2023 Total Tax Contribution of the UK banking sector

A publication prepared by PwC for UK Finance

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Contents

Foreword

Welcome to the ninth edition of the Total Tax Contribution (TTC) study of the UK banking sector covering participants' financial years ended in the year to 31 March 2023[1]. Forty-three banks provided us with their TTC data, which is a record level of participation. PwC analysis estimates the TTC of the UK banking sector to be £41.0bn for the year 2022/23, the highest TTC since the study's inception in 2014 and equivalent to 4.6% of total UK Government tax receipts.

Compared to last year's study, the TTC increased by 7.5% on a two year like-for-like basis, driven by corporation tax (including bank surcharge) and employment taxes. The increase in corporation tax reflects higher profitability across the UK banking sector. Higher employment taxes are attributable to earnings growth outpacing tax thresholds, and the temporary 1.25 percentage point increase in national insurance contributions (NICs) that was in force for seven months of 2022. The UK banking sector contributed £22.9bn in employment taxes in 2022/23, representing 5.8% of all employment tax receipts. The sector provides employment for 1.1% of the UK workforce and accounts for 34.9% of the UK financial services workforce[2].

This report includes an update to the international comparison of bank taxation, comparing the total tax rate (TTR) of a model bank operating in London, New York, Frankfurt, Amsterdam, and Dublin. The increase in the rate of UK corporation tax from 19% to 25%, and a decrease in the bank surcharge from 8% to 3%, pushes the TTR for London up 0.2 percentage points to 45.5% in 2023. While London remains comparable to Frankfurt and Amsterdam, its TTR is 17.6 percentage points higher than New York. The projected analysis for 2024 highlights a significant disparity between the European financial centres. With the European Single Resolution Fund (SRF) scheduled to reach its target level in 2023, the contributions to the fund in Germany, Ireland and the Netherlands are expected to reduce substantially, possibly to zero. As a result, in 2024 the TTR in London could be 7 percentage points higher than in Frankfurt, the location with the second highest TTR.

The ongoing cost-of-living crisis, caused by economic disruptions associated with the COVID-19 pandemic and exacerbated by the war in Ukraine, has led to inflation reaching its highest level in the UK for over forty years[3] putting significant fiscal pressure on the government. Against the backdrop of an increasing tax burden[4] and rising interest rates, the balance between international competitiveness and repairing the public finances is an important consideration for the government. The UK banking sector is at the heart of the economy and this study shows that its contribution to the public sector continues to be significant. Maintaining the competitiveness of the sector at a time of heightened geopolitical and economic disruptions is important in fostering economic growth and promoting greater investment into the wider UK economy[5]. However, PwC analysis shows that, from a tax perspective at least, the UK is currently on course to become a less competitive location for banks compared to other financial centres. This is driven by the increase in the rate of corporation tax coupled with sector-specific taxes such as the bank levy and bank surcharge.

We hope this study can help inform the debate over bank taxation through an improved understanding of the total tax contribution made by the UK banking sector to government finances, as well as an increased appreciation of how the UK banking tax regime compares to that of other financial centres. We thank the participants for their support for the study.

Andy Wiggins
PwC, Total Tax Contribution and Tax Transparency Leader

[1] For the majority of banks participating in the survey the data covers the year to 31 December 2022.
[2] ONS Industry (two, three and five-digit Standard Industrial Classification) – Business Register and Employment Survey (BRES): Table 2. The 2022 banking sector workforce was 369,200 based on ONS SIC 641 (Monetary Intermediation). The 2022 financial services workforce was 1,059,300, 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).
[3] Consumer price inflation, UK: September 2023.ONS, October 2023. The ONS indicative model of estimated consumer price inflation suggests that the October 2022 rate was the highest in over 40 years.
[4] The UK's tax burden in historical and international context. Office for Budget Responsibility, March 2023. According to the OBR's forecasts, the UK's tax burden is set to rise to a post-war high of 37.7% of GDP in 2027–28 (on a UK ONS National Accounts basis).
[5] State of the sector: annual review of UK financial services 2023. City of London, June 2023.

Executive summary

Total Tax Contribution

The Total Tax Contribution of the UK banking sector

The estimated Total Tax Contribution for 2022/23 is £41.0bn made up of £22.1bn in taxes borne and £18.9bn in taxes collected, and representing 4.6% of total government receipts.

£41.0bn
Total Tax Contribution

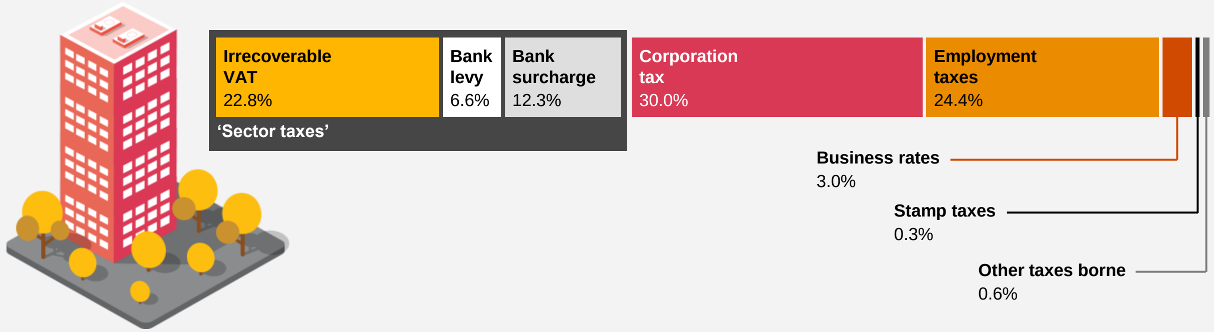
4.6%
Of total government receipts

£18.9bn
in taxes collected

£22.1bn
in taxes borne

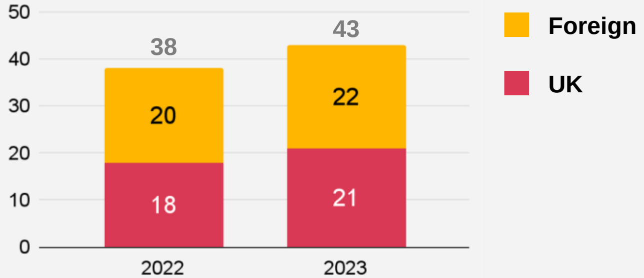
Profile of taxes borne

'Sector taxes', such as irrecoverable VAT, bank levy, and bank surcharge together make up over two fifths of the profile of total taxes borne.



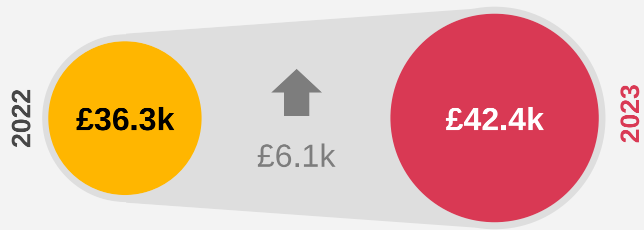
Record survey participation

This year's TTC study achieved a record level of participation. Forty-three banks provided data for the study, an increase of five compared to the prior year. Twenty-two study participants are foreign-headquartered banks and twenty-one are UK-headquartered banks.



Contribution through employment taxes

The average employment taxes paid per employee in the study was £42.4k. This is an increase of £6.1k compared to the prior year (£36.3k). The UK banking sector contributed £22.9bn in employment taxes, reflecting the skilled jobs in the sector.



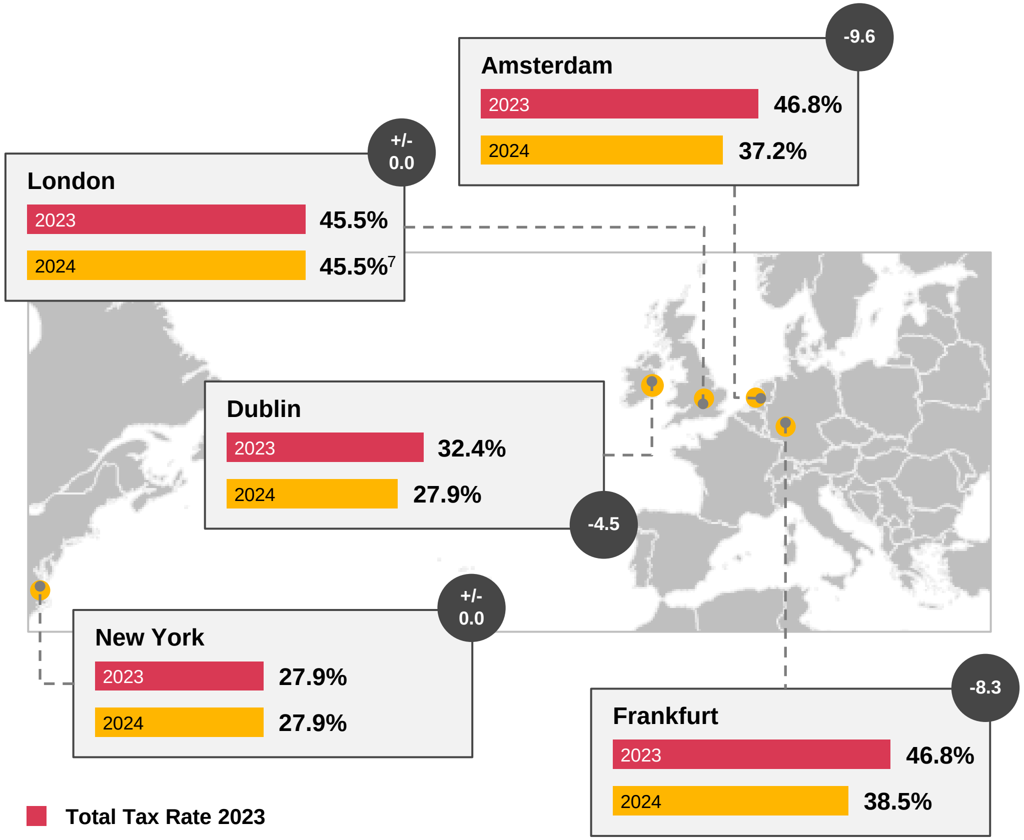
£22.9bn Total contribution made by the UK banking sector through employment taxes, representing 5.8% of all employment tax receipts.

Executive summary

International comparison – How London compares to other financial centres

Total Tax Rate (TTR) for a model bank in 2023 and projected for 2024

The international comparison study calculates the TTR of a model bank operating in London compared to other financial centres, based on enacted legislation. The projected TTRs for Frankfurt, Amsterdam, and Dublin are expected to reduce significantly in 2024 due to the European Single Resolution Fund reaching its mandated target[6]. The projected TTR for London remains at 45.5% in 2024. This could be as much as 7 percentage points higher than Frankfurt, the location with the second highest projected TTR (38.5%), and significantly higher than New York.



Total Tax Rate 2023

Projected Total Tax Rate 2024[8]

2023 to 2024 increase/decrease (percentage points)

[6] The European SRF requires banks to make contributions to build up an ex-ante fund totalling 1% of covered deposits across the European banking union by 31 December 2023. It is unclear at time of publication whether further contributions to the SRF will be required in 2024. If there is sufficient growth in covered deposits in the EU, further contributions to the SRF may be required to maintain its level at 1% of covered deposits. The TTRs for Frankfurt, Amsterdam, and Dublin may be marginally higher in 2024 as a result.

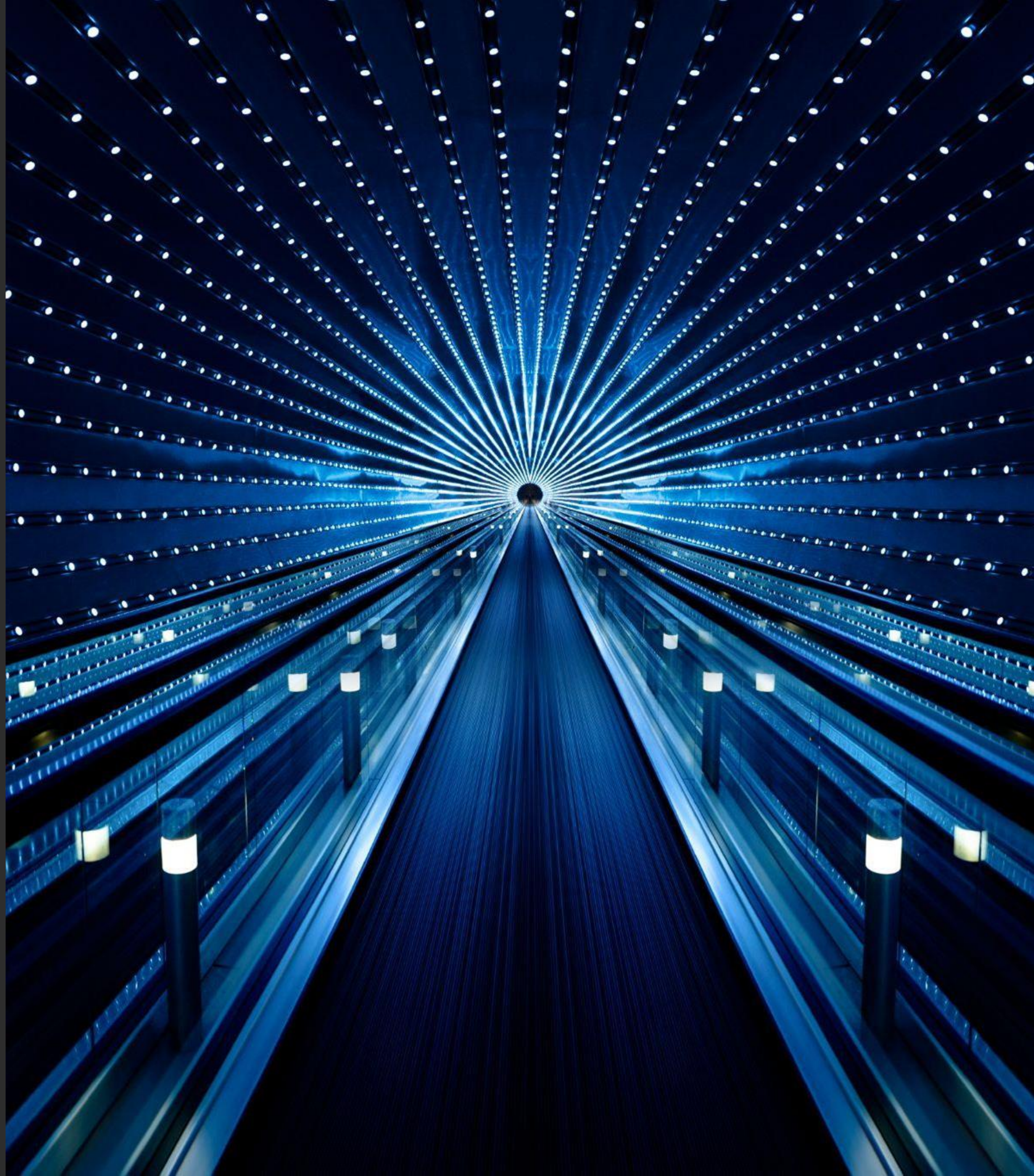
[7] The TTR for London in 2023 and 2024 includes the impact of the increase in the rate of corporation tax from 19% to 25%, as well as the corresponding decrease in the surcharge from 8% to 3%, giving an overall headline rate of 28%.

[8] Projections modelled on enacted legislation.

Section

1

Total Tax Contribution of the UK banking sector



Total Tax Contribution of the UK banking sector

The banking sector makes a significant contribution to the public finances. The forty-three banks taking part in the study reported taxes borne of £16.0bn and taxes collected of £12.5bn, making a UK tax contribution of £28.5bn.

Extrapolating from these figures[9], we estimate that the Total Tax Contribution for the entire UK banking sector is £41.0bn, which represents 4.6% of total government receipts for taxes in the year to 31 March 2023.

Figure 1 shows that the TTC of £41.0bn is estimated to comprise taxes borne of £22.1bn and taxes collected of £18.9bn. The totals for corporation tax, bank surcharge, bank levy, and employment taxes for the whole 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-headquartered 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 around a quarter of total employees in the study (see page 13: Comparing the tax profile for UK and foreign banks).

Figure 1: 2022 Total Tax Contribution of the UK banking sector as a percentage of UK total tax receipts[10]

	Study participants £bn	**Extrapolated to the UK banking sector** £bn	**% of total government receipts**
Corporation tax	4.8	7.0	
Bank surcharge	2.0	2.6	
Bank levy	1.1	1.3	
Employment taxes borne	3.9	6.1	
Irrecoverable VAT	3.7	4.3	
Other taxes borne	0.6	0.8	
Total taxes borne	**16.0**	**22.1**	**2.5%**
Employment taxes collected	10.8	16.8	
Tax deducted at source	0.4	0.5	
Other taxes collected	1.3	1.6	
Total taxes collected	**12.5**	**18.9**	**2.1%**
Total Tax Contribution[11]	**28.5**	**41.0**	**4.6%**

Source: Survey analysis and HMRC data

[9] 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.
[10] The Office for Budget Responsibility (OBR) – 2023 March Economic and fiscal outlook – supplementary fiscal tables: receipts and other. Table 2.9 Current receipts (forecast).
[11] Owing to the degree of rounding, the individual numbers and totals may not sum exactly.

Total Tax Contribution of the UK banking sector

The 2023 tax contribution of the UK banking sector increased by £2.2bn compared to the previous year and represents 4.6% of total government receipts (Figure 2). The decrease from 4.7% to 4.6% as a share of total government receipts can be explained by:

a. Total UK government tax receipts are forecast to have increased by 9.7% in 2022/23, driven by employment taxes and corporation tax.

   Receipts from income tax and NICs increased by 12.4% and 11.9%, respectively, when compared to the prior year. This reflects tax thresholds rising at a slower rate than earnings growth resulting in more income being taxed at higher rates, alongside the temporary 1.25 percentage point increase in NICs, which was in effect for seven months of 2022. Increases in corporation tax receipts can be attributed to increasing profitability in the private sector.

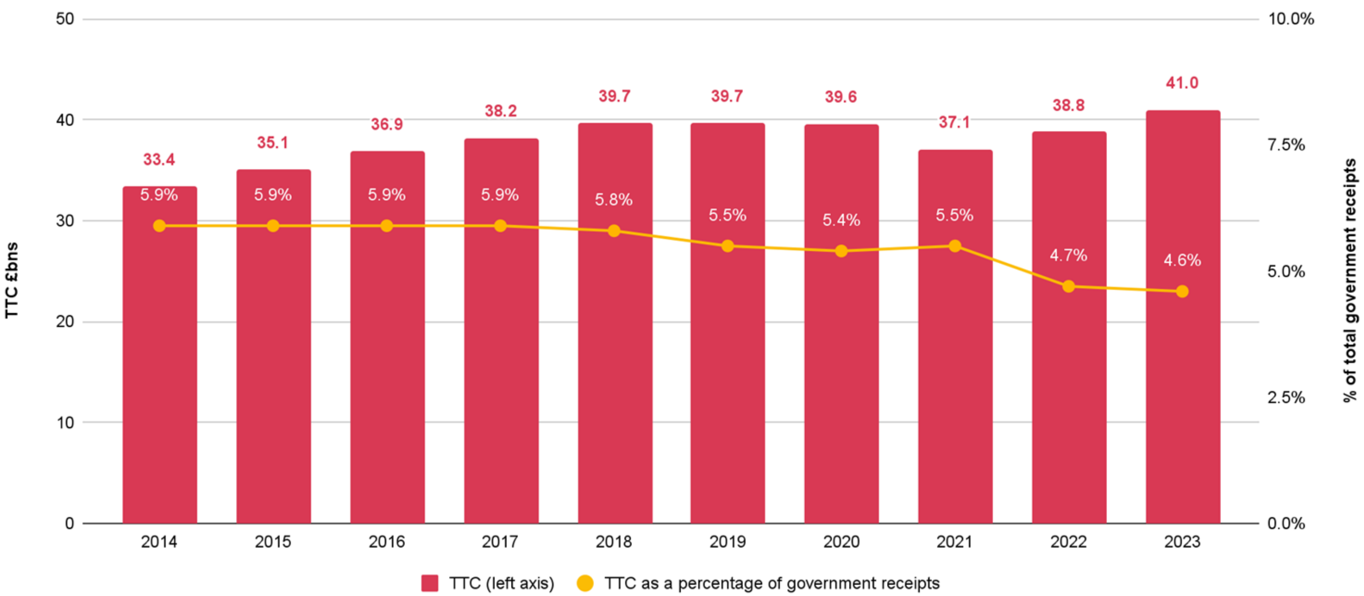
a. While the overall tax contribution of the banking sector increased in comparison to the prior year, the sector experienced decreases in bank levy, net VAT, and taxes deducted at source. The largest decrease was in the bank levy which is a reflection of the reduction in the scope of the levy for UK-headquartered banks effective from 1 January 2021, as well as the final reduction in bank levy rates continuing to filter through to quarterly payments into 2022[12]. The decline in net VAT is consistent with an increase in recovery rates following the United Kingdom's departure from the European Union (EU)[13]. Additionally, tax deducted at source continued to decline for UK-headquartered banks which is attributable to the gradual decrease in payouts relating to PPI claims[14]. These reductions were offset by increases in corporation tax, which was driven by increased profitability across the banking sector, and employment taxes due to growth in earnings and the temporary increase in the rate of NICs in 2022.

Within the total of £41.0bn, employment taxes comprise the largest element (£22.9bn[15]), reflecting the skilled jobs in the 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 generated by the sector.

The extrapolation for the sector is performed at the level of taxes borne and taxes collected using government data that is available for corporation tax, bank levy and PAYE receipts.

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

Figure 2: The Total Tax Contribution of the UK banking sector, 2014–2023



Source: Survey analysis

[12] From 1 January 2021, the scope of the bank levy for UK-headquartered banks was restricted to the UK balance sheet rather than the global consolidated balance sheet. This change in scope means that overseas activities of a UK banking group are no longer subject to the levy. The bank levy rates also reduced in 2021, from 0.14% to 0.10% for short term debt and from 0.07% to 0.05% for long term debt. No further changes to the levy are anticipated.

[13] The Brexit transition period ended on 31 December 2020 when the UK formally left the EU customs union and single market. From 1 January 2021 VAT rules allowed for input VAT credits for the majority of exempt trades entered into with EU based counterparties that were previously only available for trades with non-EU counterparties. This has led to an increase in VAT recovery rates for the banking sector.

[14] The deadline for submitting PPI claims was August 2019.

[15] Government data has been revised for Pay-As-You-Earn figures from 2014. For this reason, the 2019, 2020, 2021, and 2022 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 business cost and, therefore, directly affect a company's financial results. The profile for these taxes across the banks that participated in the 2023 survey is shown in Figure 3. Corporation tax (including the bank surcharge) is the largest tax borne at 42.3% of the total. Employment taxes, comprising employer's NIC, PSA (PAYE Settlement Agreements, a tax on benefits provided by the company) and net apprenticeship levy, represents 24.4% of the total, an increase of 1.8 percentage points compared to last year's report. Irrecoverable VAT made up the third largest element at 22.8%, a 1 percentage point decrease from last year.

Bank levy as a percentage of taxes borne decreased to 6.6% in this year's study, a reduction of 4.1 percentage points. The decline reflects the reduction in scope of the levy for UK-headquartered banks, as well as the final reduction in bank levy rates, both of which became effective from 1 January 2021. Introduced in 2012, the levy originally applied to the global consolidated balance sheet of a UK-headquartered bank, but only to the UK balance sheet of a foreign-headquartered bank. From 1 January 2021, the scope was restricted to UK operations regardless of headquarter location to ensure a level playing field. Bank levy rates peaked in the 2016 survey (see Figure 25) and have been gradually decreasing annually since then. No further changes to the levy are currently planned.

Sector-specific taxes, and other taxes that have a sector-specific impact on the banking sector, are a significant element of the tax profile of these companies. Over two fifths of the total taxes borne (41.7%) are made up of the bank surcharge, bank levy and irrecoverable VAT. Of these 'sector taxes', the bank levy and irrecoverable VAT (together 29.4%) are not dependent on profits and represent a fixed cost for the sector. For every £1 of taxes on profits (corporation tax and bank surcharge), the banking sector in the UK paid a further £1.36 of other taxes borne.

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

Taxes collected

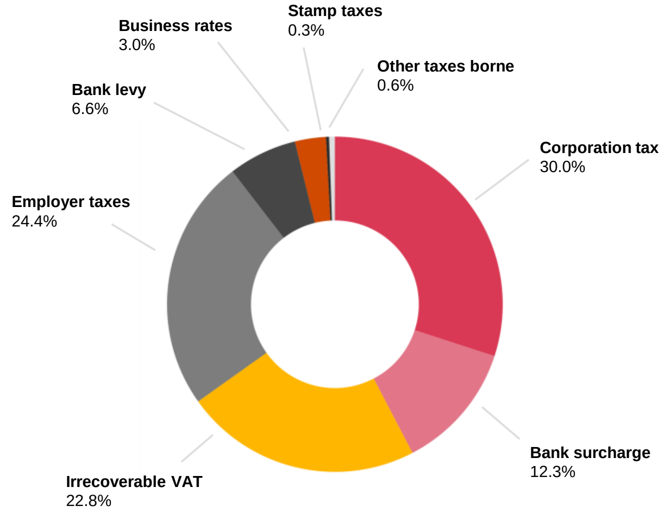
Taxes collected are those that are generated by a company's operations, but are collected from others, e.g. income tax deducted under PAYE, employee NIC and net VAT. The company generates commercial activity that gives rise to the taxes and then collects and administers them, on behalf of HMRC.

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

Figure 4 shows the profile of taxes collected for the forty-three participating banks. Employment taxes (income tax deducted under PAYE and employee NIC) are the largest element (85.2% of total taxes collected), reflecting the prevalence of skilled jobs in the banking sector. Stamp duty reserve tax (SDRT) continues to be the second largest tax collected, at 10.7% of the total.

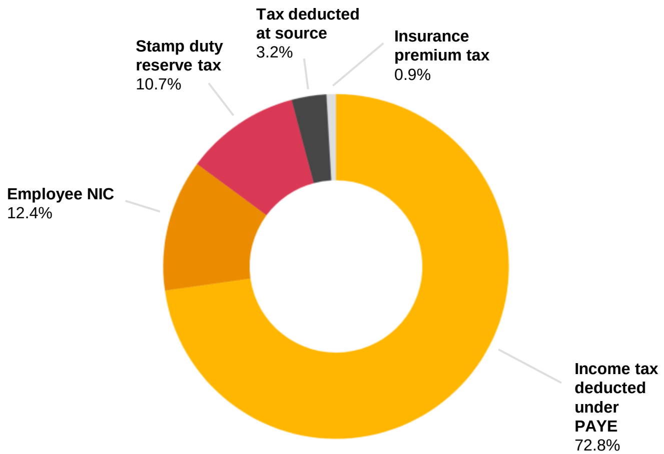
Please refer to Appendix 4 for a detailed list of taxes collected by study participants.

Figure 3: Taxes borne profile for participating banks



Source: Survey analysis

Figure 4: Taxes collected profile for participating banks



Source: Survey analysis

Comparing the tax profile for UK and foreign banks

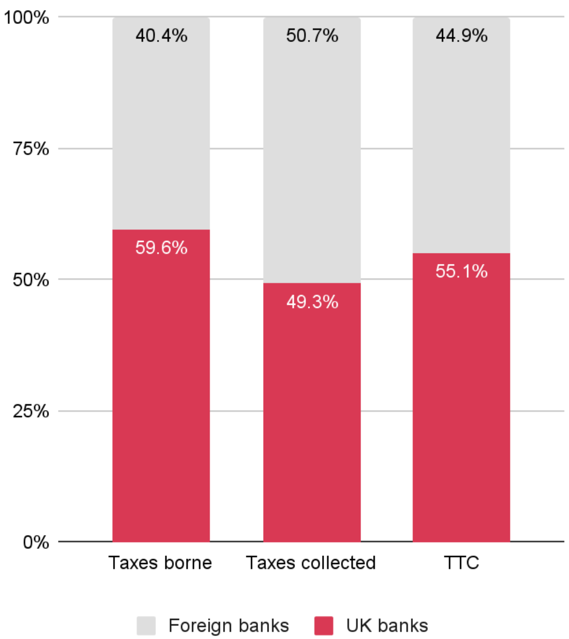
Of the forty-three study participants, twenty-one were UK-headquartered and twenty-two were foreign-headquartered banks. Based on study participants, there has been an increase in TTC of both the UK and foreign headquartered banks in 2023, driven in part by an increase in survey participation levels for both UK and foreign banks. The increase in TTC has, however, been greater across the foreign-headquartered banks than the UK banks. As a result, the proportion of foreign-headquartered banks' taxes borne increased from 38.3% to 40.4%, and taxes collected increased from 47.2% to 50.7% in 2023 (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 (78.0% of the total) and bank levy (60.2%) that were borne by UK-headquartered banks.

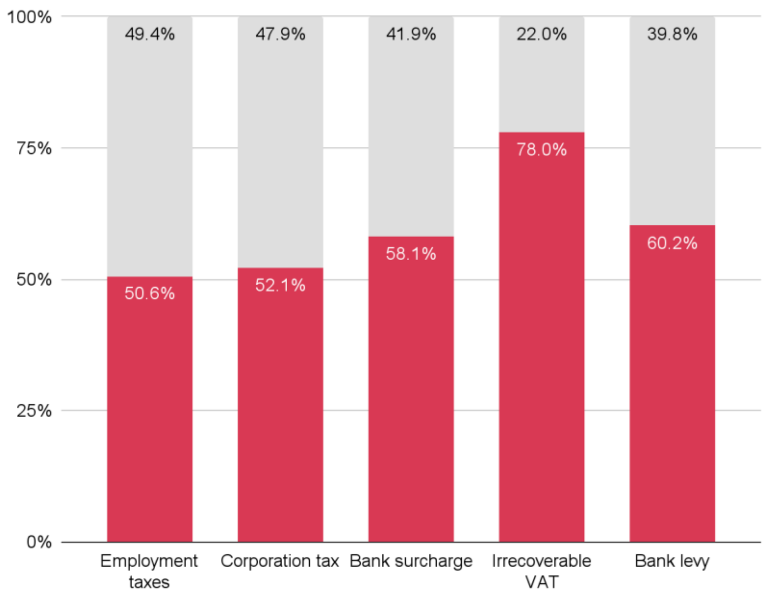
Foreign-headquartered banks provide employment to just over a quarter of the total employees in this study. However, compared to the share of total employees, foreign banks paid a significant share of employment taxes borne, corporation tax and bank surcharge, indicating a greater contribution per employee.

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



Source: Survey analysis

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



Source: Survey analysis

Comparing the tax profile for UK and foreign banks

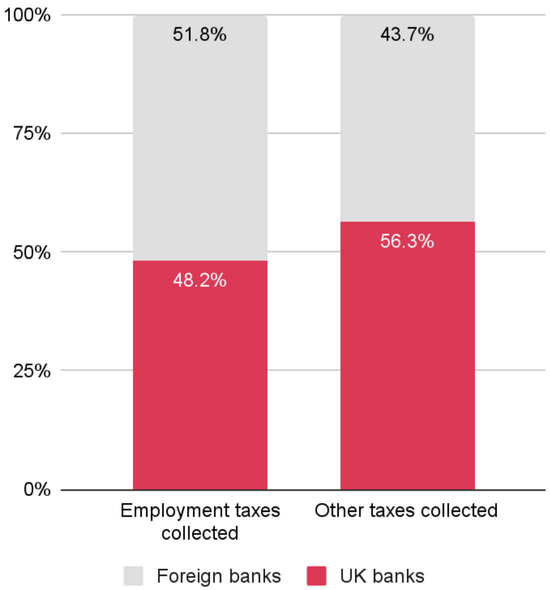
Taxes collected profile for UK and foreign banks

Employment taxes make up the largest share of taxes collected by banks. Foreign-headquartered banks account for just over half of all employment taxes collected, reflecting the greater number of highly-skilled employees of foreign banks (Figure 7). Aside from employment taxes, other taxes collected include tax deducted at source, 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

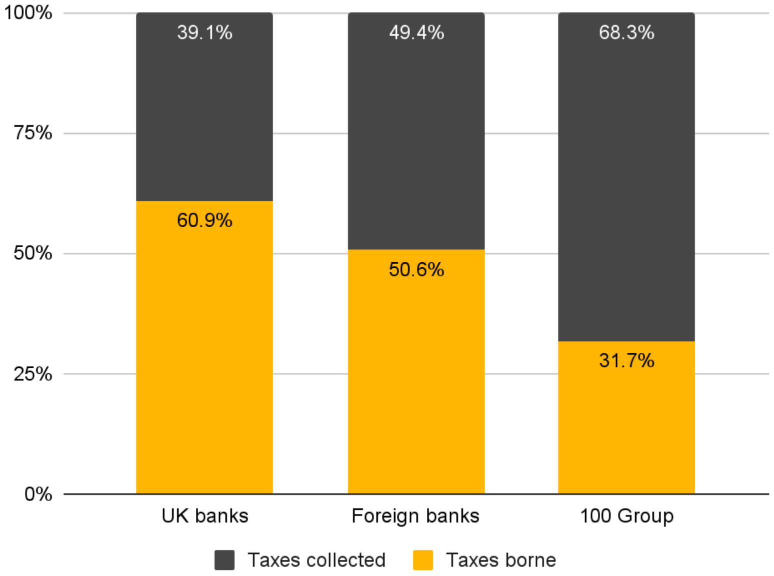
Figure 8 shows the proportion of taxes borne and taxes collected as a percentage of TTC. For the study participants, taxes borne make up 60.9% of TTC for UK banks and 50.6% for foreign banks. In the 100 Group study[16], in which PwC surveys the largest companies in the UK, taxes borne made up 31.7% of the TTC figure. Figure 8 shows the taxes borne by both UK and foreign banks within the UK are significantly higher than other sectors, reflecting the combined impact of the bank surcharge, the bank levy and irrecoverable VAT.

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

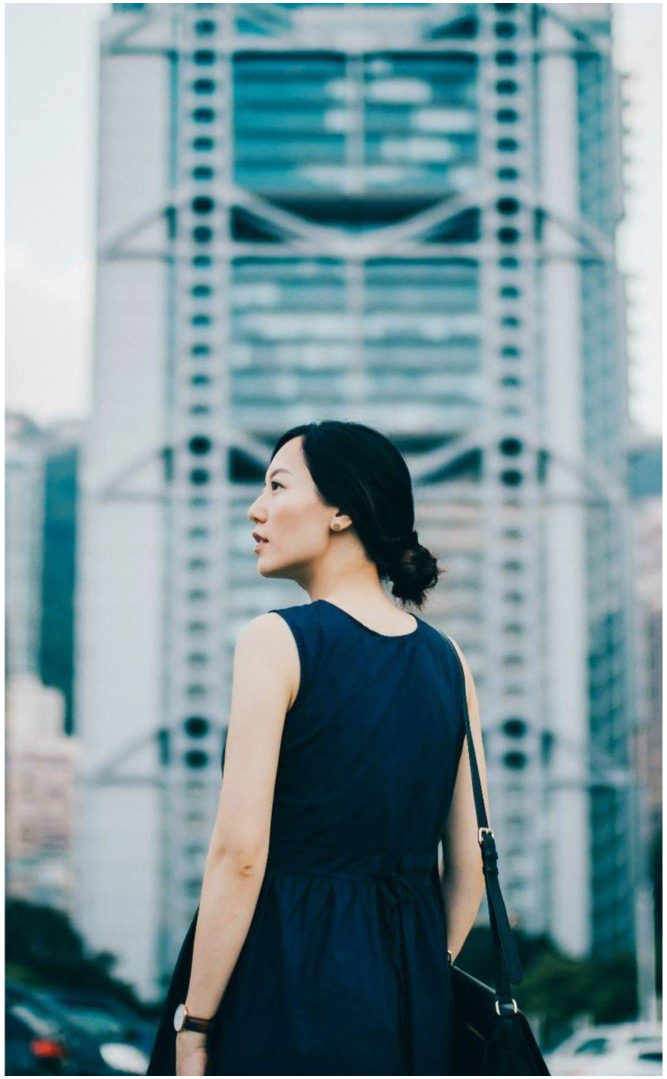


Source: Survey analysis

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



Source: Survey analysis



[16] 2022 Total Tax Contribution study for the 100 Group: present the analysis of data received from the largest companies in the UK.

Section

2

International comparison

International comparison

We are often asked how the taxation of banks in the UK compares with that in other financial centres. 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 in headline tax rates, but also their practical implications and how the different taxes interact with each other. This understanding will be even more important as governments balance their fiscal response to the ongoing cost-of-living crisis with maintaining international competitiveness.

To aid this understanding, we have again undertaken an international comparison of bank taxation in the UK with that in other financial centres: New York, Frankfurt, Dublin and Amsterdam. The comparison uses a high-level modelling approach based on that used in the past by the World Bank for the Paying Taxes indicator in their Doing Business study[17].

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 rate[18] (TTR) in these jurisdictions allows 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 holistic comparison than looking at statutory tax rates in isolation, it does not consider all of the complexities of taxation that banks face in practice. It also does not consider differences between the various regulatory, legal and economic environments.

[17] https://archive.doingbusiness.org/en/doingbusiness
[18] The TTR is a measure of the cost of total taxes borne in relation to profit before those taxes borne. Please refer to Appendix 6 for more information on the calculation.

International comparison

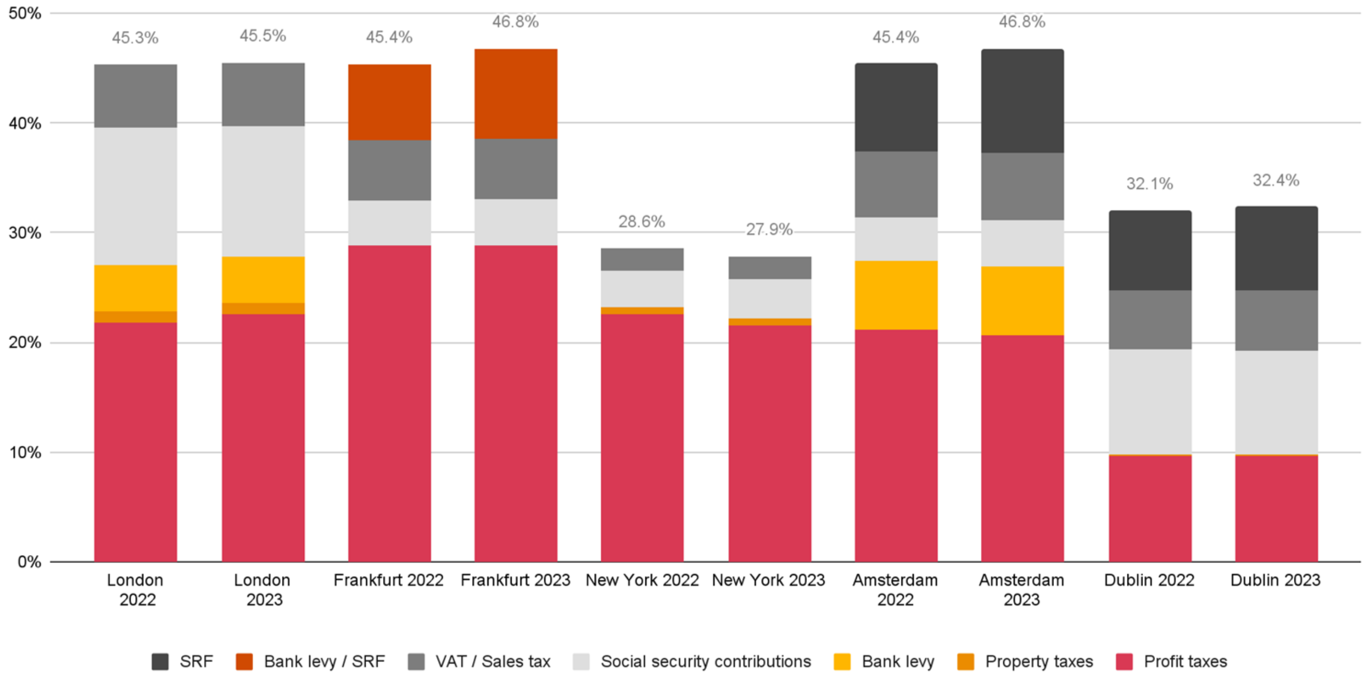
As shown in Figure 9 the TTRs of the model banks were broadly similar between 2022 and 2023 across the financial centres. The 0.2 percentage point increase in the TTR for London was driven by a net 1 percentage point increase in profit taxes. This is the result of an increase in the rate of corporation tax from 19% to 25%, which became effective from April 2023, and a decrease in the bank surcharge from 8% to 3%, giving an overall headline rate of 28%. The increase in TTR was partially offset by the reversal of the 1.25 percentage point increase in NICs, which was in effect for 7 months of 2022.

Across the European locations the TTR increased for Frankfurt and Amsterdam by 1.4 percentage points, and in Dublin by 0.3 percentage points. This was largely driven by higher estimated contributions to the European Union (EU) Single Resolution Fund (SRF)[19]. The increase in TTR for Amsterdam was also a result of higher employer social security contributions in 2023, following an increase in the annual earnings cap.

While the 2023 TTR for Dublin increased slightly in comparison to 2022, it is 13.1 percentage points lower than London. The relatively low TTR is a reflection of the lower corporate income tax rate (12.5% in Ireland), and the bank levy in Ireland not applying to corporate and investment banking activities[20].

The 2023 TTR for New York decreased slightly (0.7 percentage points) in comparison to 2022, which was driven by lower state and local taxes. More details concerning the assumptions made in relation to the model bank in New York can be found in Appendix 2.

Figure 9: Total Tax Rate of the model bank in 2022 and 2023[21]



Source: PwC analysis

[19] 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. https://www.srb.europa.eu/en/content/single-resolution-fund

[20] The model assumes that the model bank's activities are a mixture of investment and corporate banking. This enables the model bank to operate from a variety of different locations irrespective of where the customer is located. As the Irish bank levy is based on deposits and does not apply to investment/corporate financing activities, the model bank would not be subject to it. More information on the assumptions can be found in Appendix 2.

[21] Note: in Germany, the bank levy is used to fund the SRF (shown above as bank levy/SRF). In contrast, the Netherlands has a bank levy and the SRF.

International comparison

Projected Total Tax Rate for 2024

Economic disruption associated with the COVID-19 pandemic and exacerbated by the war in Ukraine, has increased inflation across much of the world. Governments are under significant pressure to raise taxes to reduce public sector budget deficits. In addition, central banks have responded to higher inflation by tightening monetary policy[22], putting further strain on economies.

Some governments have responded with the introduction of windfall taxes on sectors that are perceived by many stakeholders to be benefiting from increased profitability as a consequence of higher inflation and interest rates[23]. Concerns have been raised that these policies may harm investment[24], and so it is important that policymakers fully understand the current tax landscape and maintain dialogue with the banking industry. It is within this context that we have modelled the expected TTRs for the five locations for 2024 (Figure 10).

The significant changes to the calculations in the 2024 projections are based on legislation that has been enacted at time of publication:

- The EU SRF is expected to reach its target level of 1% of covered deposits by the end of 2023. As a result, the contributions to the fund are expected to decrease significantly, possibly to zero. To date, there have been no firm announcements regarding the level of any contributions to the fund in 2024 and therefore the projected TTRs for Amsterdam and Dublin do not include further SRF contributions. Furthermore, the calculation for Frankfurt does not include the bank levy (which is used to fund the SRF contributions).
- The TTR for Dublin is based on an increase in the rate of corporate income tax from 12.5% to 15% due to the expected domestic transposition of the Organisation for Economic Cooperation and Development's (OECD) Pillar 2 rules concerning a global minimum corporate tax rate of 15%.
- The projected TTRs for New York and London remain unchanged owing to uncertainties surrounding the legislative agendas in both countries. The UK is widely expected to have a general election in 2024, with the US also scheduled to hold a presidential election the same year.

[22] Interest Rates and Monetary Policy: Key Economic Indicators, Data and latest developments on interest rates and quantitative easing policy from the UK (Bank of England), Eurozone (European Central Bank) and the US (Federal Reserve), House of Commons Library, September 2023.
[23] Europe's thriving businesses face mounting windfall tax hit, Financial Times, August 2023.
[24] Opinion of the European Central Bank of 12 September 2023 on the imposition of an extraordinary tax on credit institutions (CON/2023/26); Opinion of the European Central Bank of 2 November 2022 on the imposition of temporary levies on certain credit institutions (CON/2022/36)

International comparison

Figure 10 shows that the projected TTR for London in 2024 remains unchanged compared to the previous year at 45.5%. The TTRs for the model bank in Frankfurt, Amsterdam, and Dublin could decline by 8.3, 9.6, and 4.5 percentage points respectively, when compared to 2023.

These decreases are driven by the assumed removal of the SRF which is due to reach its mandated target of 1% of covered deposits at the end of 2023[24].

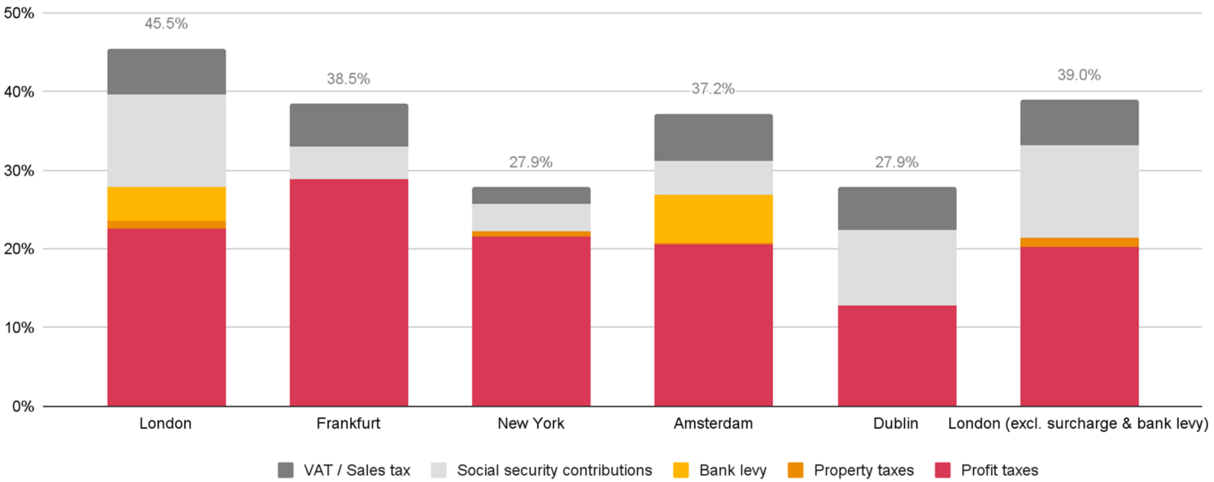
In the case of Dublin, the decrease in TTR is partially offset by an expected increase in the corporate income tax rate from 12.5% to 15%.

The Republic of Ireland became a signatory to the OECD's framework for a global minimum corporate tax rate of 15% in October 2021. It is expected that this will be transposed into domestic legislation by the end of 2023[25].

A number of other tax changes have been proposed across some of the locations, however, the modelling parameters were restricted to official policy announcements and enacted legislation.

On the right of Figure 10 we have modelled a hypothetical London scenario excluding the bank surcharge and bank levy, for comparative purposes.

Figure 10: Total Tax Rates of the model bank in 2024



Source: PwC analysis

[24] If there is sufficient growth in covered deposits in the EU, further contributions to the SRF may be required to maintain its level at 1% of covered deposits. At time of publication, the Single Resolution Board which oversees the SRF, has not indicated whether further contributions to the SRF will be needed in 2024. The TTRs for Frankfurt, Amsterdam, and Dublin may be marginally higher in 2024 as a result. The TTR for the model bank in London would remain several percentage points higher irrespective.

[25] On 31 March 2023, The Department of Finance published a feedback statement confirming that the EU Minimum Tax Directive will serve as the primary basis for transposing the Pillar Two rules in The Republic of Ireland. The EU's Directive fulfils the commitment to implement the agreement on the OECD's Pillar Two framework across individual Member States.

Section

3

Trend analysis and TTC within the context of other economic indicators

Trends in Total Tax Contribution

Trend in Total Tax Contribution between 2022 and 2023

Thirty-eight banks provided data for both the 2022 and 2023 studies and we have analysed the trends on a like-for-like basis for these companies. There has been a 9.6% increase in taxes borne and a 4.9% increase in taxes collected, resulting in a 7.5% increase in TTC.

The 9.6% increase in taxes borne was driven by corporation tax (Figure 11), as profitability for both UK and foreign-headquartered banks improved in 2022. The increase in employment taxes reflects the temporary 1.25 percentage point rate increase in National Insurance Contributions (NIC) which was in effect for seven months of 2022, as well as an increase in wages and salaries. Higher levels of expenditure and increased costs due to inflation were the main driver for the increase in irrecoverable VAT. The overall increase in taxes borne was partially offset by a decrease in bank levy, reflecting the restricted scope of the levy from 1 January 2021, as well as the final reduction in bank levy rates continuing to filter through to quarterly payments in 2022[26].

Taxes collected increased by 4.9% (Figure 12), driven by employment taxes as earnings growth outpaced tax thresholds resulting in more income being taxed at higher rates, alongside the temporary 1.25 percentage point rate increase in employee NICs. This was partially offset by decreases in net VAT and tax deducted at source. The decline in net VAT is partially due to increased recovery rates following the United Kingdom's departure from the EU[27]. The decrease in tax deducted at source is attributable to the gradual reduction in payouts relating to PPI claims[28]. The decrease in stamp duty reserve tax (SDRT) collected is due to lower trading volumes in equity markets in 2022[29].

Figure 11: Trend in taxes borne, 2022–2023

	Trend as % of total taxes borne
Corporation tax (incl. bank surcharge)	7.7%
Employer NIC	3.3%
Irrecoverable VAT	1.9%
Bank levy	-3.2%
Other taxes borne	-0.1%
Total taxes borne	**9.6%**

Source: Survey analysis

Figure 12: Trend in taxes collected, 2022–2023

	Trend as % of total taxes collected
Employment taxes	9.8%
Net VAT	-3.9%
Tax deducted at source	-0.4%
Stamp duty reserve tax	-0.4%
Other taxes collected	-0.2%
Total taxes collected	**4.9%**

Source: Survey analysis

[26] Upon its introduction in 2011, the bank levy applied to the global consolidated balance sheet of UK-headquartered banks, but only to the UK balance sheet of a foreign-headquartered bank. From 1 January 2021, the bank levy scope applied only to the UK balance sheet for all banks. The bank levy rates also reduced effective from 1 January 2021, from 0.14% to 0.10% for short term debt and from 0.07% to 0.05% for short term debt. There are no further changes to the levy anticipated.
[27] The Brexit transition period ended on 31 December 2020 when the UK formally left the EU customs union and single market. From 1 January 2021 VAT rules allowed for input VAT credits for the majority of exempt trades entered into with EU based counterparties that were previously only available for trades with non-EU counterparties. This has led to an increase in VAT recovery rates for the banking sector.
[28] The deadline for submitting PPI claims was August 2019.
[29] LSEG market report, December 2022, LSEG – Electronic Order Book Trading

Trends in Total Tax Contribution

For the UK banks in the survey, taxes borne increased by 8.6% (Figure 13), driven by corporation tax (including bank surcharge), irrecoverable VAT, and employer's NIC. This was partially offset by the reduction in bank levy as the change in scope of the levy impacted UK-headquartered banks. Taxes collected increased by 2.9% compared to the previous year (Figure 14), driven by employment taxes due to a temporary higher rate of employee NIC and increasing wages and salaries. This was offset by decreasing tax deducted at source due to the gradual decrease in payouts relating to PPI claims.

For the foreign-headquartered banks in the survey, taxes borne increased by 11.3% (Figure 15), driven by corporation tax and employer's NIC. The slight decrease in bank levy is attributable to the reduction in rate, effective from 1 January 2021, filtering through to quarterly payments in 2022. Taxes collected increased by 7.4% (Figure 16), driven by employment taxes. This was partially offset by decreases in net VAT owing to higher recovery rates post Brexit. The decrease in SDRT collected was more significant for the foreign banks reflecting a larger proportion of international business activity in their operations.

Figure 13: Trend in taxes borne for UK-headquartered banks, 2022–2023

	Trend as % of total taxes borne
Corporation tax (incl. bank surcharge)	8.0%
Employer NIC	2.7%
Irrecoverable VAT	3.1%
Bank levy	-4.9%
Other taxes borne	-0.3%
Total taxes borne	**8.6%**

Source: Survey analysis

Figure 14: Trend in taxes collected for UK-headquartered banks, 2022–2023

	Trend as % of total taxes collected
Employment taxes	8.6%
Net VAT	-4.9%
Tax deducted at source	-0.6%
Stamp duty reserve tax	0.0%
Other taxes collected	-0.2%
Total taxes collected	**2.9%**

Source: Survey analysis

Figure 15: Trend in taxes borne for foreign-headquartered banks, 2022–2023

	Trend as % of total taxes borne
Corporation tax (incl. bank surcharge)	7.2%
Employer NIC	4.3%
Irrecoverable VAT	-0.1%
Bank levy	-0.4%
Other taxes borne	0.3%
Total taxes borne	**11.3%**

Source: Survey analysis

Figure 16: Trend in taxes collected for foreign-headquartered companies, 2022–2023

	Trend as % of total taxes collected
Employment taxes	11.2%
Net VAT	-2.6%
Tax deducted at source	-0.1%
Stamp duty reserve tax	-0.9%
Other taxes collected	-0.2%
Total taxes collected	**7.4%**

Source: Survey analysis

Trends in Total Tax Contribution

Trend in Total Tax Contribution between 2014 and 2023

Figure 17 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 53%, primarily due to increases in corporation tax (including the surcharge), bank levy and irrecoverable VAT (Figure 18).

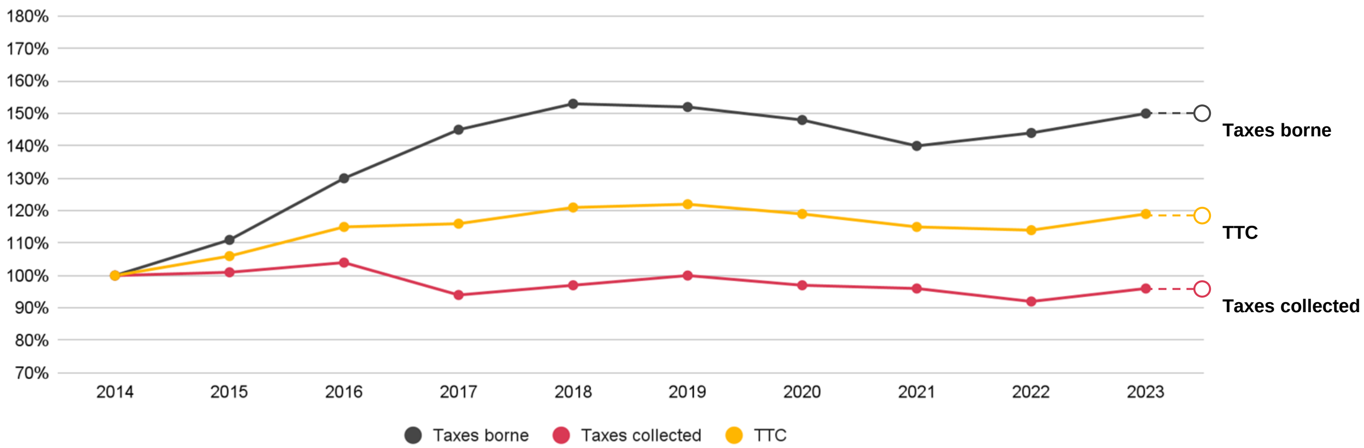
The gradual decrease in taxes borne between 2018 and 2020 reflects weaker economic growth and economic uncertainty impacting overall profitability, together with annual reductions in the rate of the bank levy. The sharper reduction between 2020 and 2021 was driven by the decrease in irrecoverable VAT as a result of lower expenditure during the COVID-19 pandemic, together with lower bank levy and employer NIC.

The increase in taxes borne from 2021 is principally a reflection of higher corporation tax payments resulting from increased profitability.

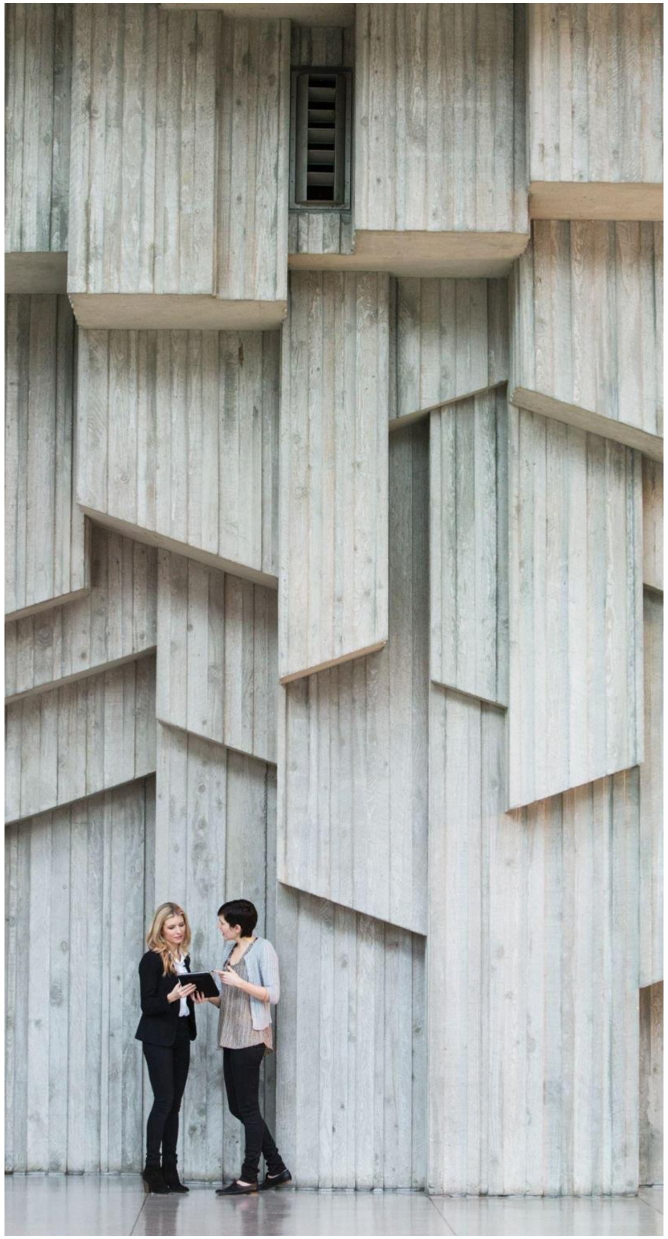
Taxes collected decreased between 2016 and 2017 following the introduction of the Personal Savings Allowance in 2016 and the associated removal of the requirement for tax to be deducted at source from interest paid on deposits. The decrease from 2019 to 2022 is attributable to a combination of SDRT and tax deducted at source. The decrease in SDRT is a reflection of lower trading volumes during this period, and the decrease in tax deducted at source relates to the gradual decrease in payouts from UK banks relating to PPI claims. The Financial Conduct Authority's deadline for consumers to submit PPI claims was August 2019.

The increase in taxes collected between 2022 and 2023 is a reflection of higher employment taxes attributable to the temporary 1.25 percentage point rate increase in NICs, which was in effect for seven months of 2022, as well as earnings growth outpacing tax thresholds resulting in more income being taxed at higher rates.

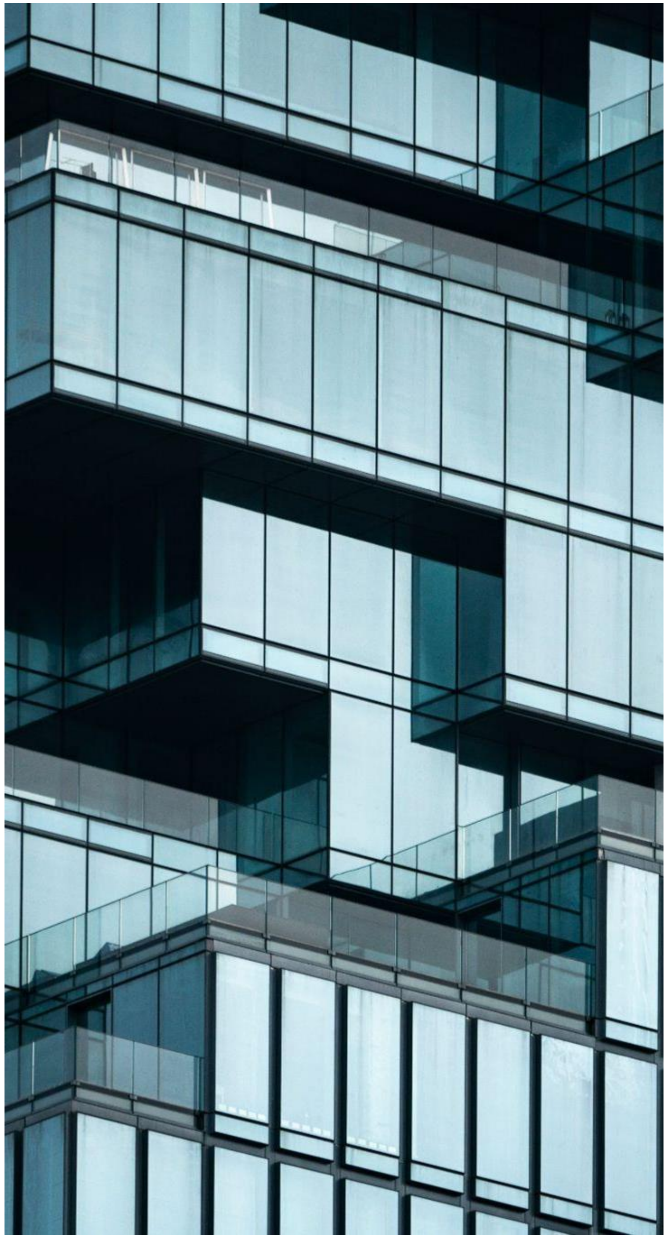
Figure 17: Trend in taxes borne, taxes collected and Total Tax Contribution, 2014–2023



Source: Survey analysis



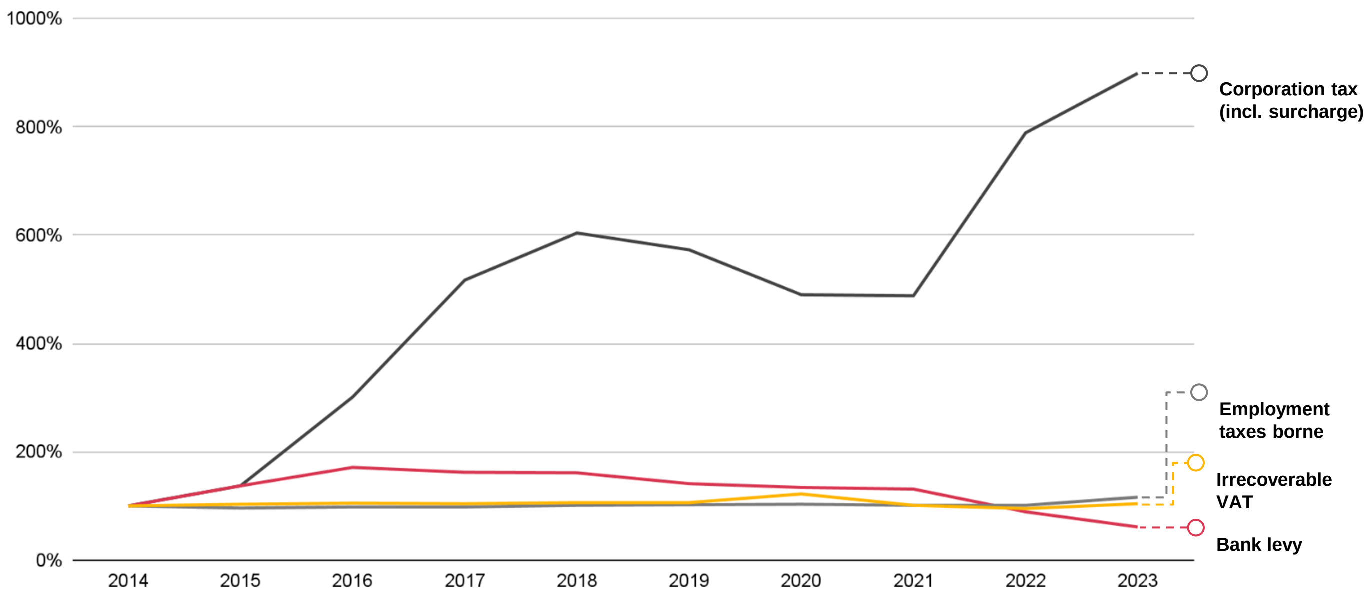
Trends in Total Tax Contribution



Looking specifically at corporation tax in Figure 18, the increase from 2014 to 2018 was driven by the introduction of loss relief restrictions and compensation payment restrictions in 2015, the introduction of the bank surcharge in 2016, and increasing profitability over that period. The decrease from 2018 to 2020 was a reflection of economic uncertainty and weaker growth followed by the impact of the COVID-19 pandemic in 2020/21.

The sharper increase from 2021 is driven by a return to profitability for participating banks following the pandemic. The culmination of legislative changes introduced since 2015 alongside increases in profitability over the period has resulted in corporation tax payments being significantly higher than in 2014.

Figure 18: Trend in taxes borne, 2014–2023

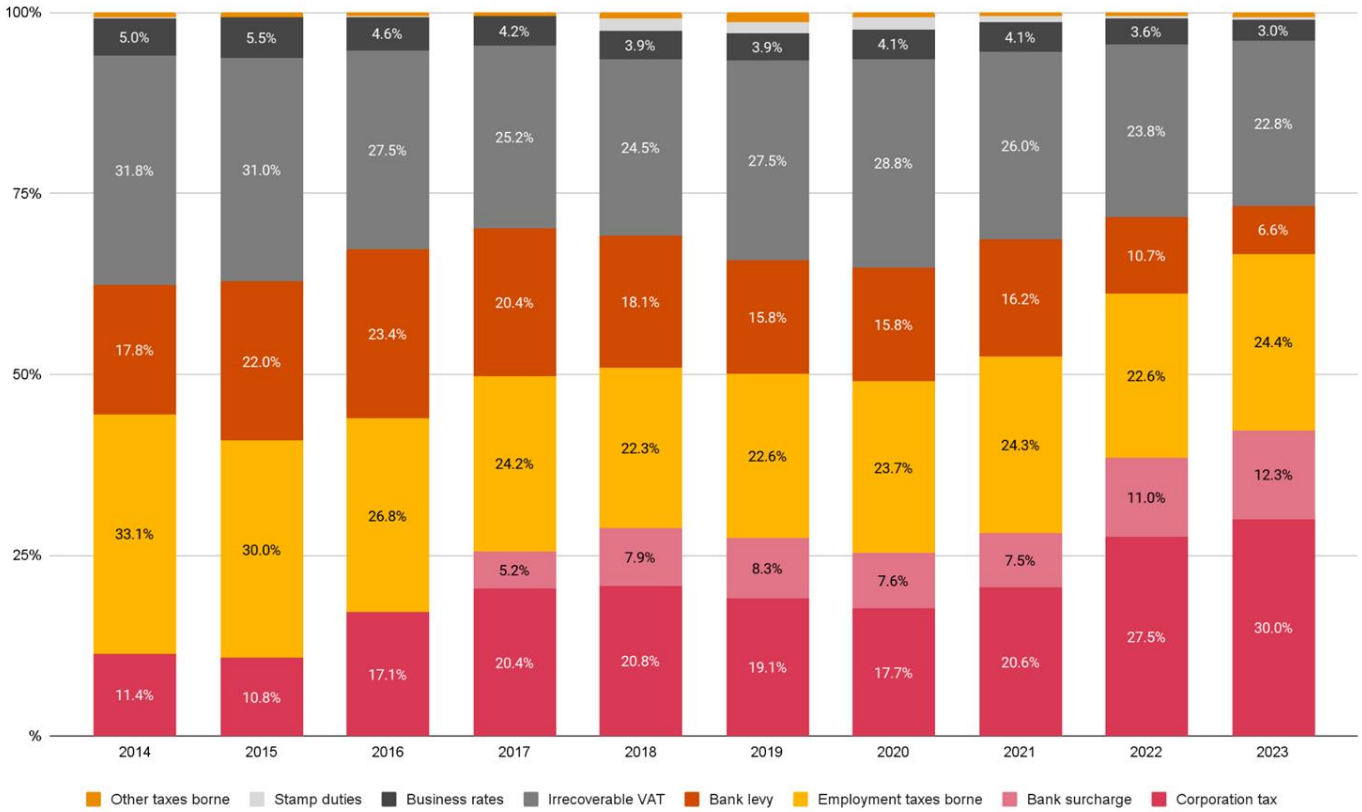


Source: Survey analysis

Trends in Total Tax Contribution

Figure 19 illustrates the change in the profile of taxes borne from 2014 to 2023. Corporation tax has been more significant since 2016, reflecting the 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 arising from the bank levy increased up to 2016, and then decreased from 2017, largely due to the rate changes described in the bank levy section. This decrease is sharper between 2021 and 2023 reflecting the restricted scope of the levy effective from 1 January 2021. The relative proportion of employment taxes borne has remained more stable since 2017, but has fluctuated in response to the increases in corporation tax as well as the decreases in other taxes borne.

Figure 19: Trend in the profile of taxes borne, 2014–2023



Source: Survey analysis

Employment taxes

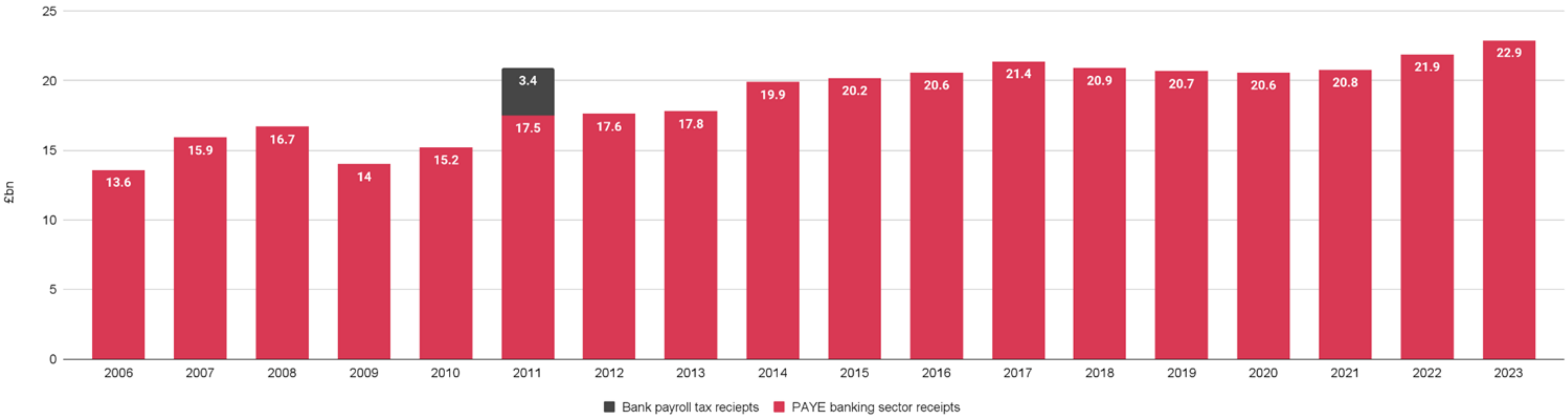
Employment in the banking sector – government data

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 amounted to £22.9bn, 5.8% of all employment tax receipts. The sector provides employment for 1.1% of the UK workforce and accounts for 34.9% of the UK financial services workforce[30].

Figure 20 shows the employment taxes trend for the banking sector based on government receipts from 2006. Legislative changes to employment taxes have had a significant impact on the UK banking sector. In particular, the one-off bank payroll tax[31], 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 20 also shows the impact of the introduction of the 50% rate of income tax in 2011 and the 1.0 percentage point increase in employer and employee NIC in the same year. Changes in income tax thresholds and rates, and NIC thresholds have also increased the size of the employment tax contribution.

Figure 20: Employment tax receipts, 2006–2023



Source: ONS data

[30] ONS Industry (two, three and five-digit Standard Industrial Classification) – Business Register and Employment Survey (BRES): Table 2. The 2022 banking sector workforce was 369,200 based on ONS SIC 641 (Monetary Intermediation). The 2022 financial services workforce was 1,059,300, 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).
[31] 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.

Employment taxes

Employment in the banking sector – survey data

The forty-three participants in the survey employed 312,102 workers and paid total employment taxes of £14.7bn, comprising employment taxes borne of £3.9bn (employer's NIC, PSA and net apprenticeship levy) and employment taxes collected of £10.8bn (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 investment banking, 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 was £42,420 for the banking sector.[32]

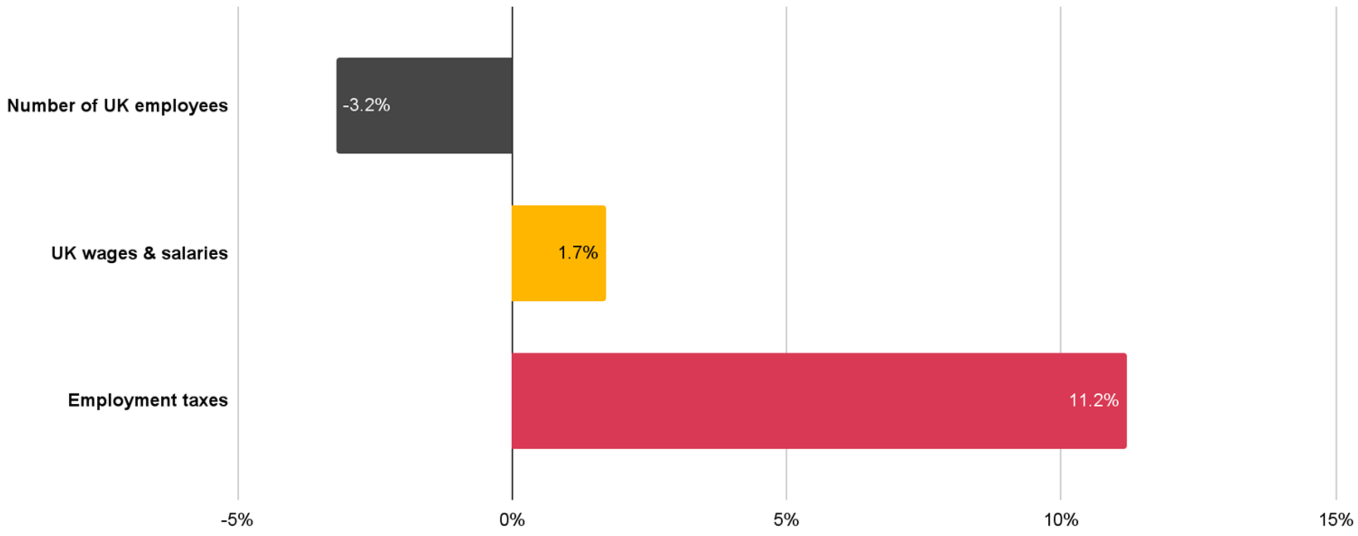
Trends in employment taxes – survey data

Thirty banks provided data on their employee numbers, their wages and salaries, and their employment taxes for both the 2022 and 2023 surveys. We are therefore able to analyse the two-year trend on a like-for-like basis for these companies.

Two-year trends (2022–2023)

Figure 21 shows that employment taxes increased by 11.2%, driven by the temporary 1.25 percentage point rate increase in NICs, as well as earnings growth outpacing tax thresholds resulting in more income being taxed at higher rates. The total number of employees decreased by 3.2% driven by both UK and foreign-headquartered banks.

Figure 21: Trend in number of employees, wages and salaries and employment taxes, 2022–2023



Source: Survey analysis

[32] Calculated by taking the total employment taxes for the study population and dividing it by the total number of employees within that population.

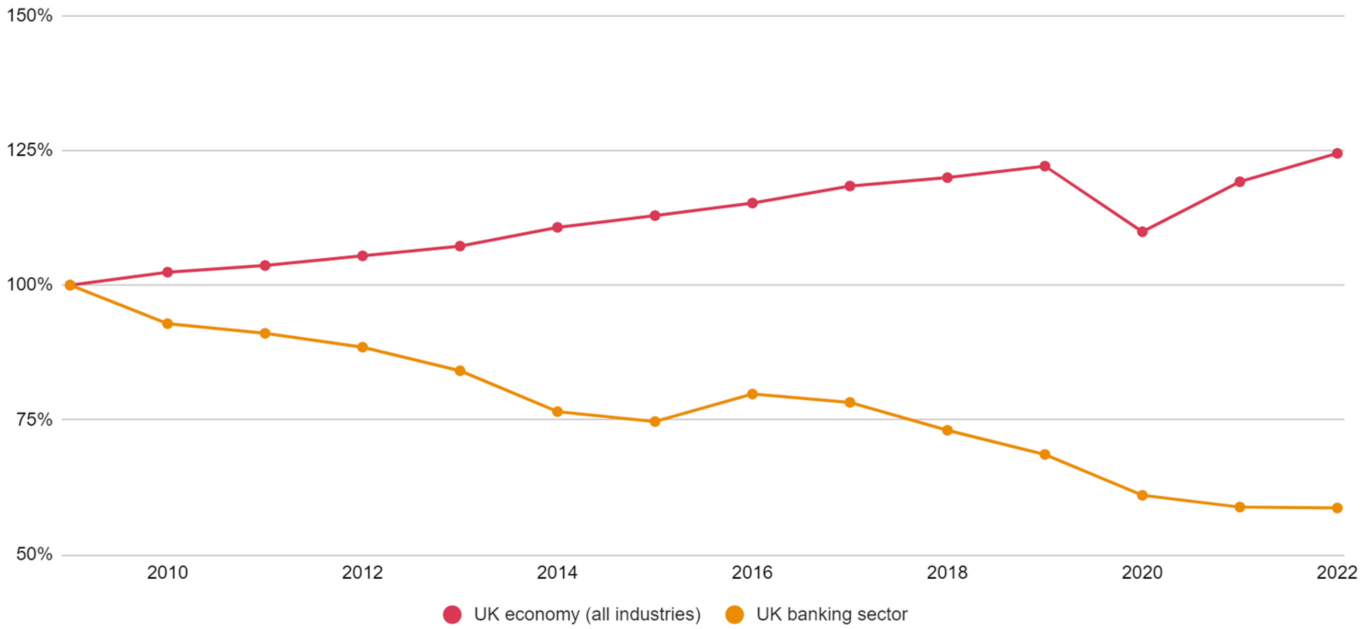
Gross value added for the UK banking sector

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 the 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 22 shows a falling trend in the banking sector GVA from 2009 to 2015, with an upturn from 2015 to 2016. A period of economic uncertainty and disruption followed by the COVID-19 crisis in 2020 has led to a further decrease in recent years.

By comparison, the GVA for the economy as a whole has increased steadily over the period from 2009 to 2019. The economic impact of the COVID-19 crisis in 2020 was greater in the wider economy compared to the banking sector. The GVA for the whole economy experienced a sharper increase between 2020 and 2022 as the economy began to recover following the pandemic.

Figure 22: Gross value added by the banking sector compared with the UK economy, 2009–2022 (2009 = 100)[33]



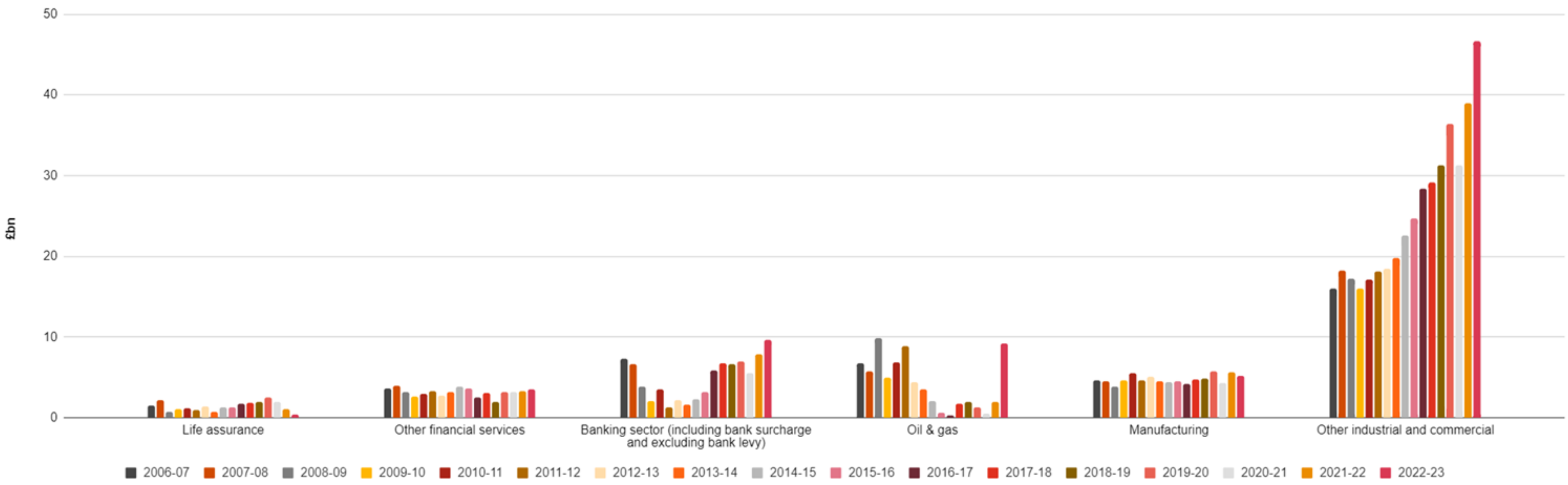
Source: ONS data

[33] Source: ONS GDP output approach – low-level aggregates; chained volume measure (constant prices).

Corporation tax

Figure 23, based on government data, shows corporation tax payments by industry sector between 2006–07 and 2022–23. It illustrates the impact of the financial crisis, followed by growth in corporation tax payments by the banking sector between 2014–15 and 2019–20 due to recovering profitability and the impact of legislative changes. The decrease in corporation tax payments between 2020–2021 shows the impact of the COVID-19 crisis on the profitability of the banking sector. Corporation tax payments increased in 2021–22 and 2022-23 due to higher profitability.

Figure 23: Corporation tax receipts by sector, 2006-07 to 2022-23



*Note that the corporation tax figure for the Oil & Gas sector in 2022–23 includes receipts from the energy profits levy.

Source: HMRC data

Corporation tax

Corporation tax payments from study participants totalled £6.8bn in 2022–23, including bank surcharge payments of £2.0bn. Looking at the companies that provided data for both profits and corporation tax, profits increased compared to the previous year for both UK-headquartered and foreign-headquartered banks, as profitability continued to recover following the pandemic.

Government figures show that receipts of corporation tax (including bank surcharge) and bank levy were £10.9bn in 2023 (Figure 24). HMRC data shows that corporation tax (including the surcharge) has increased by 21.5% compared to 2022 from £7.9bn to £9.6bn.

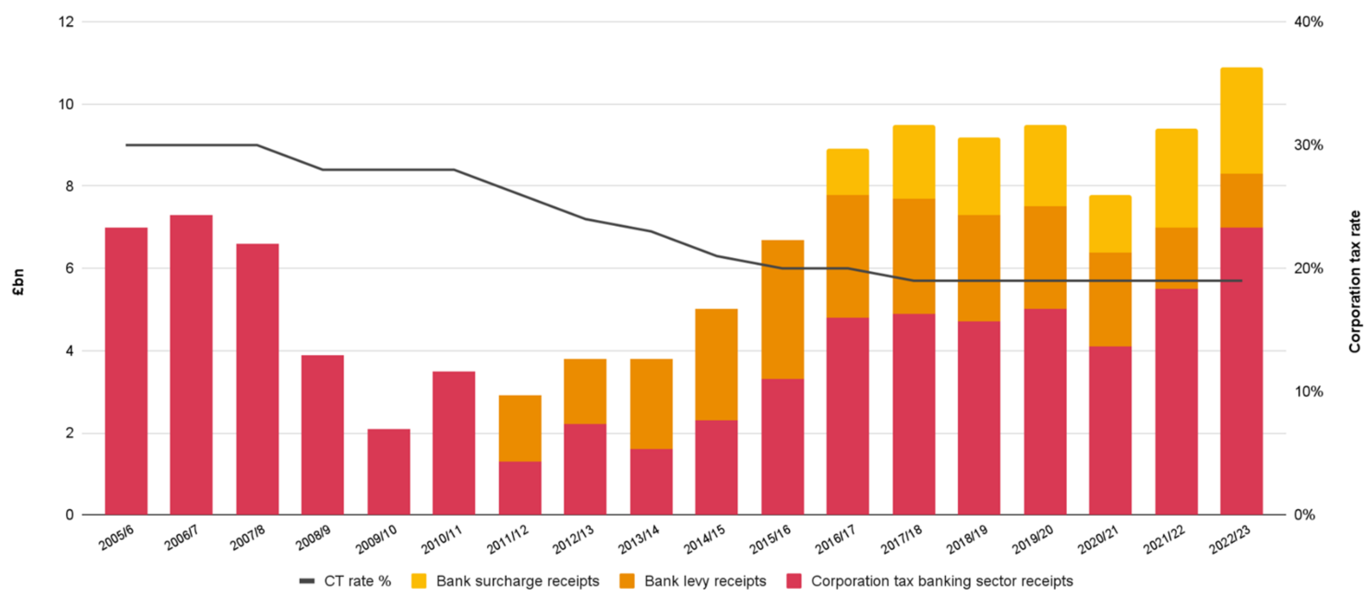
Loss-relief restriction

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, non-trading loan relationship deficits and management expenses. Of the forty-three participating banks, forty provided data quantifying the impact of the loss restriction in the year. Seven of the forty banks were affected by the legislation, resulting in an additional £0.3bn of corporation tax in 2022-23. Since the legislation was introduced in 2015, banks in the survey have paid £3.4bn in corporation tax earlier than they otherwise would.

Compensation payments restriction

Compensation expenditure arising on or after 8 July 2015 is not deductible for corporation tax purposes. Forty-two of the forty-three participating banks provided data quantifying the impact of the compensation payment restriction in the year. Out of those forty-two companies, five were affected by the legislation, but due to movements in historic provisions no additional corporation tax was paid in 2022-23. Since the legislation was introduced in 2015, the banks in the survey have paid an additional £2.4bn in corporation tax.

Figure 24: Government receipts of corporation tax and bank levy from the banking sector[34]



Source: HMRC data

[34] Source: https://www.gov.uk/government/statistics/paye-and-corporate-tax-receipts-from-the-banking-sector-2023

Irrecoverable VAT

Irrecoverable VAT was the third largest tax payment for the study participants, accounting for 22.8% of the total taxes borne. On a like-for-like basis, irrecoverable VAT payments increased by 8.0% for study participants in 2023. This was driven by UK-headquartered banks, reflecting an increase in input tax due to increasing costs fueled by higher inflation. This increase in irrecoverable VAT reverses the trend observed between 2020 and 2022, when irrecoverable VAT was declining due to the changes in VAT recovery rates following the UK's departure from the EU[35]. The total irrecoverable VAT for the forty-three participating banks was £3.7bn. We have estimated[36] total irrecoverable VAT for the UK banking sector of £4.3bn in 2023.

Irrecoverable VAT is one of the largest taxes paid by banks and other financial services companies, however, 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 (output VAT) 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 service 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 increases the cost base and level of input VAT.

[35] The UK formally left the EU customs union and single market on 31 December 2020.
[36] Irrecoverable VAT was extrapolated using 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 in the UK. 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 have done each year up until 2021 (Figure 25).

Figure 25 shows the rate of bank levy since its introduction. The banks participating in this study paid bank levy of £1.1bn in 2022–23, accounting for 82% of the total bank levy receipts and representing 6.6% of total taxes borne. On a two-year like-for-like basis the bank levy paid by participants has decreased 31.1%, which reflects the change in scope of the levy which came into effect from 2021. The scope of the bank levy originally applied to the global consolidated balance sheet of a UK-headquartered bank, but only to the UK balance sheet of a foreign-headquartered bank. The scope was restricted to UK-only operations for all banks from 1 January 2021.

Figure 25: Changes in the rate of bank levy[37]

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%	0.000	0.000
2012	0.088%	0.044%	0.013	0.006
2013	0.130%	0.065%	0.055	0.027
2014	0.156%	0.078%	0.081	0.040
2015	0.210%	0.105%	0.135	0.067
2016	0.180%	0.090%	0.105	0.052
2017	0.170%	0.085%	0.095	0.047
2018	0.160%	0.080%	0.085	0.042
2019	0.150%	0.075%	0.075	0.037
2020	0.140%	0.070%	0.065	0.032
2021	0.100%	0.050%	0.025	0.012

[37] Source: https://www.gov.uk/government/publications/bank-levy-rate-reduction/bank-levy-rate-reduction

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;
- Taxes borne and collected as a percentage of turnover.

Each TTC metric is calculated in three ways:

1. **Overall basis** – using the aggregate survey totals of all participating banks. This metric reflects the position for the participant banks as a whole, but will give weight to the larger banks.
2. **Mean** – using the individual metrics for each participant bank and calculating 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** – using the individual metrics for each participant bank and then taking the midpoint in a sorted list of results.

Taxes borne and collected as a percentage of value distributed

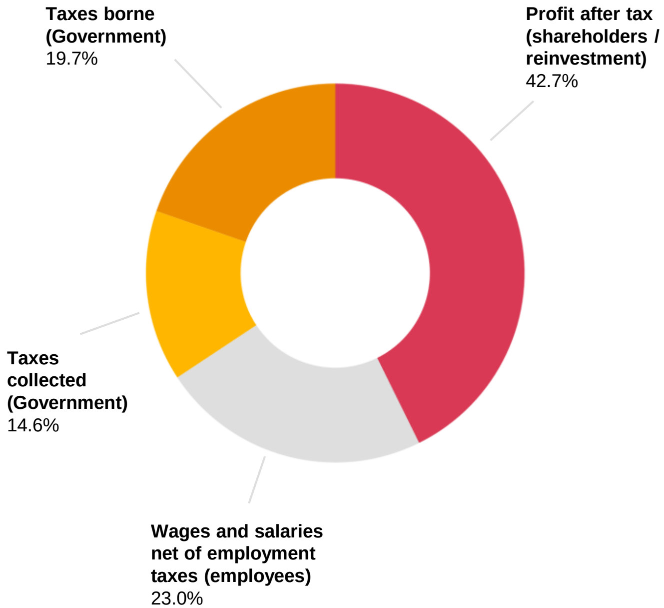
The TTC can be put into the context of the value distributed by companies. Value is distributed to the following recipients:

- The government in taxes borne and collected
- Employees in wages (net of employment taxes)
- Shareholders or retained in the business (for reinvestment) from profits after tax.

With the information gathered through the study, we are able to put the TTC in the context of the value distributed by companies for those providing this data. Figure 26 shows the profile of value distributed by the participants on an overall basis.

The TTC paid to the government represents 34.3% of the value distributed, while a further 23.0% is paid to employees as wages and salaries (net of employment taxes). Taxes borne account for 19.7% of the total for the study participants, while taxes collected represent a further 14.6% of the total. Profit after tax which is paid to shareholders as dividends or reinvested is 42.7%.

Figure 26: Taxes borne and collected as a percentage of value distributed



Source: Survey analysis

Putting the TTC data into the context of other economic indicators

Total tax rate

The total tax rate (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 for 2022–23 was 31.6%[38]. The TTR calculated on an overall basis is weighted towards the largest banks in the survey. The mean TTR, giving equal weight to all banks in the survey, is 32.8% (Figure 27).

Appendix 6 gives further details on the TTR calculation.

Figure 28 shows the mean TTR from 2014 to 2023. The average TTR for the sector over the period is around 36%, however, this increases to 40% and above during years where profitability is lower.

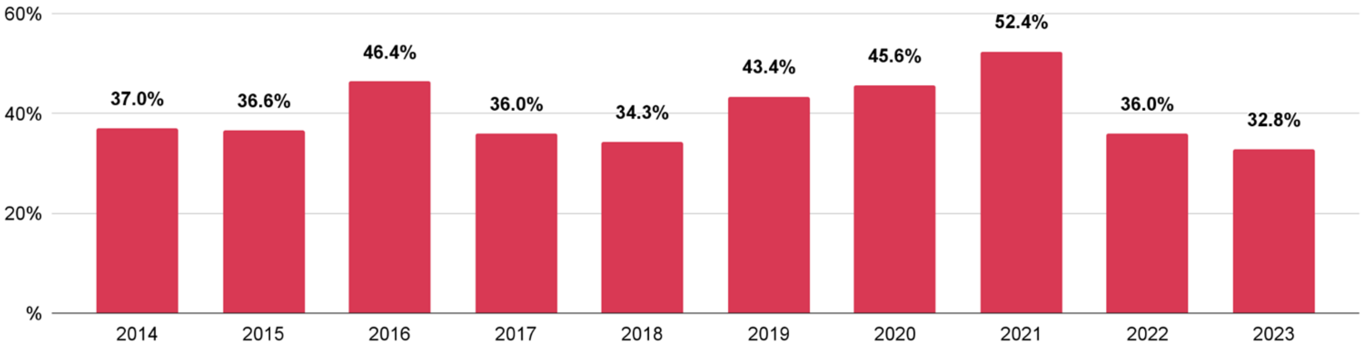
This reflects the significance of sector taxes, such as bank levy and irrecoverable VAT, which are not dependent on profits and represent a fixed cost for the sector. The average TTR peaked at 52.4% during 2021, reflecting the significant impact of the COVID-19 pandemic on the profitability of the banking sector.

Figure 27: Total tax rate

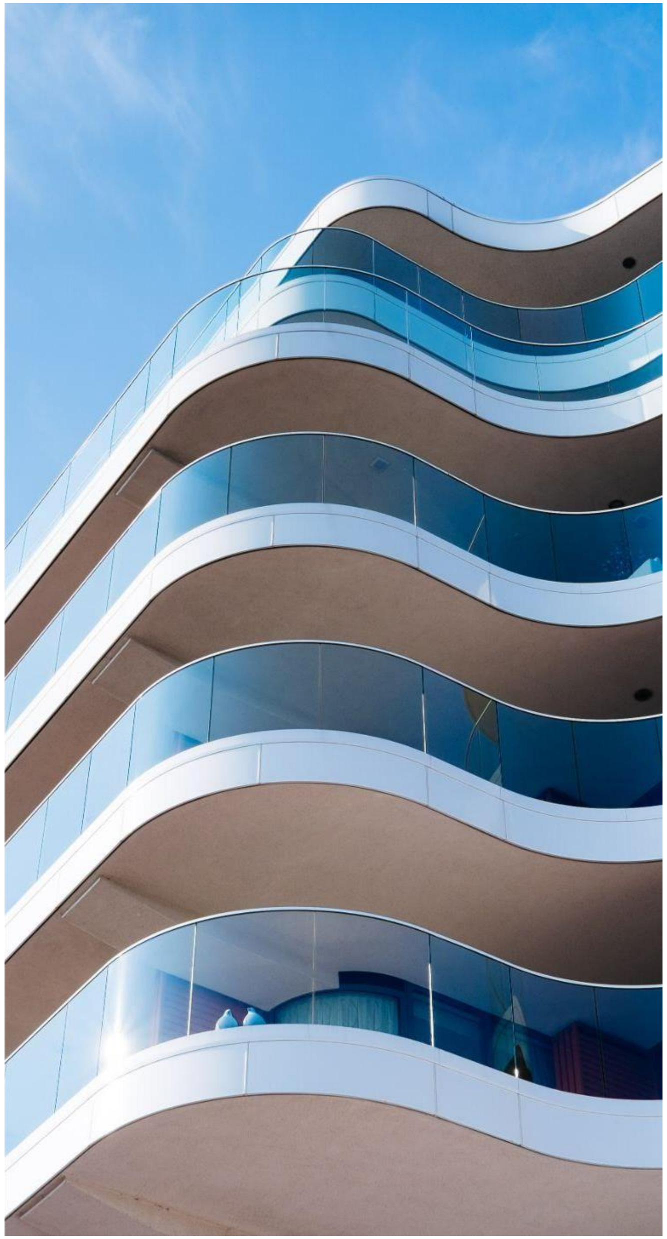
	TTR
Overall	31.6%
Mean	32.8%
Median	33.0%

Source: Survey analysis

Figure 28: Mean TTR, 2014–2023

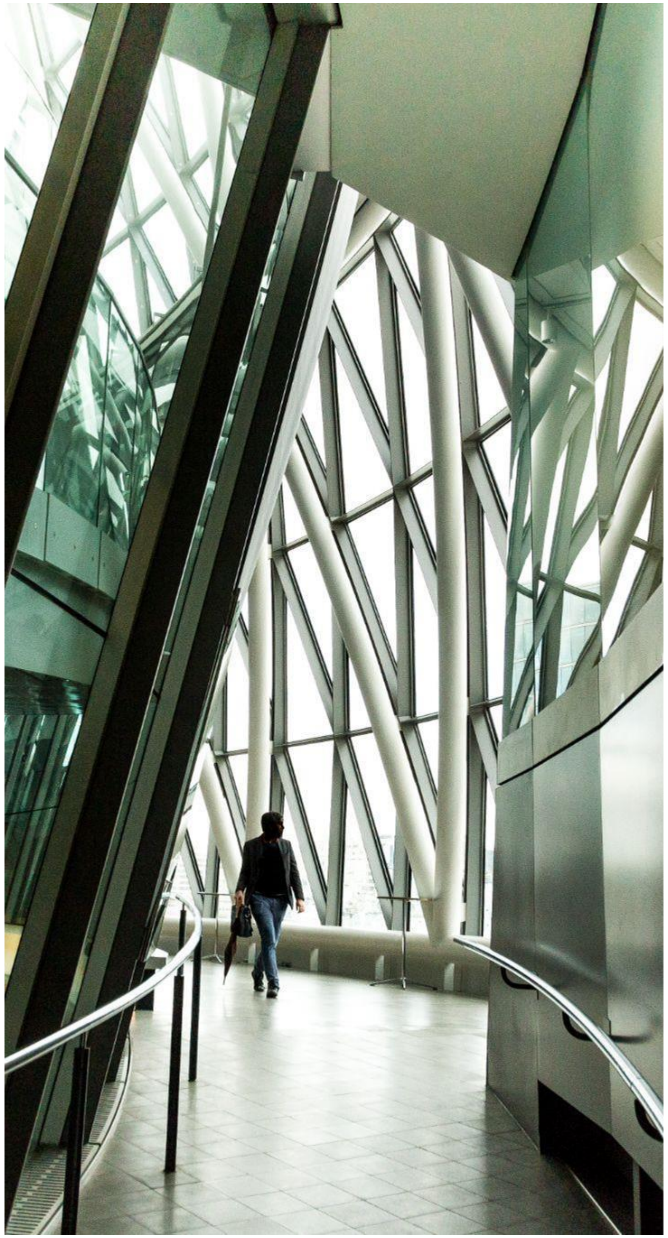


Source: Survey analysis



[38] The overall average TTR was 31.6%, the mean was 32.8%, the median 33.0%, and the range 6.7% to 59.1%. (2022: The overall average TTR was 32.4%, the mean was 36.0%, the median 33.5%, and the range 14.5% to 126.8%.)

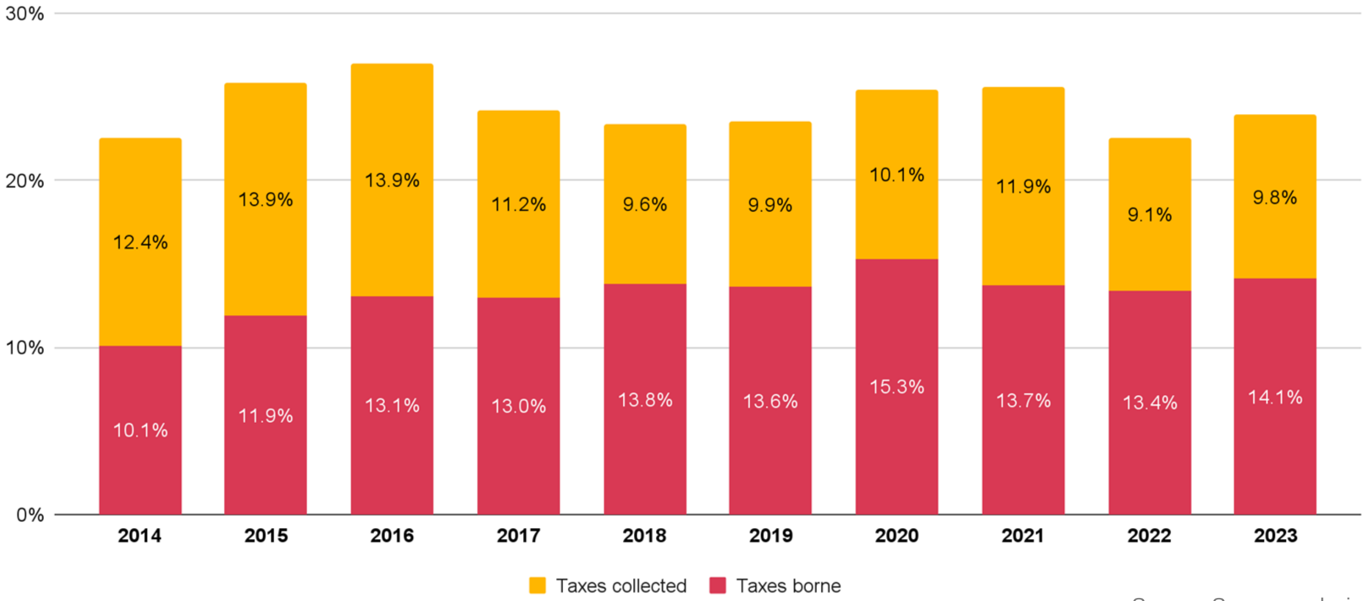
Putting the TTC data into the context of other economic indicators



Total Tax Contribution as a percentage of turnover

On average for the banks participating in the study, TTC as a percentage of their total UK turnover[39] was 23.9%. Taxes borne accounted for 14.1% and taxes collected 9.8%[40]. Figure 29 shows the percentage in 2023 has increased compared to 2022, driven by an increase in both taxes borne and collected. The long-term trend shows that the proportion of taxes borne has been increasing since 2014, peaking in 2020 at 15.3%.

Figure 29: TTC as a percentage of turnover, 2014–2023



Source: Survey analysis

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

[40] The overall average TTC as a percentage of turnover was 22.3%, the mean was 22.5%, the median was 22.2%, and the range 10.6% to 46.2%. (2022: the overall average TTC as a percentage of turnover was 21.4%, the mean was 22.5%, the median 22.0%, and the range 12.8% to 37.2%).

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[41] 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 that explores how the contribution of the UK banking sector has changed over time to highlight the impact of new taxes and legislative changes (i.e. the introduction of the bank surcharge, loss relief restriction, compensation payments restriction, apprenticeship levy).

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 2023. For most study participants this was the year ending 31 December 2022.

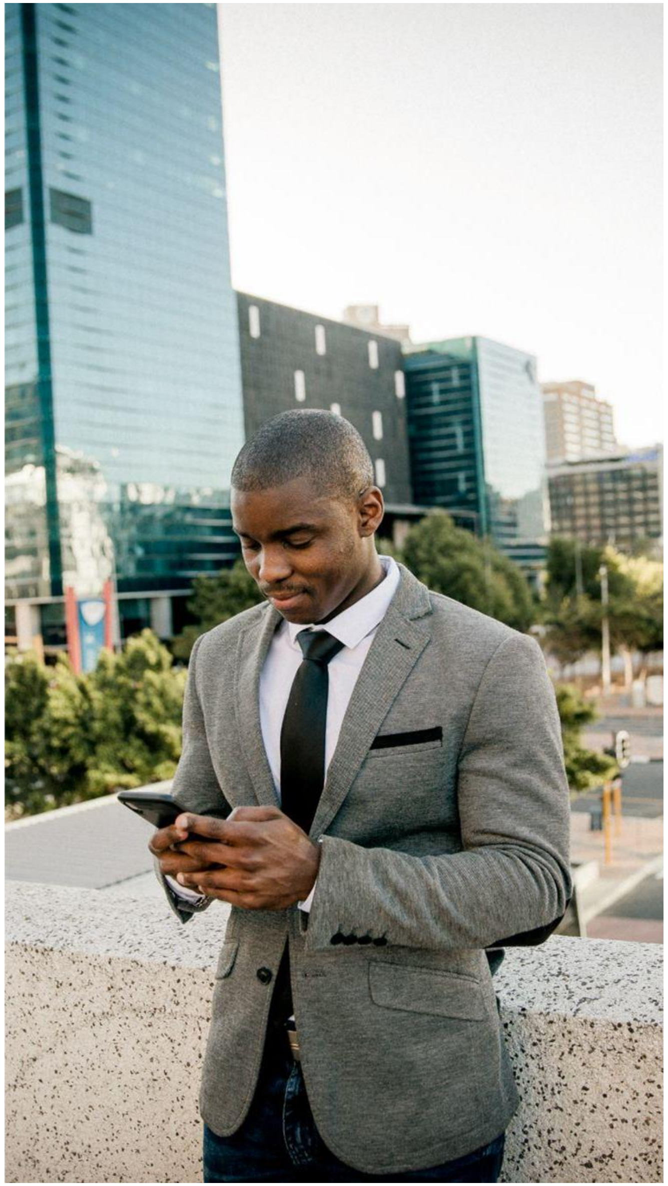
PwC has anonymised and aggregated this data to produce the study results. PwC has not verified, validated or audited the data and cannot give any undertakings as to the accuracy of the study results. The framework is straightforward in concept, not tax technical and therefore relatively easy for stakeholders 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.



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

Appendix 1

Purpose, methodology and participation

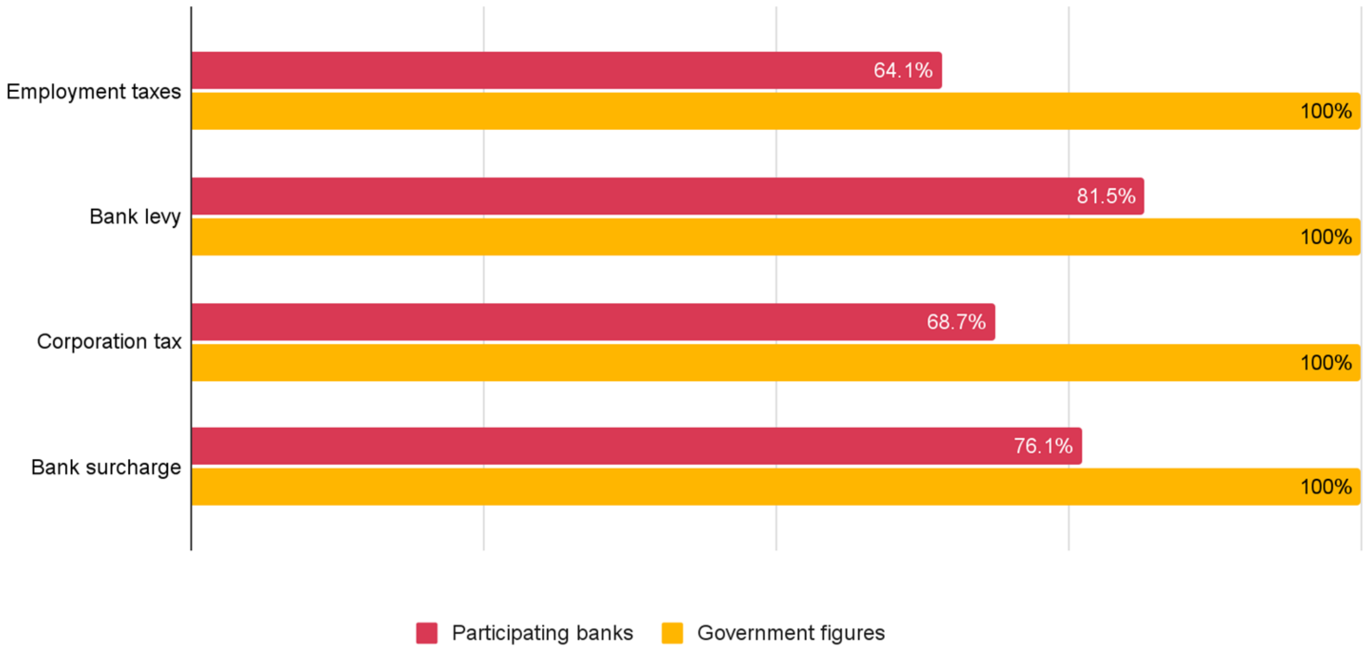
Participation in the TTC study

Forty-three 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 2023. 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[42].

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 NICs and the apprenticeship levy) paid by study participants totalled £14.7bn accounting for 64.1% of government receipts from the banking sector (£22.9bn).
- Bank levy paid by study participants was £1.1bn comprising 81.5% of government receipts from the banking sector (£1.3bn).
- Corporation tax payments made by participants totalled £4.8bn which represents 68.7% of corporation tax receipts (£7.0bn) from the UK banking sector.
- Bank surcharge paid by participants totalled £2.0bn making up 76.1% of the total bank surcharge receipts from the banking sector (£2.6bn).

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



Source: HMRC and survey data

[42] HMRC 'PAYE and Corporate Tax receipts from the banking sector: 2023'

Appendix 2

International comparison of tax rates based on a model bank

Methodology

To calculate the taxes potentially 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 2022 report[43].

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 five financial centres: London, Frankfurt, Amsterdam, Dublin 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[44] of the model bank totals £866 million. Specifically, for the London model, we have estimated the profit before tax to be £667 million with a 25% profit margin. The commercial profit will be the same in all five jurisdictions, however, the profit before tax will vary depending on the amount of the taxes borne in each jurisdiction.

[43] https://www.ukfinance.org.uk/system/files/2022-10/UK%20Finance%202022%20TTC%20report.pdf
[44] The commercial profit is the profit before all taxes borne

Appendix 2

International comparison of tax rates based on a model bank

Comparing 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

Employers' social security contributions

Of the five jurisdictions, the employer's social security contributions are the highest in London for 2023 where they amount to 11.9% of commercial profit as a result of NICs being charged at 13.8% above the secondary threshold of £758 per month. For the other financial centres, the employer's social security contributions range between 3.5% and 9.5% of commercial profit as the contributions are either capped or charged at lower rates.

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. These assumptions also hold true for Amsterdam, and there were no fundamental differences in the VAT treatment of the particular banking activities undertaken by the model bank in Dublin.

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 4.5%, New York State sales and use tax of 4% 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%, Amsterdam: 6.1%, Dublin: 5.5%.

Bank levy / Single Resolution Fund (SRF)

The UK, Germany and Amsterdam 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 SRF. 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 predetermined rate to the bank's liabilities (see Figure 25). 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 calculation in the Netherlands is similar to that of the UK. In 2022, the temporary increase in bank levy rates in the Netherlands introduced during the pandemic were reversed, from 0.066% to 0.044% (short-term debt) and from 0.044% to 0.022% (long-term debt). At time of publication, proposals had been introduced in the Netherlands to increase the domestic bank levy by 70%.[45] Given the imminent general election it is unclear whether this proposal will proceed.

In Germany, the bank levy is assessed by the authorities based on the amount that needs to be paid to the SRF[46]. 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.

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[45] Shares in Dutch banks hit after lawmakers vote for higher tax, Financial Times, 22 September 2023.

[46] The 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.

Appendix 2

International comparison of tax rates based on a model bank

We have instead relied on macro level data to estimate a typical payment for the model bank in this study, based on the total SRF raised in Germany in 2023 and the most recent data on total bank assets available from the German regulator, BaFin[47]. 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.

The Irish bank levy is based on deposits and does not apply to investment or corporate financing activities. Given that the model bank in the study conducts a mixture of corporate and investment banking activities, the bank levy would not apply.

The SRF would apply to the model bank in both the Netherlands and in Ireland. The calculation has been made in the same way as described for Germany above, using the ratio of SRF to total assets to calculate the SRF paid by the model bank in Amsterdam and Dublin.

For the purposes of our model, we have determined that for 2023 our model bank would be subject to bank levy amounting to 4.3% of commercial profits in London, 8.3% in Frankfurt and 6.2% in Amsterdam. While the model bank would be subject to SRF amounting to 9.6% of commercial profit in Amsterdam and 7.6% in Dublin.

SRF 2024 projections

Our 2024 projections currently assume no further contributions to the SRF as the fund is due to reach its target level of 1% of covered deposits by 31 December 2023. As a result, the contributions to the fund are expected to decrease significantly, possibly to zero. At time of publication, the Single Resolution Board, which oversees the SRF, has not indicated whether further contributions to the SRF will be needed in 2024. If there is sufficient growth in covered deposits in the EU, further contributions to the SRF may be required to maintain its level at 1% of covered deposits. In this scenario, the projected total tax rates for Frankfurt, Amsterdam and Dublin may be marginally higher in 2024 as a result.

Corporate income tax

Of the five countries, the UK faces the highest levels of employer social security contribution and the second highest level of irrecoverable VAT/sales tax. It therefore has a lower 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 payments, 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, Germany or the Netherlands. 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 2022 tax rate of 19%, plus the 8% bank surcharge for the first quarter of 2023. For the remainder of 2023, we have used the increased corporation tax rate of 25%, effective from 1 April 2023, as well as the corresponding decrease in bank surcharge from 8% to 3%, giving an overall headline rate of 28%. For Germany, we have used a corporate income tax rate of 15%, plus a 5.5% surcharge and a 16.1% trade tax rate for Frankfurt. For the US, the corporate income tax rate comprises a 21% federal rate and an effective state and local rate of 2%. For Amsterdam, we have used the corporate income tax rate of 19% on the first €200,000 and then 25.8% after that. And for Ireland, we have used the rate of 12.5% in 2023. We expect the corporate income tax rate in the Republic of Ireland to rise to 15% in 2024 due to the domestic transposition of the OECD’s Pillar 2 framework concerning a global minimum corporate income tax rate of 15%.

Based on the above rates and our calculations, we have estimated the following profit taxes as a percentage of commercial profit in 2023: London: 22.6%, Frankfurt: 28.9%, New York: 21.5%, Amsterdam: 20.7%, Dublin: 9.7%.

Property taxes

For all locations included in the international comparison, property taxes are 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.

[47] BaFin Annual Report 2022 available from https://www.bafin.de/EN/PublikationenDaten/Jahresbericht/jahresbericht_node_en.html

Appendix 2

International comparison of tax rates based on a model bank

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.

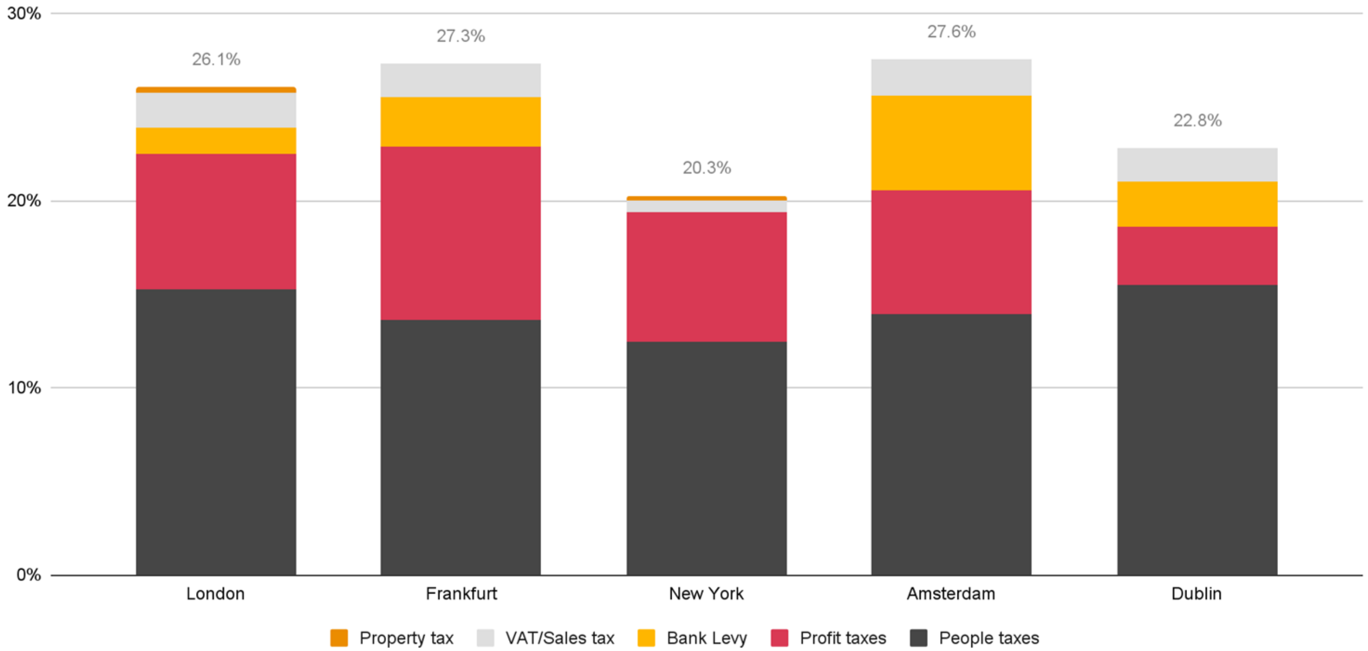
Employee social security contributions

In all five jurisdictions, employee social security contributions are relatively similar and are between 1.0% and 1.3% of net operating income (£27m to £42m)[48].

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, 10.5% in the UK, 10.2% in the US, 11.6% in Amsterdam and 11.3% in Dublin. 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

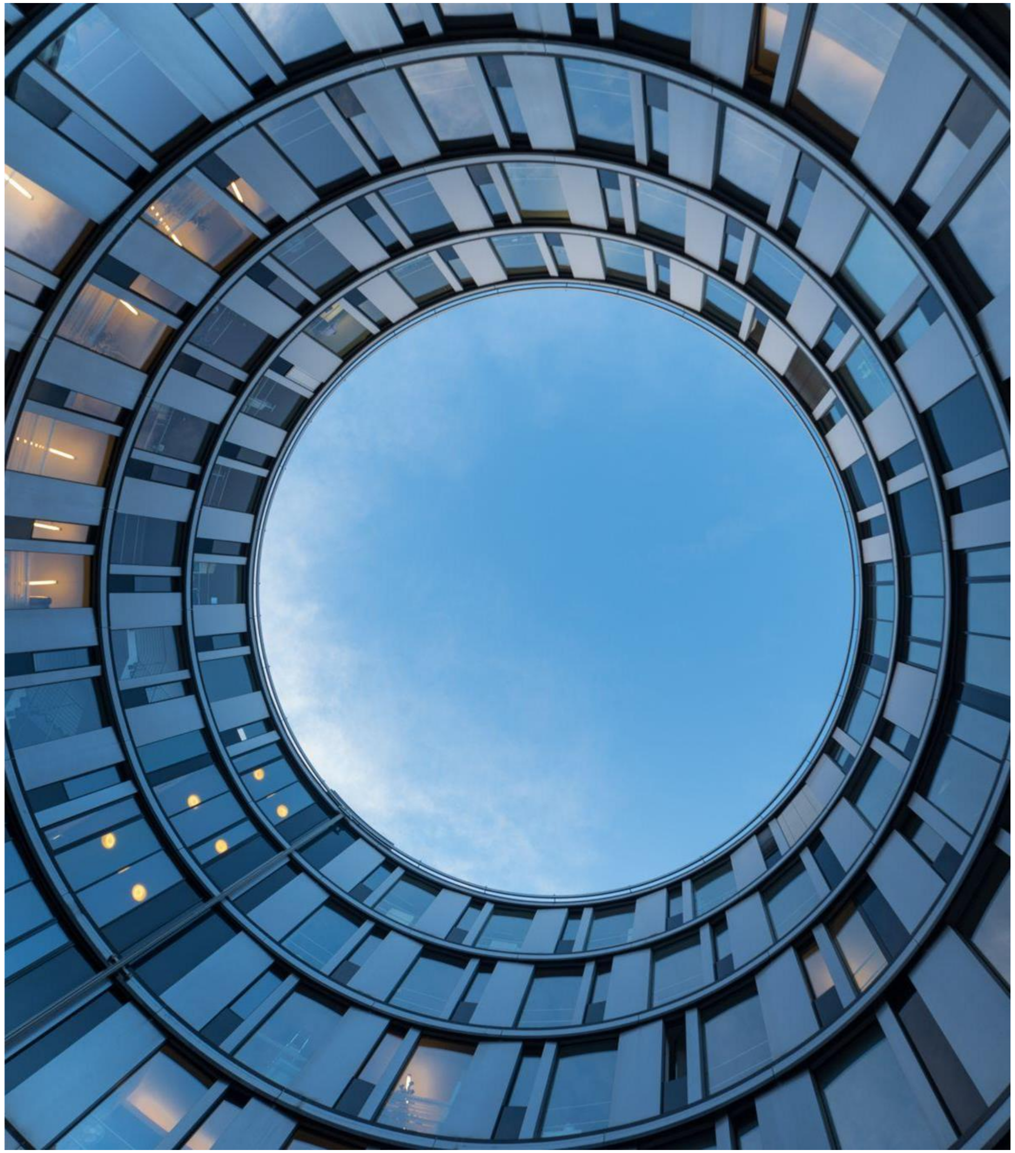


Source: PwC analysis

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

Appendix 3

Taxes borne reported by survey participants

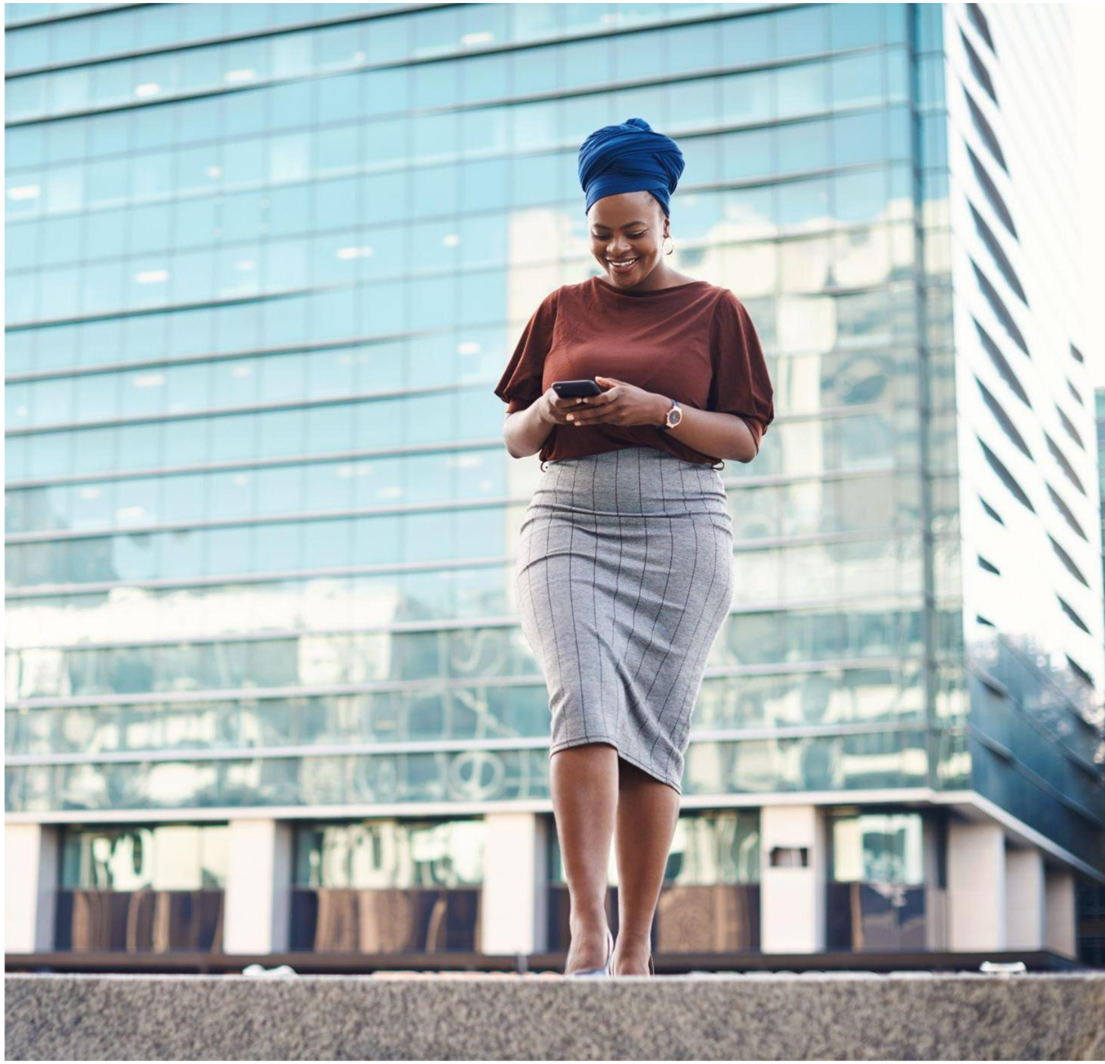


Taxes borne	£ 2023
Taxes on profit (profit taxes)	
Corporation tax	4,811,199,568
Bank surcharge	1,979,676,579
Taxes on property (property taxes)	
Business rates	478,131,595
Bank levy	1,059,684,927
Stamp duty land tax	9,952,370
Stamp duty reserve tax	46,997,453
Taxes on employment (people taxes)	
PSA (taxes on benefits)	49,174,069
Employer NIC	3,765,577,453
Net apprenticeship levy	97,751,884
Taxes on consumption (product taxes)	
Irrecoverable VAT	3,656,634,248
Insurance premium tax	15,004,038
Air passenger duty	20,462,937
Customs duty	454,000
Environmental taxes (planet taxes)	
Climate change levy	5,282,377
Other	48,243,713
Total	**16,044,227,210**

Appendix 4

Taxes collected reported by survey participants

Taxes collected	£ 2023
Taxes on profit (profit taxes)	
Tax deducted at source	412,342,777
Taxes on property (property taxes)	
Stamp duty reserve tax	1,359,327,711
Taxes on employment (people taxes)	
Income tax deducted under PAYE	9,211,161,774
Employee NIC	1,565,936,319
Taxes on consumption (product taxes)	
Net VAT	-202,482,565
Insurance premium tax	111,885,221
Total	**12,458,171,238**



Appendix 5

Employment taxes

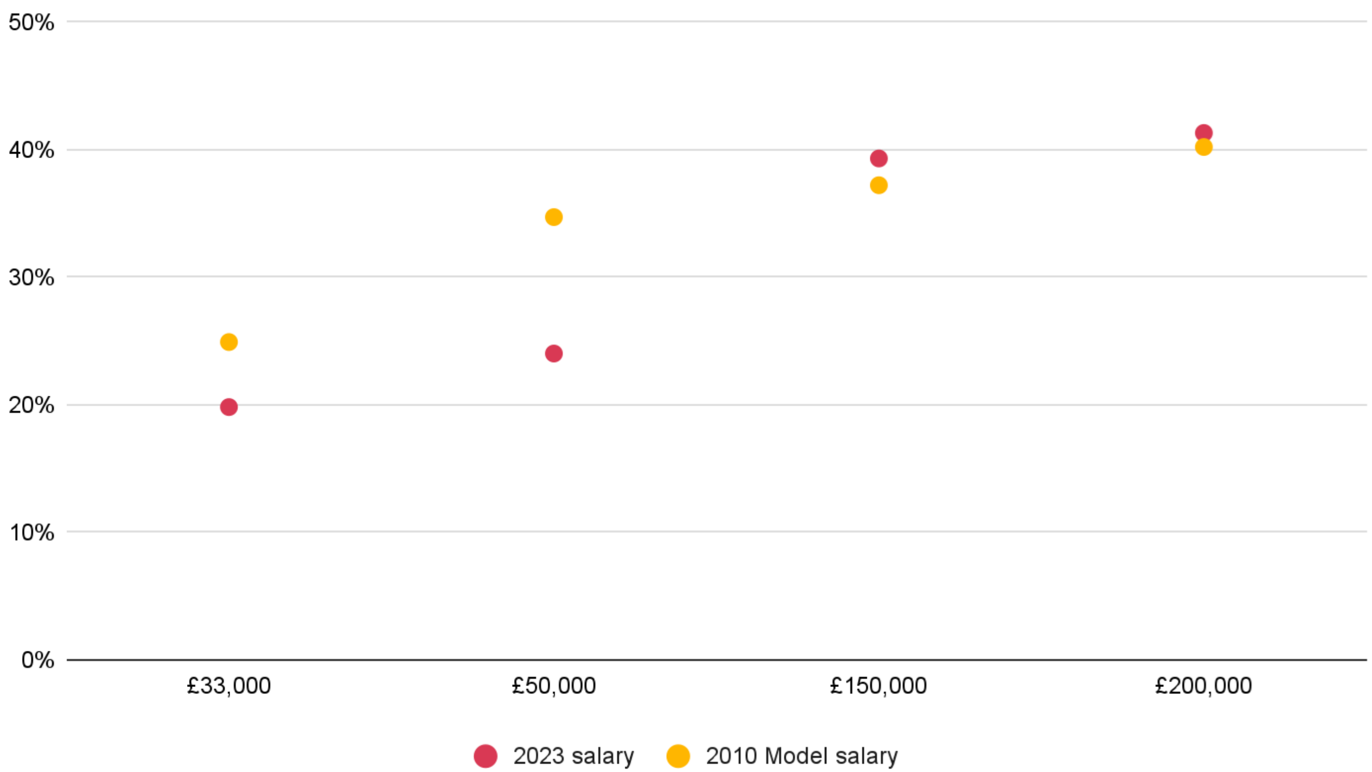
UK employment tax legislation is structured so that higher salaries are taxed at higher rates. Using selected salaries, we have modelled the total employment tax that would be paid per employee.

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 2023 for a range of example salaries. From the national average salary of £33,000[49] 19.8% is paid in employee income tax and employee NIC in 2023, while this ratio was 24.9% in 2010. The equivalent figure for a salary of £150,000 is 39.3% in 2023 and 37.2% in 2010, a 2.1 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 recent 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 £33,000 has fallen by 5.1 percentage points since 2010. By contrast, a salary of £150,000 has seen an increase of 2.1 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

[49] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2022

Appendix 5

Employment taxes

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	£6,035–40,835	£40,835–over	NA
2009–10	£6,475–43,875	£43,875–over	NA
2010–11	£6,475–43,875	£43,875–150,000	£150,000–over (50%)
2011–12	£7,475–42,475	£42,475–150,000	£150,000–over (50%)
2012–13	£8,105–42,385	£42,385–150,000	£150,000–over (50%)
2013–14	£9,440–41,450	£41,450–150,000	£150,000–over (45%)
2014–15	£10,000–41,865	£41,865–150,000	£150,000–over (45%)
2015–16	£10,600–42,385	£42,385–150,000	£150,000–over (45%)
2016–17	£11,000–43,000	£43,000–150,000	£150,000–over (45%)
2017–18	£11,500–45,000	£45,000–150,000	£150,000–over (45%)
2018–19	£11,850–46,350	£46,350–150,000	£150,000–over (45%)
2019–20	£12,500–50,000	£50,000–150,000	£150,000–over (45%)
2020–21	£12,500–50,000	£50,000–150,000	£150,000–over (45%)
2021–22	£12,570–£50,270	£50,270–150,000	£150,000–over (45%)
2022–23	£12,570–£50,270	£50,270–150,000	£150,000–over (45%)

Appendix 6

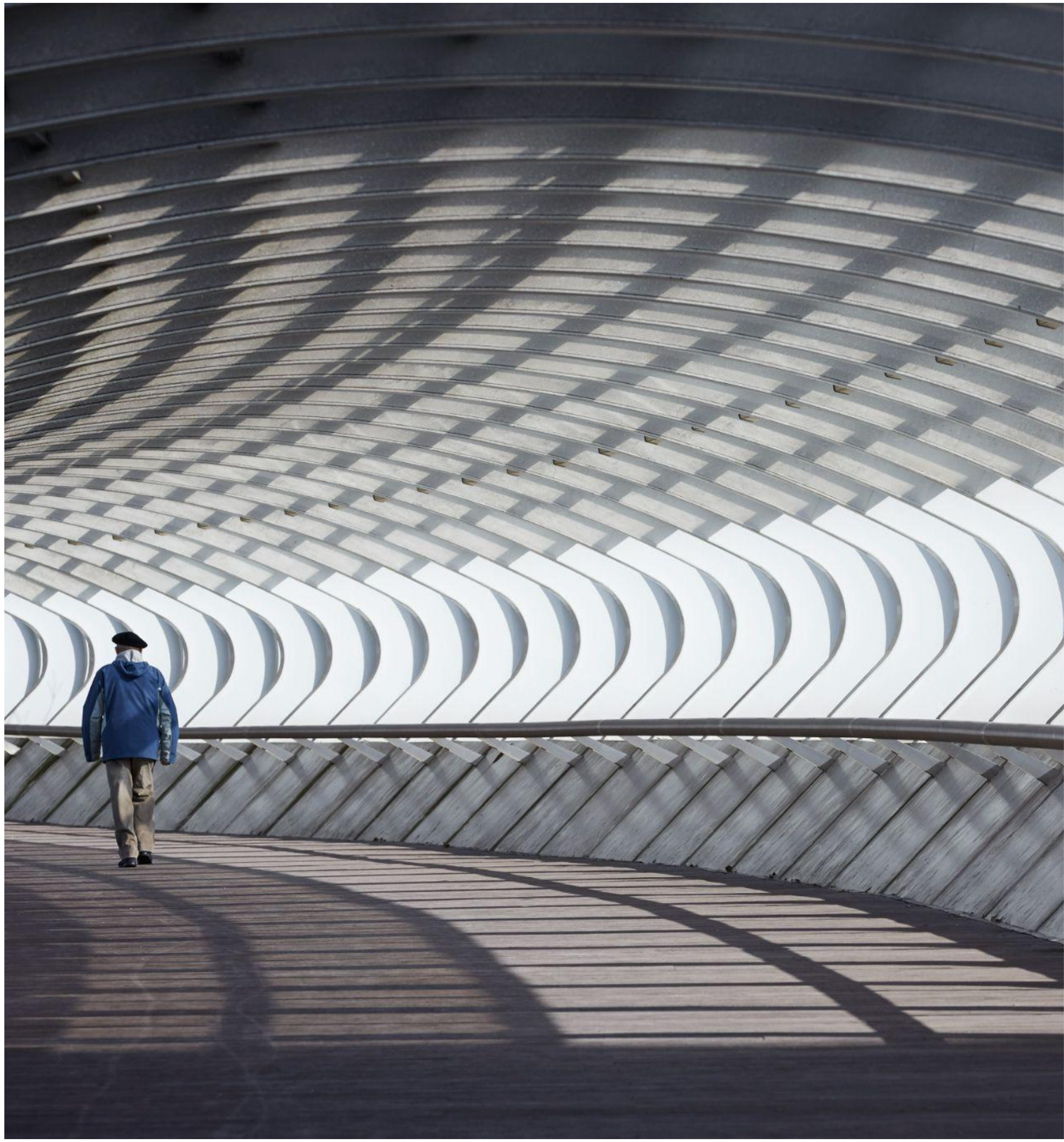
Total Tax Rate calculation

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)**



Appendix 7

Changes in tax legislation

In order to understand the trends in the taxation of the UK banking sector, the relevant 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).

From 1 April 2023 the bank surcharge rate was reduced from 8% to 3% (due to the rate of corporation tax increasing from 19% to 25%).

Corporation tax:

The rate of corporation tax 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.

From 1 April 2023, the corporation tax rate increased from 19% to 25%.

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:

From 1 January 2021, the bank levy rate for long term chargeable equity or liabilities was 0.05% and the rate for short term chargeable equity or liabilities was 0.10%.

Prior to 2021, the scope of the bank levy applied to the global consolidated balance sheet of UK-headquartered banks, but only to the UK balance sheet of a foreign-headquartered bank. This scope was reduced to UK operations only with effect from 2021.

Income tax deducted under PAYE:

The personal allowance threshold remained at £12,570 in 2022/23. The higher rate threshold in England, Northern Ireland and Wales remained at £50,270 in 2022/23.

National Insurance Contributions:

From April 2021 the upper earnings limit was increased to £50,268. From April 2022 an additional 1.25 percentage point increase to both employer and employee NIC took effect as a result of the Health and Social Care Levy. This increase was then reversed in November 2022 and has remained at 13.8% in 2022/23.

The primary threshold for Employee National Insurance increased from £9,564 to £9,876 in April 2022, this further increased to £12,576 in July 2022 and remained in 2022/23.

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 pay bill. 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.

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