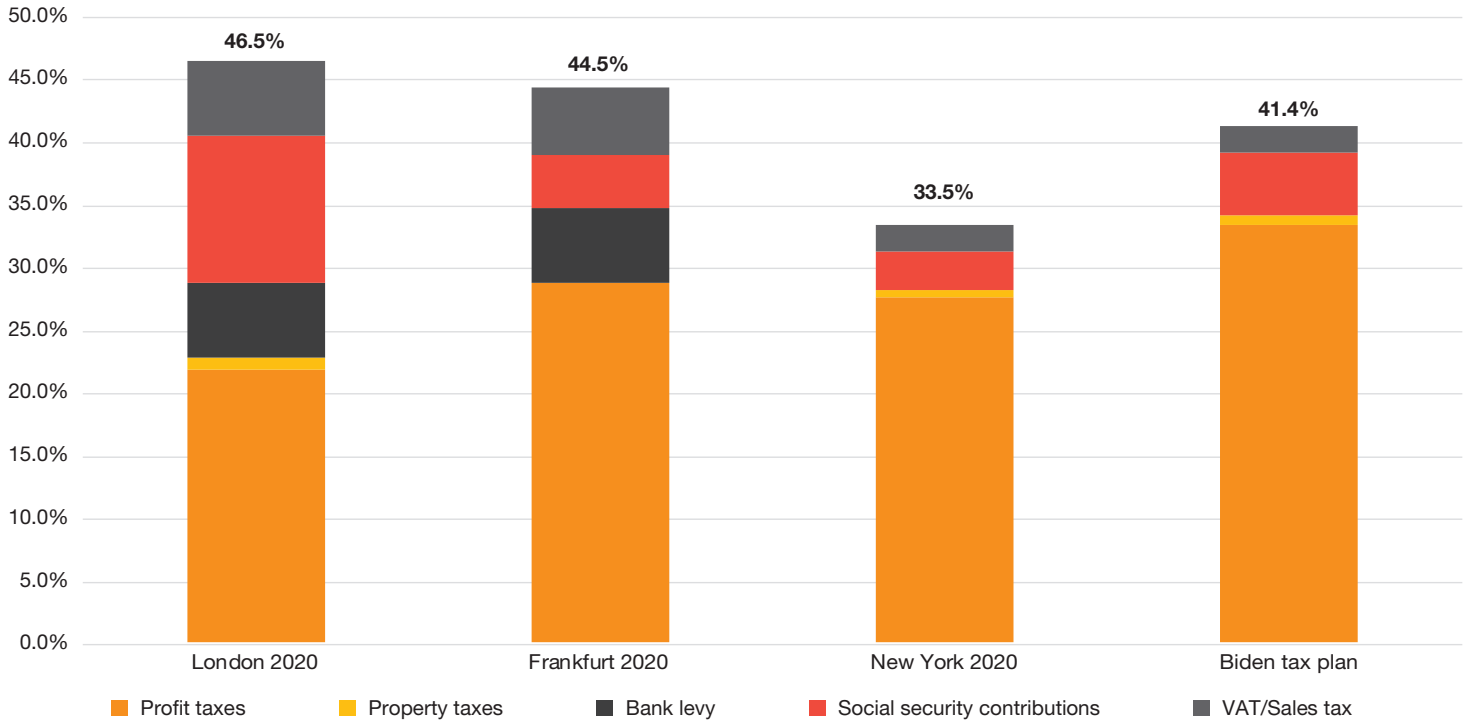
The 0.6 percentage point reduction in the UK Total Tax Rate is largely the result of reductions in the rates of bank levy. In all three countries there were minor changes to the rates and/or thresholds for employers' social security contributions, but these had only a minor impact on the Total Tax Rate.

[11] www.doingbusiness.org.

In the course of his election campaign, Joe Biden proposed changes to the US tax system[12]. While it is still too early to know how likely it is that these will be enacted, it is possible to look at the impact of two of the most significant proposals on the taxes borne by our model bank and this is shown in Figure 18 with the 2020 model figures for comparison. The two changes in question are the proposed increase in the headline rate of US federal corporate income tax from 21% to 28% and the imposition of the 12.4% rate of social security contributions on salaries above $400,000, split equally between employers and employees. This proposed change would mean that the element of salaries between $137,700, the current wage cap, and $400,000 would not be subject to the social security contribution.

Although there is substantial doubt over the likelihood of both of these changes being introduced in their current form, the modelling illustrates that the New York Total Tax Rate, taking into account both potential changes, would increase by 7.9 percentage points to 41.4%, 5.9 percentage points being due to the increase in the corporate income tax rate and 2.0% to the social security changes. A number of other tax changes have been proposed, but the modelling of these is beyond the scope of this exercise.

Figure 18: Total Tax Rate of the model bank in 2020 compared to the impact of selected elements of Joe Biden's tax plan



[12] https: taxfoundation.org joe-biden-tax-plan-2020

Trends in Total Tax Contribution

Changes in tax legislation

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

Loss relief restriction: In the 2014 Autumn Statement 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 2016 budget it was announced that the restriction would be 25% for pre-April 2015 losses.

Bank surcharge: From 1 January 2016 the government introduced an 8% surcharge tax on the taxable profits of banks with certain reliefs added back (any group relief for the period from non-banking companies and any relief arising before 1 January 2016).

Corporation tax: The rate decreased from 23% in 2013/14, to 21% in 2014/15, to 20% in 2015/16 and 2016/17 and to 19% in 2017/18.

Compensation expenditure: 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 or liabilities reduced from 0.080% in 2018 to 0.075% in 2019. The rate was 0.070% in 2020 and will be 0.050 after 1 January 2021. The rate for short term chargeable equity or liabilities reduced from 0.160% in 2018 to 0.150% in 2019. The rate was 0.140% in 2020 and will be 0.100% after 1 January 2021. The scope of the bank levy is currently applied to the global consolidated balance sheet of a UK-headquartered bank, but only to the UK balance sheet of a foreign-headquartered bank. This scope will be restricted to UK operations only with effect from 2021.

Income tax deducted under PAYE: The personal allowance threshold increased from £11,850 to £12,500 in 2019/20. The higher rate threshold in England, Northern Ireland and Wales increased from £34,501 to £37,501 in 2019/20.

Employer NIC: The upper earnings limit increased from £46,356 to £50,004 in 2019/20.

Apprenticeship levy: The Apprenticeship Levy is a levy on UK employers (with annual pay bills in excess of £3 million) to fund new apprenticeships. The levy came into effect on 6 April 2017 and is payable through PAYE. The levy is charged at a rate of 0.5% of an employer's paybill. Each employer will receive an allowance of £15,000 to offset against their levy payment. Companies are able to receive funds from the levy they have paid in order to spend on apprenticeships.

Trend in Total Tax Contribution between 2019 and 2020

Thirty-six companies provided data for both the 2019 and 2020 studies and we are able to analyse the trends on a like-for-like basis for these companies. There has been a decrease in both taxes borne and taxes collected in 2020, resulting in a 3.5% decrease in TTC.

Taxes borne decreased by 3.2%, as falling profits led to a decrease in corporation tax (Figure 19). Profits were impacted by a range of factors, including low interest rates, continuing economic uncertainty and lower equity trading throughout 2019.

Taxes collected decreased by 3.9%, driven by stamp duty reserve tax, and net VAT (Figure 20). The decrease in SDRT was due to lower trading activity as a result of lower volatility in equity markets in 2019[13], while the decrease in net VAT is partially due to a decrease in output VAT (e.g. on trading activities and leasing deals) and a readjustment following the significant increase in net VAT in last year's survey.

Figure 19: Trend in taxes borne, 2019 – 2020

	Trend as % of total taxes borne
Corporation tax (incl. bank surcharge)	(3.6%)
Bank levy	(0.4%)
Irrecoverable VAT	0.6%
Employer NIC	0.1%
Other taxes borne	0.1%
Total taxes borne	**(3.2%)**

Figure 20: Trend in taxes collected, 2019 – 2020

	Trend as % of total taxes collected
Employment taxes	(0.6%)
Net VAT	(1.1%)
Tax deducted at source	(0.4%)
Stamp duty reserve tax	(1.7%)
Other taxes collected	(0.1%)
Total taxes collected	**(3.9%)**

[13] LSEG market report, December 2019 **LSEG – Electronic Order Book Trading**.

There was significant variation between the two-year trends of the UK-headquartered and foreign-headquartered banks, with the foreign banks driving the overall decrease as shown in Figures 23 and 24.

For the UK-headquartered banks in the survey, taxes borne increased by 0.9%, driven by irrecoverable VAT, partially offset by a decrease in corporation tax and bank levy (Figure 21). Taxes collected remained relatively flat compared to the previous year, increasing by 0.2%, driven by employment taxes, partially offset by tax deducted at source and SDRT (Figure 22).

For the foreign-headquartered banks in the survey, taxes borne decreased by 10.0%, driven by corporation tax (Figure 23). Taxes collected decreased by 8.5%, driven by SDRT, net VAT and employment taxes (Figure 24). SDRT is a larger share of foreign banks' taxes collected compared to the UK banks, as trading makes up a larger part of their operations. Foreign banks account for over 80% of the SDRT in the survey. There has been a decrease in income tax deducted under PAYE, following above inflation increases to the Personal Allowance and Higher Rate Threshold in 2019/20.

Figure 21: Trend in taxes borne for UK-headquartered banks, 2019 – 2020

	Trend as % of total taxes borne
Corporation tax (incl. bank surcharge)	(0.3%)
Bank levy	(0.8%)
Irrecoverable VAT	1.6%
Employer NIC	0.2%
Other taxes borne	0.2%
Total taxes borne	**0.9%**

Figure 22: Trend in taxes collected for UK-headquartered banks, 2019 – 2020

	Trend as % of total taxes collected
Employment taxes	1.0%
Net VAT	0.4%
Tax deducted at source	(0.8%)
Stamp duty reserve tax	(0.5%)
Other taxes collected	0.1%
Total taxes collected	**0.2%**

Figure 23: Trend in taxes borne for foreign-headquartered banks, 2019 – 2020

	Trend as % of total taxes borne
Corporation tax (incl. bank surcharge)	(8.9%)
Bank levy	0.0%
Irrecoverable VAT	(1.0%)
Employer NIC	(0.2%)
Other taxes borne	0.1%
Total taxes borne	**(10.0%)**

Figure 24: Trend in taxes collected for foreign-headquartered banks, 2019 – 2020

	Trend as % of total taxes collected
Employment taxes	(2.4%)
Net VAT	(2.9%)
Tax deducted at source	(0.1%)
Stamp duty reserve tax	(3.1%)
Other taxes collected	0.0%
Total taxes collected	**(8.5%)**

Trend in Total Tax Contribution between 2014 and 2020

Figure 25 displays the trends in taxes borne, taxes collected and TTC since the survey began in 2014, based on data from banks that have participated in each year of the survey. It shows that the increasing TTC between 2014 and 2018 was due to increases in taxes borne by the banks. Over this period, taxes borne increased by 58%, primarily due to increases in corporation tax, bank levy and irrecoverable VAT (Figure 26).

The increase in corporation tax is driven by the introduction of loss relief restriction and compensation payment restrictions in 2015, the introduction of the bank surcharge in 2016, and increasing profitability.

Taxes collected decreased in 2017 following the introduction of the personal savings allowance in 2016 and the associated removal of the obligation on banks to deduct tax at source from account interest. There has been a further decrease this year driven by SDRT and net VAT.

Figure 25: Trend in taxes borne, taxes collected and Total Tax Contribution, 2014 – 2020

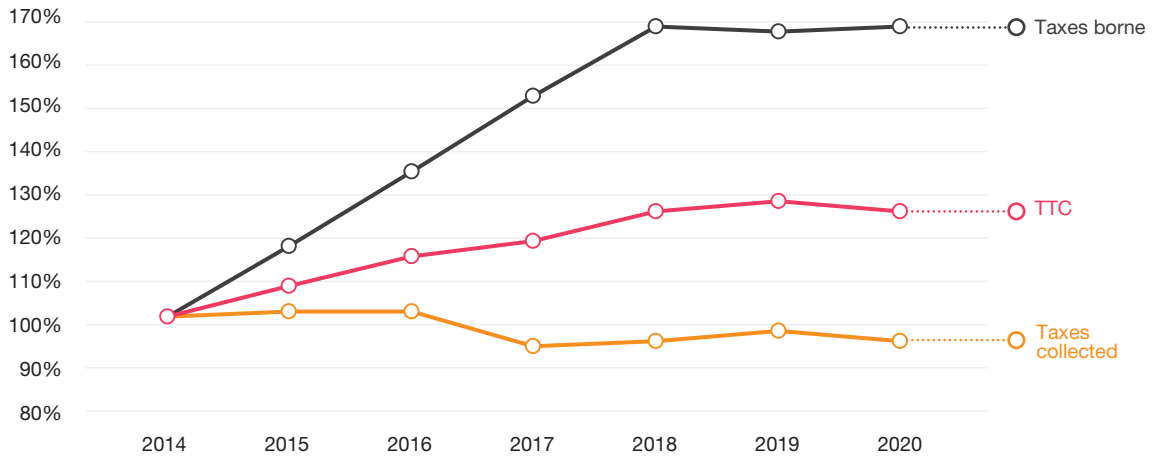


Figure 26: Trends in taxes borne, 2014 – 2020

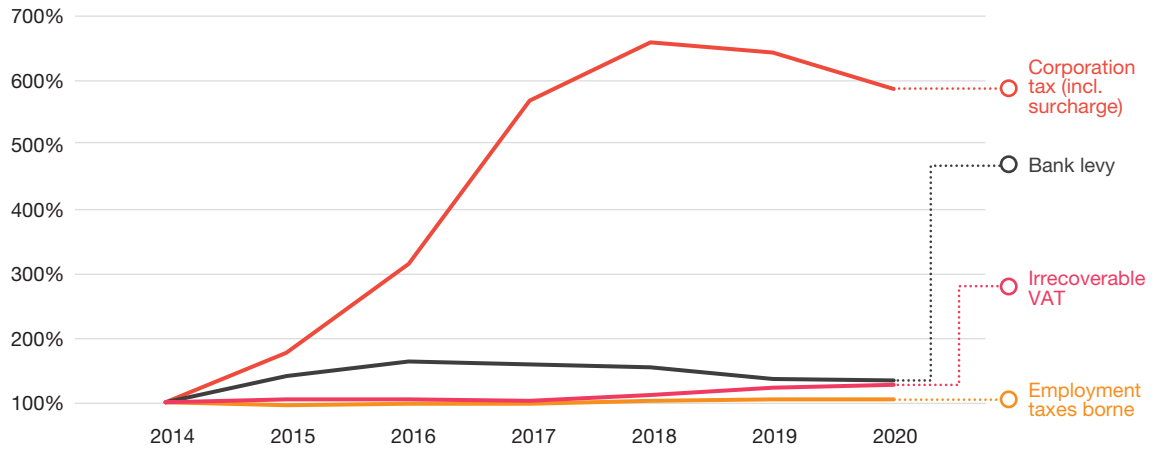
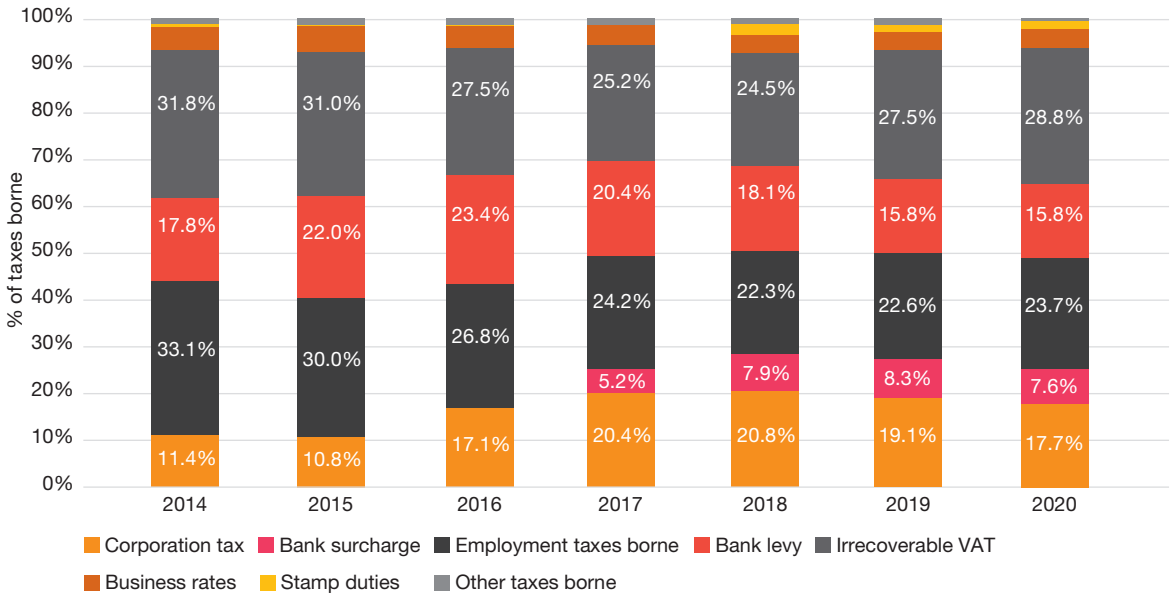
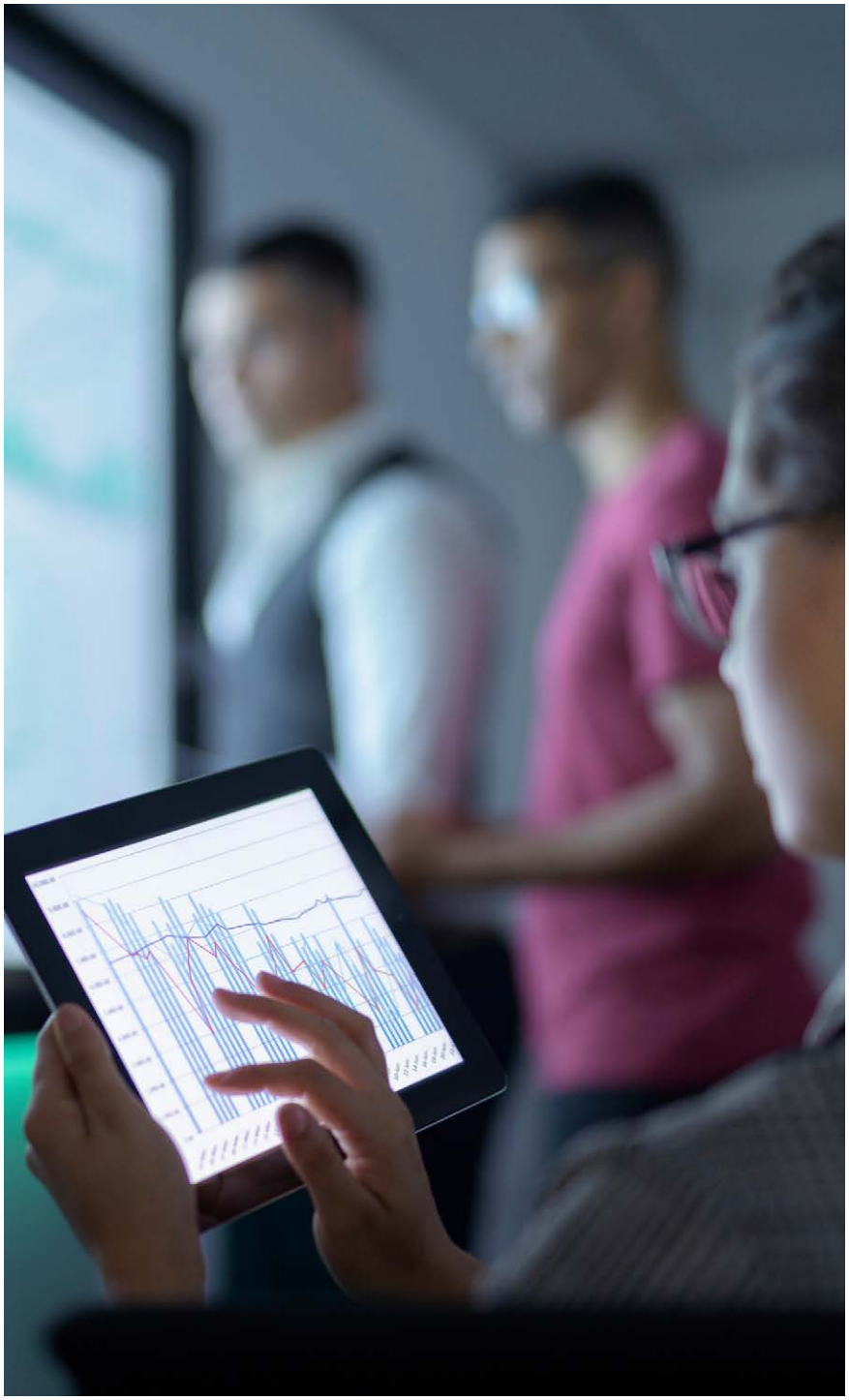


Figure 27 illustrates the change in the profile of taxes borne from 2014 to 2020. Corporation tax has become more significant from 2016 onwards, reflecting growth in profits as well as the impact of the bank surcharge and legislative changes restricting loss relief and compensation payment relief. The proportion of taxes borne taken up by bank levy shows the increase to 2016 and a decrease commencing from 2017, largely due to the rate changes described in the bank levy section. The relative proportions of employment taxes borne have decreased over this period due to the increases in corporation tax and bank surcharge.

Figure 27: Trend in the profile of taxes borne, 2014 – 2020





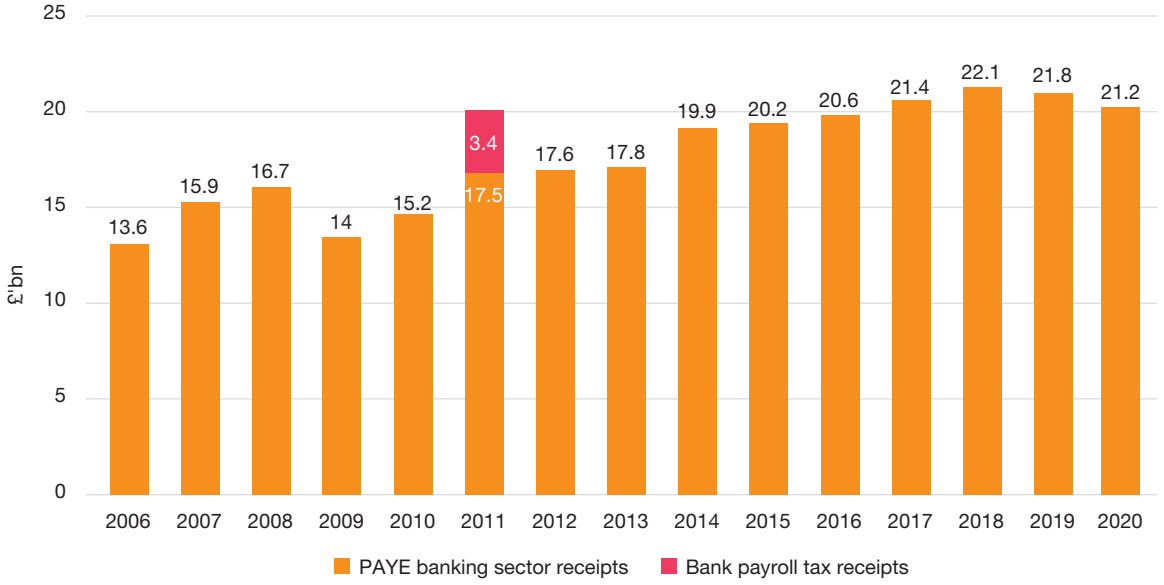
Employment taxes

Employment in the banking sector – government data

The banking sector is dependent upon and employs highly skilled workers, and employment is an important way in which the sector contributes to the UK economy. Employment taxes (income tax deducted under PAYE, employer and employee NIC and apprenticeship levy) paid by the sector in 2020 amounted to £21.2bn, 6.8% of all UK employment tax receipts[14]. The sector provides employment for 1.2% of the UK workforce, and accounts for 36.0% of the UK Financial Services workforce[15].

Figure 28 shows the employment taxes trend for the banking sector based on government receipts 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[16], which was paid in 2011, increased government receipts from the banking sector. In addition to this, there were a variety of changes in employment taxes over the period. Figure 28 also shows the impact of the introduction of the 50% rate of income tax in 2011 and the 1% increase in employer and employee NIC in the same year. Changes to income tax thresholds and rates and NIC thresholds have also led to increased employment taxes. ONS data shows a 2.2% increase in banking sector employment between 2018 and 2019.

Figure 28: Employment tax receipts, 2006 – 2020[17]



[14] The Office for Budget Responsibility (OBR) – November 2020 Economic and fiscal outlook – supplementary fiscal tables: receipts and other. Table 2.8 Current receipts (on a cash basis-forecast)

[15] ONS Industry (2, 3 and 5 – digit SIC) – Business Register and Employment Survey (BRES): Table 2. 2019 banking sector workforce was 388,200, based on ONS SIC 641 (Monetary intermediation). 2018 financial services workforce was 1,051,000, based on ONS SIC codes 64 (Financial service activities), 65 (Insurance; reinsurance and pension funding), and 66 (Activities auxiliary to financial services and insurance activities)

[16] 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.

[17] PAYE data has been revised from 2013-14 onwards with new banks included and improved data matching. This data may not be directly comparable with earlier years.

Employment in the banking sector – study data

The thirty-nine participants in the study employed 339,642 workers and paid total employment taxes of £13.4bn comprising employment taxes borne of £3.5bn (employer NIC, PSA and apprenticeship levy) and employment taxes collected of £9.9bn (income tax deducted under PAYE and employee NIC).

The study participants encompass a broad range of banking activities including both retail and investment banks. They employ highly skilled, well paid employees drawing upon a global talent pool.

The average salary, particularly in the investment banks, exceeds the national average, emphasising the contribution that the banking sector makes through the employment of highly skilled people. For every employee, an amount is paid to the public finances in employment taxes.

Looking at employment taxes borne and collected, the average tax per employee (calculated by taking the total employment taxes for the study population and dividing it by the total number of employees within that population) was £35,626 for the banking sector.

Trends in employment taxes – study data

Thirty companies provided data on their number of employees, wages and salaries and employment taxes for both the 2019 and 2020 surveys. We are therefore able to analyse the two-year on a like-for-like basis for these companies.

Two-year trends (2019 – 2020)

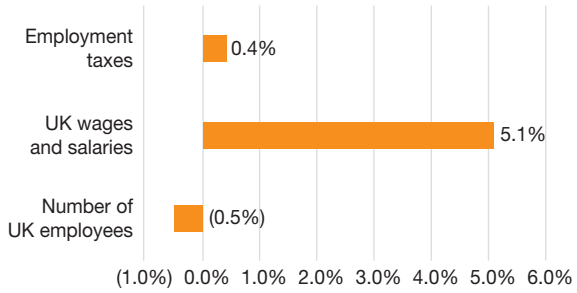
Figure 29 shows that employment taxes increased by 0.4% compared to an increase of 5.1% in UK wages and salaries and a 0.5% decrease in the number of UK employees. The increase in wages and salaries not being reflected in employment taxes is due to timing differences (wages and salaries include amounts accrued which do not give rise to payroll tax payments in the same accounting period), together with the above inflation increase to the Personal Allowance and the Higher Rate Threshold for income tax.

The decrease in total employees is being driven by the UK-headquartered banks.

a) UK-headquartered banks (representing the retail banking sector) have experienced a decline in the number of employees as a result of restructuring in response to the growing popularity of online and mobile banking.

b) Foreign-headquartered banks hired more employees due to a combination of investment in headcount for Brexit preparations, IT implementation support and business transformation, however, this is unlikely to be indicative of the longer-term trend.

Figure 29: Trend in number of employees, salaries and wages and employment taxes, 2019 – 2020

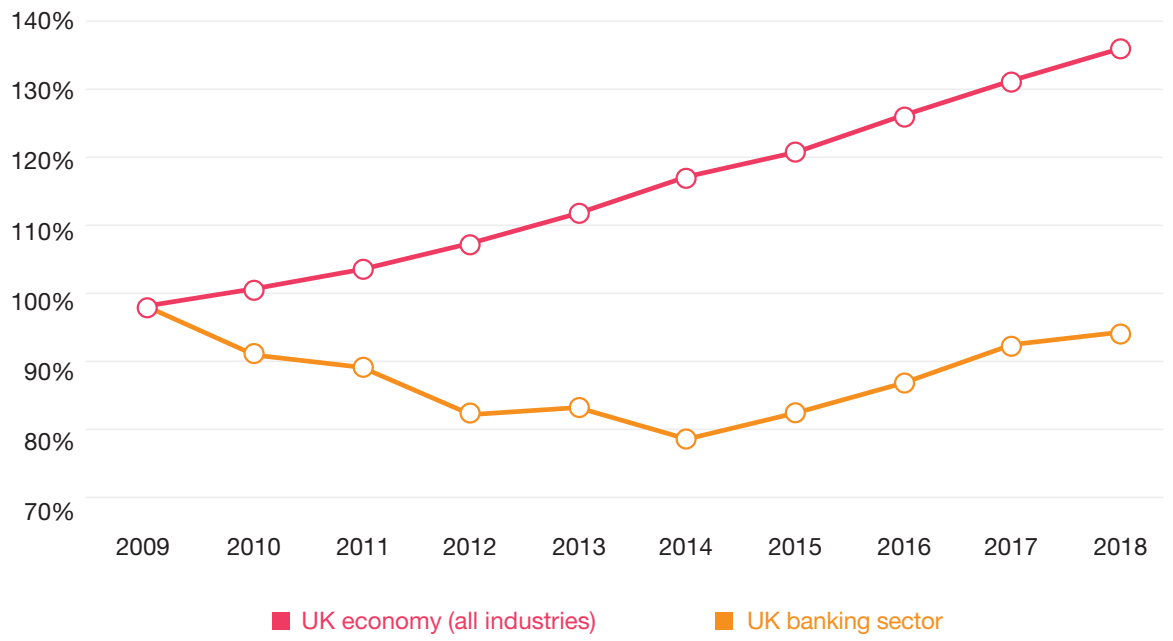


Gross value added for the UK banking sector

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 gross domestic product (GDP). The contribution made to GDP is typically measured by calculating gross value added (GVA) which is a measure of the value of goods and services produced in an area, industry or sector of an economy. Figure 30 shows a falling trend in the banking sector GVA from 2009 to 2014, with an upturn in 2015 followed by stronger growth starting from 2016.

By comparison, the GVA for the economy as a whole has increased steadily over this period. The GVA for the banking sector in 2018 was 4.2% of the GDP of the UK economy which compares to tax receipts for the banking sector in the same year of 5.4% of total government tax receipts

Figure 30: Gross value added by the banking sector compared with the UK economy, 2009 to 2018 (2009 = 100)



[18] ONS regional gross value added (balanced) by industry.

Corporation tax

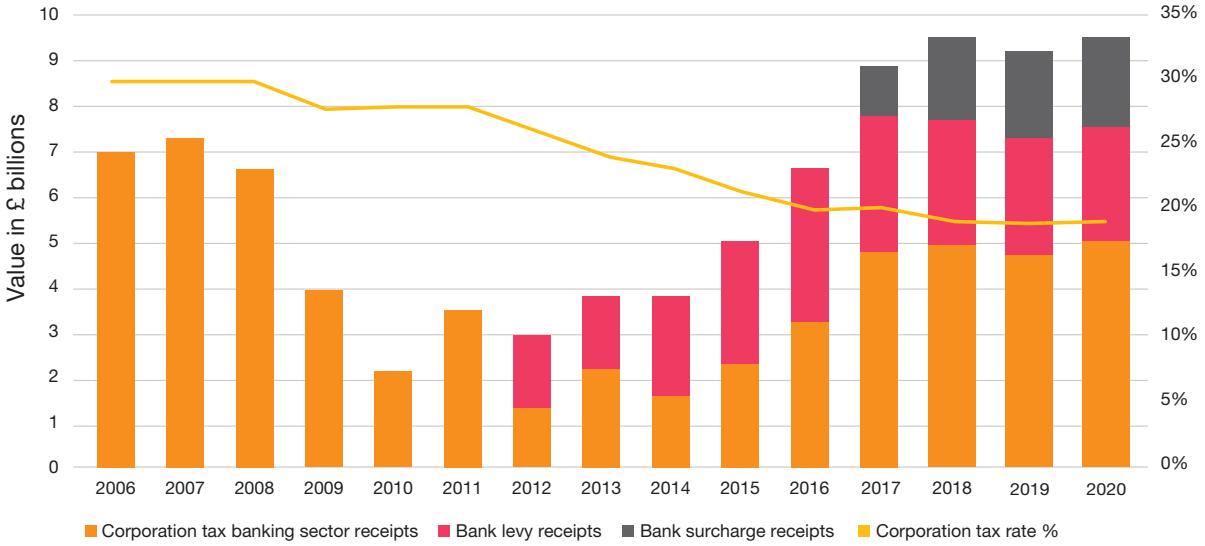
Corporation tax payments from study participants totalled £3,698 million, including bank surcharge payments of £1,110 million. Looking at the companies that provided data for both profits and corporation tax, profits decreased compared to the previous year. Profits were impacted by a range of factors, including low interest rates, continuing economic uncertainty and lower equity trading during 2019.

Government figures provide data over a longer period and show that receipts of corporation tax (including bank surcharge) and bank levy were £9.5bn in 2020 (Figure 31). HMRC data shows that corporation tax (including the surcharge) has increased by 6.1% compared to 2019 from £6.6bn to £7.0bn.

Loss-relief restriction

From 1 April 2015, the proportion of banks' taxable profit that is eligible to be offset by carried-forward losses was restricted to 50%, and in April 2016 this was restricted further to 25% for pre-April 2015 losses. The restriction applies to carried forward trading losses, non-trading loan relationship deficit and management expenses. Of the thirty-nine participating banks, thirty-four companies provided data quantifying the impact of the loss restriction in the year. Seven of the thirty-four banks were affected by the legislation, resulting in an additional £622 million of corporation tax in 2020.

Figure 31: Government receipts of corporation tax and bank levy from the banking sector

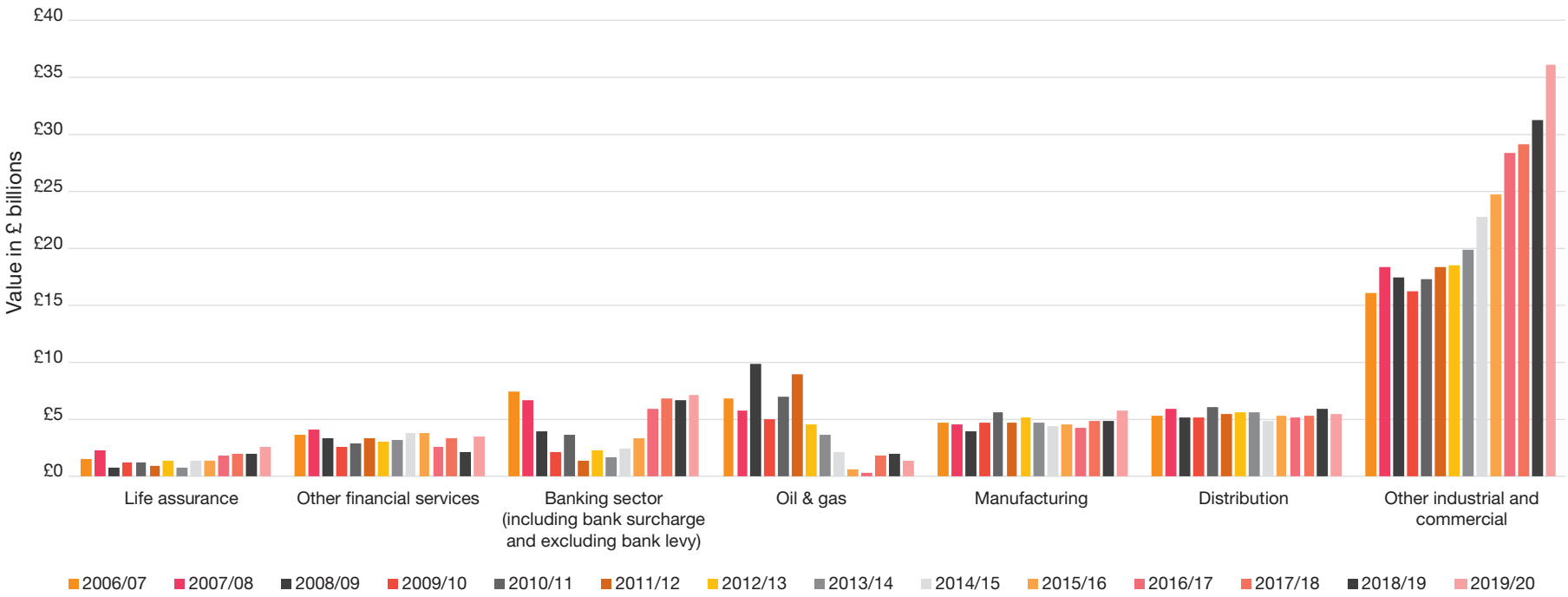


Compensation payments restriction

Compensation expenditure arising on or after 8 July 2015 is not deductible for corporation tax purposes. Thirty-seven of the thirty-nine participating banks provided data quantifying the impact of the compensation payment restriction in the year. Out of those thirty-seven companies, ten were affected by the legislation, resulting in an additional £732 million of corporation tax in 2020.

Figure 32, based on government data, shows corporation tax payments by industry sector between 2006-07 and 2019-20. It illustrates the recent growth in corporation tax payments from the banking sector due to recovering profitability and the impact of legislative changes.

Figure 32: Corporation tax receipts by sector, 2007 to 2020



Irrecoverable VAT

Irrecoverable VAT was the largest tax payment for the study participants, accounting for 28.8% of total taxes borne, an increase from 27.5% in the previous study. In 2020, irrecoverable VAT increased for the UK-headquartered banks, reflecting an increase in input tax due to office and technology investment. The total irrecoverable VAT for the thirty-nine participant banks was £4.2bn. We have estimated[19] total irrecoverable VAT for the UK banking sector of £5.0bn in 2020. On a like-for-like trend basis, the amount of irrecoverable VAT paid increased by 2.2% between 2019 and 2020.

Despite irrecoverable VAT being one of the largest taxes paid by banks and other financial services companies, there is limited publicly available data on the tax, and it is not widely understood. Typically, when a business supplies goods and services, the VAT charged will be offset against the VAT it has incurred on purchases used to run the business (input VAT). Where the supplies of a company are exempt from VAT, as is often the case for financial services companies, VAT is not charged to customers and the company cannot recover its input VAT.

Irrecoverable VAT has increased significantly since 2011, as explained in the first TTC study in 2015. 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.

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

Bank Levy

The financial crisis and subsequent legislative changes have resulted in a fundamental shift in the taxation of the banking sector. The bank levy was introduced in 2011, based on the equity and liabilities of banks, 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 rate of the levy increased each year between 2011 and 2015 and, from 2016, rates began to gradually decrease, and will do so each-year up until 2021 (Figure 33).

Figure 33 shows the rate of bank levy since its introduction. Bank levy receipts in 2019 were 3.8% lower than in 2018 (from £2.6bn to £2.5bn). The banks participating in this study paid bank levy of £2.3bn in 2020, accounting for 92.8% of total bank levy receipts, and representing 15.8% of total taxes borne. The scope of the bank levy is currently applied to the global consolidated balance sheet of a UK-headquartered bank, but only to the UK balance sheet of a foreign-headquartered bank. This scope will be restricted to UK operations only with effect from 2021.

Figure 33 – 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 percentage points (base year 2011)	Increase in the long term rate of bank levy percentage points (base year 2011)
2011	0.075%	0.038%	1.00	1.00
2012	0.088%	0.044%	1.17	1.16
2013	0.130%	0.065%	1.73	1.71
2014	0.156%	0.078%	2.08	2.05
2015	0.210%	0.105%	2.80	2.76
2016	0.180%	0.090%	2.40	2.37
2017	0.170%	0.085%	2.27	2.24
2018	0.160%	0.080%	2.13	2.11
2019	0.150%	0.075%	2.00	1.97
2020	0.140%	0.070%	1.87	1.84
2021	0.100%	0.050%	1.33	1.32

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:

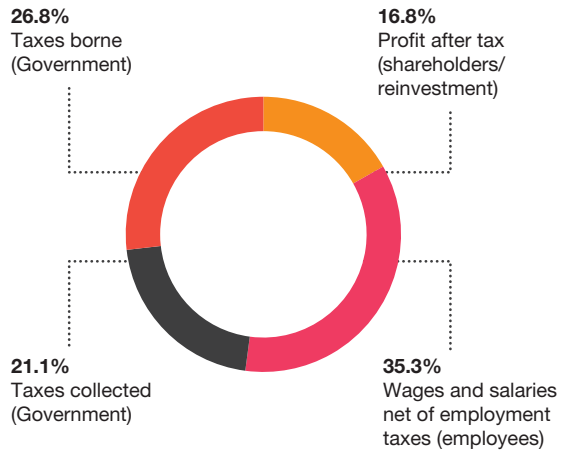
1. For the study participants as a whole (overall basis), we take the TTC for all participants as a percentage of turnover for all participants. This metric reflects the position for the participating banks as a whole, but will give weight to the larger banks.
2. Mean – We calculate the TTC turnover 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 – 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 for reinvestment or 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 34 shows the profile of value distributed by the participants on an overall basis. Total Tax Contribution paid to the government represents 47.9% of the value distributed, while a further 35.3% is paid to employees as wages and salaries. Profit after tax which is paid to shareholders as dividends or reinvested is 16.8%. Taxes borne account for 26.8% of the total for the study participants, and taxes collected a further 21.1% of the total.

Figure 34: 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. On an overall basis, taking total taxes borne for participating banks, as a percentage of total profit before taxes borne, the TTR was 51.1%[20]. This reflects the challenging conditions faced by some of the largest banks with low profits or losses. The mean TTR, giving equal weight to the large and small banks, is 45.6% (Figure 35). Appendix 4 gives further details of the Total Tax Rate calculation.

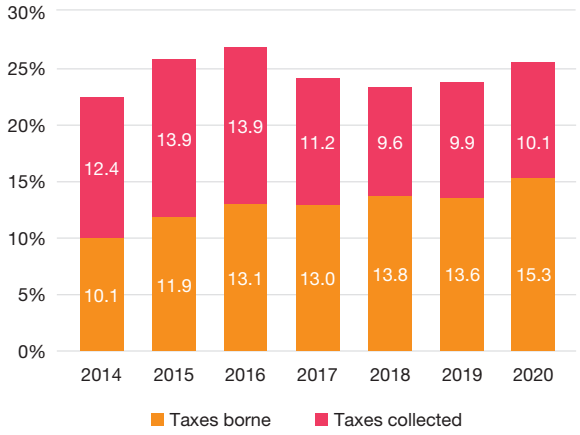
Figure 35: Total Tax Rate

	TTR
Overall	51.1%
Mean	45.6%
Median	40.0%

Total Tax Contribution as a percentage of turnover

On average, for the banks participating in the study, TTC as a percentage of total UK turnover[21] was 25.4%, comprising 15.3% of taxes borne and 10.1% of taxes collected[22]. Figure 36 shows that the percentage in 2020 has increased compared to 2019, and the long-term trend shows that the proportion of taxes borne has been increasing since 2014.

Figure 36: TTC as a percentage of turnover, 2014 – 2020



[20] The overall average Total Tax Rate was 51.1%, the mean was 45.6%, the median 40.0%, and the range 16.0% to 91.7%. (2019: The overall average Total Tax Rate was 47.6%, the mean was 43.4%, the median was 36.8%, and the range 17.8% to 161.1%).

[21] For banks, turnover represents net interest receivable plus other (net) financial income.

[22] The overall average TTC as a percentage of turnover was 21.8%, the mean was 25.4%, the median 22.7%, and the range 9.3% to 84.2%. (2019: the overall average TTC as a percentage of turnover was 23.7%, the mean was 23.5%, the median 23.9%, and the range 9.5% to 45.5%).

Looking forward

The coronavirus pandemic largely predated this year's survey, so any impact that the crisis might have on the tax contribution of the UK banking sector will be seen in the 2021 survey. The UK suffered a sharp drop in economic output in the first half of 2020 as the nation went into a protracted period of lockdown restrictions, and a second wave of infections forced further restrictions over the winter months. While the economic impact has been severe, it has varied considerably across industry sectors. Although the financial services sector has shown resilience throughout the crisis[23], banking profits are expected to be significantly lower in 2020 and we can therefore expect a decrease in corporation tax paid by the banks in the 2021 report. Given that a significant proportion of bank taxes are not dependent on profit, we would expect this to result in another increase in the total tax rate next year.

Other factors that will have an impact going forward include the adjustment to the bank levy for UK-headquartered banks. From 1 January 2021, the bank levy was restricted to UK operations only. Since its introduction in 2011, the levy has applied to the global consolidated balance sheet of UK-headquartered banks, but only to the UK balance sheet of a foreign-headquartered bank.

Next year's survey will also include the end of the Brexit transition period, when the UK formally left the EU customs union and single market. As of 1 January 2021, a new trading relationship took effect. As this report is published it is too soon to comment on how the new relationship might affect the UK banking sector, but the survey will continue to provide insight into how key trends evolve as a consequence of the new relationship.

[23] ONS Coronavirus and the impact on output in the UK economy: October 2020 https: www.ons.gov.uk economy grossdomesticproductgdp articles coronavirusandtheimpactonoutputintheukeconomy october2020

Appendices

Appendix 1 – Purpose, methodology and participation

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.

The study has been carried out for UK Finance[24] to look at the Total Tax Contribution made by a selection of its members in the banking sector.

The study shows that the 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 new taxes and recent legislative changes (bank surcharge, loss relief restriction, compensation payments restriction, apprenticeship levy) on the banking sector and how the contribution from the sector is changing over time.

The analysis provided by this 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 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 companies operating in the banking sector, relating to all UK tax payments in accounting periods ending in the year to 31 March 2020. For most study participants this was the year ending 31 December 2019.

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, bank surcharge, employer NIC, irrecoverable VAT, bank levy, apprenticeship 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, etc. 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 banks, 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.

[24] UK Finance is the trade association for firms providing finance, banking, mortgages, markets and payments-related services in or from the UK.

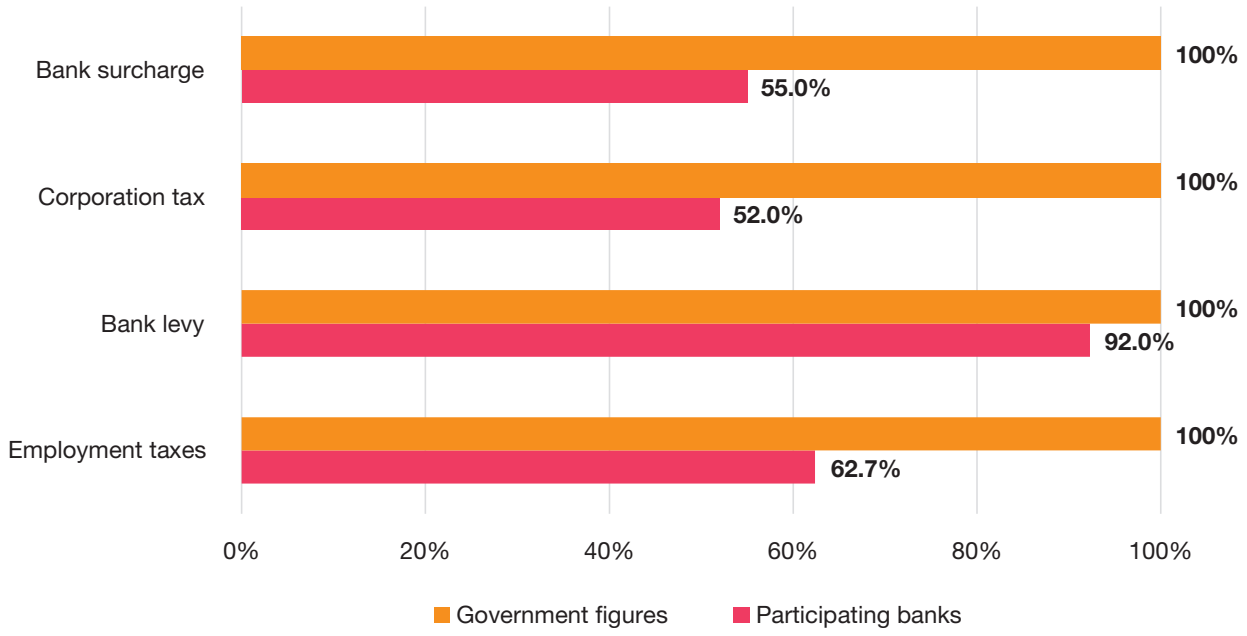
Participation in the TTC study

Thirty-nine banks participated in the study, providing data on their taxes borne and taxes collected for their accounting period ending in the year to 31 March 2020. Data was received from UK-headquartered and foreign-headquartered banks, both large and medium-sized operations. The data related to payments to the UK public finances. 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 data[25].

The government publishes data for receipts of employment taxes, bank levy and corporation tax from the banking sector. Figure 1a compares the data received from participating banks in this year's study with the government data:

- Employment taxes (income tax deducted under PAYE, employer and employee national insurance contributions and the apprenticeship levy) paid by study participants totalled £13.3bn accounting for 62.7% of government receipts from the banking sector (£21.2bn).
- Bank levy paid by study participants was £2.3bn comprising 92.0% of government receipts from the banking sector (£2.5bn).
- Corporation tax payments made by participants totalled £2.6bn which represents 52.0%[26] of corporation tax receipts (£5.0bn) from the UK banking sector.
- Bank surcharge paid by participants totalled £1.1bn making up 55.0% of the total bank surcharge receipts from the banking sector (£2.0bn).

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



[25] HMRC **'PAYE and Corporate Tax receipts from the banking sector: 2020'**.

[26] The share of banking sector corporation tax and bank surcharge from survey participants is lower this year, as a result of the change to the timing of instalment payments for the largest banks, which has inflated the government figures but did not have a significant impact on the survey data (as the data provided by the majority of banks in the survey preceded the change).

Appendix 2 – International comparison of tax rates based on a model bank

Methodology

To calculate the potential taxes borne and collected by banks, our model bank calculation includes several assumptions on the income statement, balance sheet, employee structure and activities carried out by the model bank. To build these assumptions, we extracted information from publicly available statutory accounts of UK subsidiaries of a number of overseas headquartered banks. Additionally, we also considered the ranges and averages of various metrics, such as profit margins and average salaries, to determine our case study parameters. As some of the data points that we needed for the model could not be determined by studying financial statements, our model was informed by discussions with banking members of UK Finance, with PwC specialists and consultation with HMRC and HM Treasury. The parameters of the model are the same as those in our previous report[27].

Model parameters

Banking activities – We assume the model bank conducts a mixture of corporate and investment banking activities, as a bank would have a realistic option of performing these in different locations regardless of the location of the customer. We have not included or considered retail banking as this would generally be performed in the same jurisdiction as that of the customer and therefore is a less mobile activity. The bank is also assumed to be standalone for tax purposes. i.e. it is not grouped with other related businesses in the same tax jurisdiction.

Capital structure – We have not taken into account the possible impact of banking regulations on capital structure as these were out of scope. The chosen capital structure may therefore not meet local regulatory requirements, but we do not believe this would significantly affect the tax profiles of the jurisdictions.

Locations – For the purposes of this model calculation, we have considered three major financial centres, namely London, Frankfurt and New York.

Income – The model bank has an estimated net operating income of £2.7bn of which 12% is net interest income, 44% is fee and commission income and 44% is net dealing income.

Expenses – We have assumed that our model bank has total estimated expenses (excluding all taxes borne) of £1.8bn of which 41% are salaries, 12% are staff costs, 45% are general and administration costs and 2% is depreciation and amortisation.

Employees – We have assumed that the model bank has 3,000 employees with an average salary of £248k. The employees are split into three categories, where 10% are senior employees with an average salary of £1,219k, 30% are middle level with an average salary of £287k and 60% are junior employees with an average salary of £67.5k.

Profit – We have assumed that the total estimated commercial profit[28] of the model bank totals £866 million. Specifically, for the London model, we have estimated the profit before tax to be £653 million with a 24% profit margin. The commercial profit will be the same in all three jurisdictions, however, the profit before tax will vary depending on the amount of the taxes borne in each jurisdiction.

Comparing the individual taxes

Calculating the taxes that would be borne by our model bank in each of the chosen locations suggests the following key points:

Taxes Borne

Employer's social security contributions

Of the three jurisdictions, the employer's social security contributions are the highest in London where they amount to 11.5% of commercial profit as a result of national insurance contributions being charged at 13.8% on the full amount of salary above £732 a month. For Frankfurt and New York, the employer's social security contributions are c.4% and 3% respectively as the contributions are either capped or charged at lower rates.

[27] 2019 UK Report https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/2019-total-tax-contribution-uk-banking-sector

[28] The commercial profit is the profit before all taxes borne.

Irrecoverable VAT

It is difficult to model the impact of irrecoverable VAT (or sales tax in the case of New York), as this will vary significantly depending on the individual circumstances of each bank. We have however assumed that 75% of the general and administrative costs would be subject to VAT with the rest of the costs being exempt. We also assumed that 60% of the VAT incurred would be recoverable. This is broadly in line with the levels of recoverability experienced by the UK banks we have spoken to and the resulting share of taxes borne accounted for by irrecoverable VAT is in line with our TTC data.

While there are some differences between the VAT regimes in the UK and Germany, these were not considered significant and are in any case outside the scope of this model. It is therefore the differences in the VAT rates of 20% for the UK and 19% for Germany that drives the different amounts of irrecoverable VAT estimated for these jurisdictions. For New York we have adopted a conservative approach and applied a combined sales and use tax rate of 8.875%. This is a combination of New York City sales tax of 4%, New York State sales and use tax of 4.5% and the Metropolitan Commuter Transportation District surcharge of 0.375%. We have also assumed that the sales tax base would be similar to that for VAT, although in practice we would expect it to be somewhat narrower.

In practice, the irrecoverable VAT (or similar taxes) will depend on the geographical split of the customer base in addition to the location of the bank. This introduces complexities in drawing comparisons between international locations with respect to irrecoverable VAT costs as a shift in the location of customer base, as well as the bank location may lead to a material change in VAT cost in that territory. However, our model is intended for illustrative comparative purposes only and specific facts and circumstances may of course give rise to different outcomes on a case by case basis.

Although VAT and sales tax are difficult to estimate, given the aforementioned rates, the similarities of many of the regimes, different levels of recoverability and proportions of costs being subject to VAT, the relative ordering of the locations is likely to be the same. As a percentage of commercial profit, the locations had the following irrecoverable VAT sales tax costs: London: 5.8%, Frankfurt: 5.5%, New York: 2.1%,

Bank Levy

Both the UK and Germany have bank levies which were simultaneously announced in 2011 in response to the global financial crisis. In the case of Germany, since the beginning of 2016, the bank levy has been pooled into the European Single Resolution Fund (SRF) which is expected to reach its target level of funding in 2023. After that it is expected that the bank levy will be suspended or at least greatly reduced as further funds will be needed only to maintain the level of the fund. The UK negotiated that it too would meet its obligations under the Bank Recovery and Resolution Directive and the Deposit Guarantee Schemes Directive through the bank levy and that historic receipts would count toward its target level. However, there is currently no indicated end point for the UK bank levy.

In the UK, the levy is calculated by applying a pre-determined rate to the bank's liabilities (see Figure [XX]). The bank levy rate is dependent on the risk associated with the different classes of liabilities, with some assets being offset against certain liabilities. The UK bank levy rates are expected to gradually decline until 2021, for further details on please see page [XX]. In Germany, the bank levy is assessed by the authorities based on the amount that needs to be paid to the Single Resolution Fund[29]. The amount is divided between the banks based on their size and the risk profile of their balance sheets, amongst other factors. Given the amount is assessed by the authorities, it has not been possible to calculate from first principles the amount of bank levy that our model bank would pay in Germany. We have instead relied on macro level data to estimate a typical payment for the model bank in this study. The Single Resolution Fund raised €1.99bn from Germany in 2019 and is expected to raise a similar amount in 2020. The most recently available data is the 2019 annual report from BaFin[30], the German regulator, which shows that total assets in 2019 were €8,755bn. We used the ratio of bank levy to total assets in our model to calculate the bank levy paid by the model bank in Frankfurt.

For the purposes of our model, we have determined that for 2020 our model bank would be subject to bank levy amounting to 5.9% of commercial profits in London and 6.0% in Frankfurt.

[29] The Single Resolution Fund (SRF) has been established by Regulation (EU) No 806 2014 (SRM Regulation). Where necessary, the SRF may be used to ensure the efficient application of resolution tools and the exercise of the resolution powers conferred to the SRB by the SRM Regulation. The SRF is composed of contributions from credit institutions and certain investment firms in the 19 participating Member States within the Banking Union. The SRF ensures that the financial industry, as a whole, finances the stabilisation of the financial system.

[30] BaFin Annual Report 2019 available from https: www.bafin.de EN PublikationenDaten Jahresbericht jahresbericht_node_en.html.

Corporate Income Tax

Of the three countries, the UK faces the highest levels of employer social security contribution, irrecoverable VAT sales tax and bank levy. It therefore has the lowest level of accounting profits as other applicable taxes are deducted in calculating accounting profit. There are a number of adjustments that could be made to accounting profits to determine taxable profits. These could include impairment adjustments, adjustments for pension payment, share scheme deductions and differences between tax and accounting depreciation for fixed assets. These adjustments are not included in our model as they are outside the scope of the project and most adjustments would not be expected to have a significant impact on the effective tax rates.

The bank levy is not deductible for corporate income tax in the UK or Germany. Tax incentives that could reduce the tax rates in New York were also out of scope. While these can be significant, they require a number of often complex conditions to be met in order for a company to be eligible for the incentives and as such, it is not possible to model all the conditions. In the US it is not unusual for banks to be structured as branches with a consequent effect on capital structure which may allow banks to have lower effective rates of tax than shown for our model which uses a company rather than a branch structure.

For the UK, we have used the 2020 tax rate of 19%, plus the 8% bank surcharge. For Germany, we have used a corporate income tax rate of 15%, plus a 5.5% surcharge and a 16.1%[31] trade tax rate for Frankfurt. For the US, the corporate income tax rate comprises a 21% federal rate, 6.65% New York state tax rate and a 9% New York City tax. Based on the above rates and our calculations, we have estimated the following profit taxes as a percentage of commercial profit: London: 21.9%, Frankfurt: 28.9%, New York: 27.6%.

Property Taxes

The UK, Germany and the US levy property tax based on the value or size of the property. These taxes are minimal relative to the other taxes covered. For Germany it was not possible to estimate the amount of property taxes due to legal uncertainty as to how the property would be valued.

Taxes collected

In addition to the taxes borne, we have also calculated the two most significant taxes collected by banks being (i) employee social security contributions and (ii) personal income tax paid by employees on their salaries.

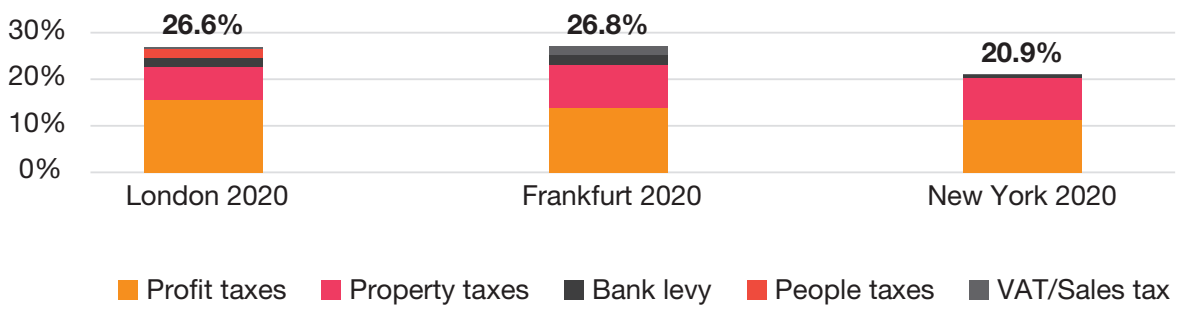
Employee social security contributions

In all three jurisdictions, employee social security contributions are relatively similar and are between 1.0% and 1.3% of net operating income (£26m to £36m)[32].

Personal income tax

With respect to personal income tax, our model bank would collect tax amounting to 11.0% of net operating income in Germany, 10.7% in the UK and 8.9% in the US. The amounts of personal income tax collected are driven by the income tax rates and the income bands to which they apply. In both the UK and Germany the top rate of tax is 45%, but there are differences in the income bands. In the US, the highest federal income tax rate is 37.0% with maximum New York State and City rates of 8.82% and 3.88%, respectively. A number of simplifying assumptions were made to enable the personal income tax calculations, namely that the employees were resident in the country, had no other income and were married with two children.

Figure 2a: TTC of the model bank as a percentage of net operating income



[31] This is the tax rate of 3.5% multiplied by the 460% assessment rate for Frankfurt am Main.

[32] Taxes collected are expressed as a percentage of net operating income.

Appendix 3 – Taxes borne reported by survey participants

Taxes borne	£s 2020
Taxes on profits (profit taxes)	
Corporation tax	2,588,089,927
Bank surcharge	1,109,917,006
Taxes on property (property taxes)	
Business rates	598,491,834
Bank levy	2,319,354,255
Stamp duty land tax	13,478,401
Stamp duty reserve tax	239,174,889
Taxes on employment (people taxes)	
PSAs (tax on benefits)	59,395,774
Employer NIC	3,311,334,824
Apprenticeship levy	91,543,951
Taxes on consumption (product taxes)	
Irrecoverable VAT	4,218,484,075
Insurance premium tax	5,140,457
Air passenger duty	9,710,085
Customs duty	277,820
Environmental taxes (planet taxes)	
Landfill tax	320,399
Climate change levy	8,127,493
Vehicle excise duty	58,779,956
Carbon reduction commitment	4,274,883
Total	**14,635,896,029**

Appendix 4 – Taxes collected reported by survey participants

Taxes collected	£s 2020
Taxes on profits (profit taxes)	
Tax deducted at source	758,448,233
Taxes on property (property taxes)	
Stamp duty reserve tax	1,022,983,481
Taxes on employment (people taxes)	
Income tax collected under PAYE	8,506,351,521
Employee NIC	1,427,244,110
Taxes on consumption (product taxes)	
Net VAT	256,014,532
Insurance premium tax	136,577,824
Total	**12,107,619,701**

Appendix 5: 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 3a 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 2020 for a range of example salaries. From the national average salary of £30,420, 20.4% is paid in employee income tax and employee NIC in 2020, while this ratio was 24.7% in 2010. The equivalent figure for a salary of £150,000 is 39.6% in 2020 and 36.8% in 2010, a 2.8 percentage point increase. Although salaries are higher in the banking sector, a greater percentage of the salary is paid in taxes. Changes to employment tax legislation in the last eight years (shown below) increased the burden of taxes on higher salaries.

Changes in PAYE thresholds and rates and NIC thresholds and rates mean that the employee tax paid on a salary of £30,420 has fallen by 4.3 percentage points since 2010. By contrast, a salary of £150,000 has seen an increase of 2.8 percentage points

- 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.

Figure 3a: Percentage of gross salary that is paid as tax by employees

Source: PwC analysis

Table 1a: Changes in income tax rates and thresholds since 2008-09

Financial year	Basic rate (20%)	High rate (40%)	Additional rate (50%~45%)
2008-09	£6035 – 34,800	£34,800 – over	NA
2009-10	£6475 – 37,400	£37,400 – over	NA
2010-11	£6475 – 37,400	£37,400 – 150,000	£150,000 – over (50%)
2011-12	£7475 – 35,000	£35,000 – 150,000	£150,000 – over (50%)
2012-13	£8105 – 34,370	£34,370 – 150,000	£150,000 – over (50%)
2013-14	£9440 – 32,010	£32,010 – 150,000	£150,000 – over (45%)
2014-15	£10,000 – 31,865	£31,865 – 150,000	£150,000 – over (45%)
2015-16	£10,600 – 31,785	£31,785 – 150,000	£150,000 – over (45%)
2016-17	£11,000 – 32,000	£32,000 – 150,000	£150,000 – over (45%)
2017-18	£11,500 – 33,500	£33,500 – 150,000	£150,000 – over (45%)
2018-19	£11,850 – 34,500	£34,500 – 150,000	£150,000 – over (45%)
2019-20	£12,500 – 37,500	£37,500 – 150,000	£150,000 – over (45%)

Source: PwC analysis

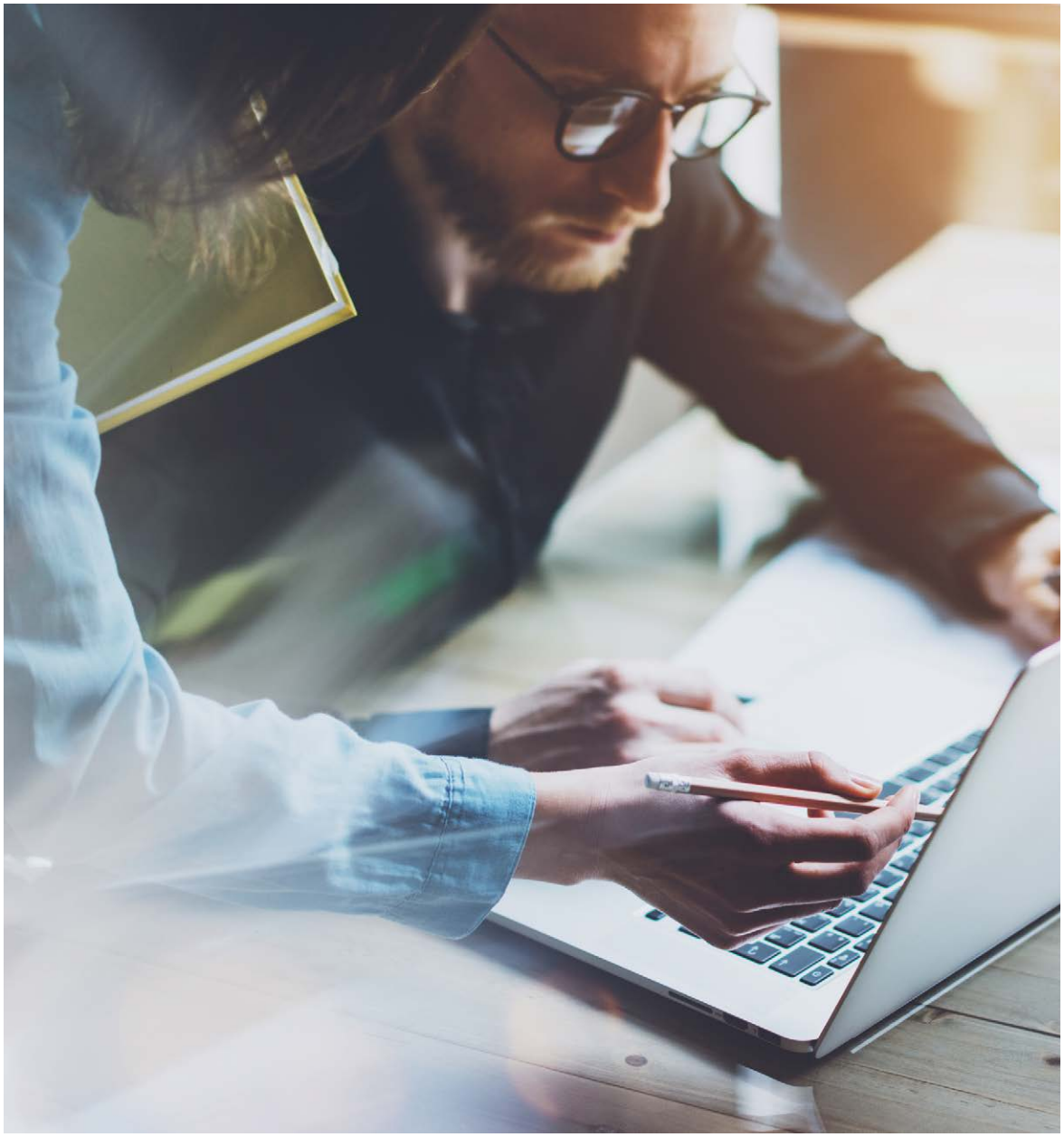
Appendix 6: Total tax rate calculation

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)**



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