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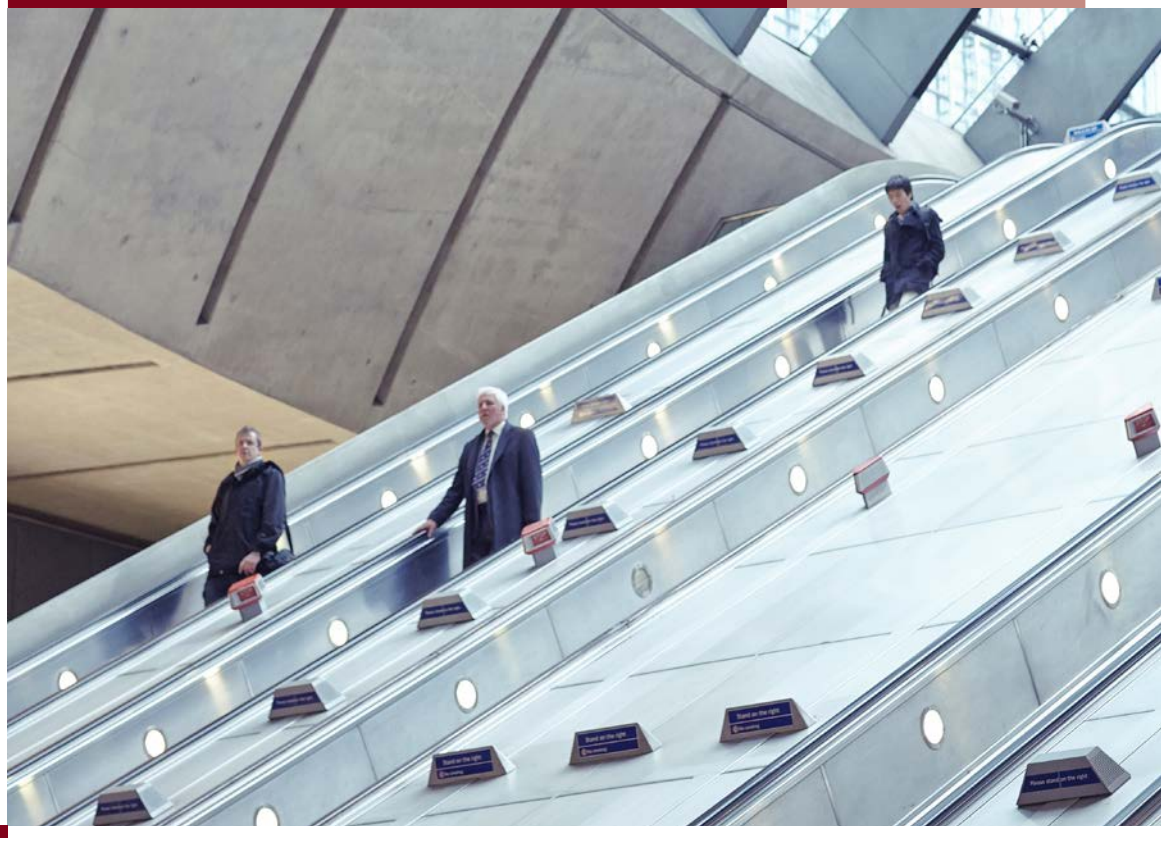
# 2017 Total Tax Contribution of the UK banking sector

## Third edition

*A publication prepared by PwC for UK Finance.*

*October 2017*



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# Foreword

Welcome to the 2017 Total Tax Contribution survey of the UK banking sector, which shows the third consecutive rise in the annual contribution by the sector to the public finances. This series of reports has provided robust data on the full extent of the tax revenues generated by the sector, highlighting the fact that the contribution extends beyond corporation tax to include significant amounts of irrecoverable VAT, bank levy, employment taxes and business rates. This year's survey includes the impact of the bank surcharge, introduced in January 2016.

Our analysis over the last four years reveals recovering returns from the banking sector following the financial crisis. This strong performance has occurred despite the need to respond to more demanding regulation, incremental taxes (e.g. bank levy and bank surcharge) and legislation that has broadened the tax base (e.g. restrictions relating to the deductibility of brought-forward losses and compensation payments) over this period. On top of the growing contribution to the UK Exchequer, bank lending (including lending to SMEs) has also been on the rise over the last two years[1].

The UK banking sector has faced a number of challenges, including persistently low interest rates and lower return on equity since the financial crisis. In the coming years, challenges include the likelihood of continuing low interest rates, together with Brexit uncertainty and other forms of potential disruption from technology and new market entrants. This report suggests that the banking sector is in a strong position to face these challenges, but also highlights the scale of potential impact on the public finances if the level of UK banking activity changes. Since 2007, gross value added (GVA) of the banking sector has fallen while tax revenues have been increasing. As other financial centres compete for banking activity, the UK needs to ensure that it remains competitive and maintains its position as the world's leading financial centre[2]. This report emphasises the significant contribution made as a result of high-skilled jobs in this sector, which reinforces the UK's need to allow access to talent.

The importance of continuing to build public trust in the sector cannot be underestimated. The introduction of a stronger regulatory framework along with an increased understanding of the full contribution to the government finances should go some way to regaining the public's trust. We thank the participating banks for their support for this survey.

**Andrew Packman**
PwC, Total Tax Contribution
and Tax Transparency Leader

[1]Bank of England Statistical Interactive Database http://www.bankofengland.co.uk/boeapps/iadb/NewInterMed.asp?Travel=NIx
[2]The Global Financial Centres Index http://www.longfinance.net/programmes/financialcentrefutures/global-financial-centres-index.html

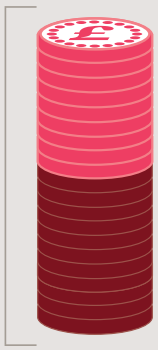
# The key findings from the third Total Tax Contribution study of the UK banking sector show that, in 2017*:

## *TTC of the banking sector*

The Total Tax Contribution of the banking sector to the UK public finances in 2017 was estimated as £35.4bn, an increase compared to £34.2bn in 2016. This was made up of taxes borne of £19.0bn and taxes collected of £16.4bn.

**£35.4bn**

Total Tax Contribution



**£16.4bn**

Taxes collected

**£19.0bn**

Taxes borne

## *The comparison between UK banks and foreign banks*

Of this total, we estimate that £18.1bn was paid by UK banks and £17.3bn by foreign banks.

**£18.1bn**

UK banks

**£17.3bn**

Foreign banks

## *11.0% increase in taxes borne in 2017*

Compared to the 2016 study, there was an increase of 11.0% in the taxes borne by survey participants, driven by increases in corporation tax (as a result of increased profitability and loss relief and compensation payment restrictions) and the introduction of a surcharge on banks' profits.

**11.0%**

Increase in taxes borne compared to the 2016 study

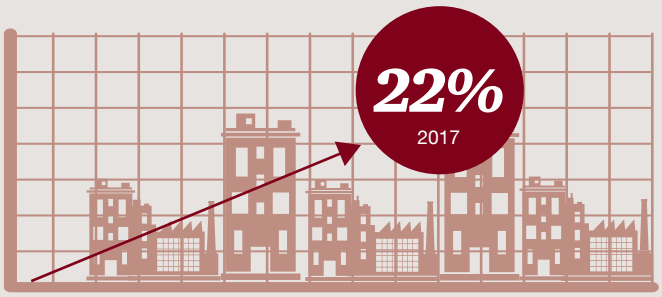
* Note: The 2017 study collected data for accounting periods ended in the year to 31 March 2017, mostly 31 December 2016 year ends.

## *The bank surcharge paid by the sector amounted to £1.1bn*

The bank surcharge paid by the sector amounted to £1.1bn in the year. At 8% of taxable profits, this represents 40% of the statutory UK headline corporation tax rate.


## *Receipts of corporation tax, surcharge and bank levy are 22.0% higher than corporation tax receipts before the financial crisis*

In 2017, corporation tax, surcharge and bank levy receipts were 22% higher than the corporation tax receipts from the sector in 2007, before the financial crisis.

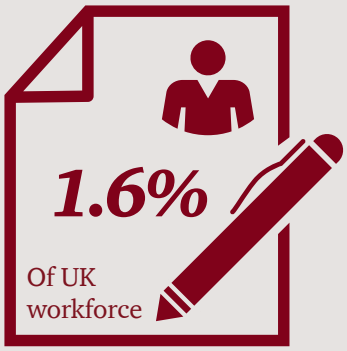


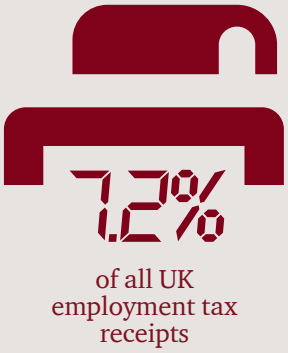

## *47.6% of participant banks' profits are paid in taxes*

On an overall basis, 47.6% of participant banks' profits are paid in taxes highlighting the challenging conditions faced by the largest banks in the sector.


## *The banking sector creates employment for 1.6% of the UK workforce*

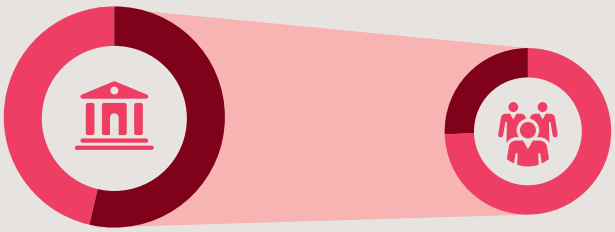
The banking sector creates employment for 1.6% of the UK workforce and contributes 7.2% of all UK employment tax receipts.




## *Employment taxes remained the largest tax for the banking sector (£18.4bn)*

Of the £18.4bn, 53.7% was paid by foreign-headquartered banks, which employed 25.3% of the employees in the study.



**53.7%**

Of the £18.4bn, 53.7% was paid by foreign banks.

**25.3%**

Despite employing just 25.3% of employees in the study.

# 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[3] to the public finances in taxes and the trends in contribution over time.

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

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

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

The members taking part in the study provided data on their tax payments in accounting periods ending in the year to 31 March 2017. For most study participants this was the year ending 31 December 2016.

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.

** UK Finance is the trade association for firms providing finance, banking, mortgages, markets and payments-related services in or from the UK. It was formed in 2017 by combining the Asset Based Finance Association, the British Bankers' Association, the Council of Mortgage Lenders, Financial Fraud Action UK, Payments UK and the UK Cards Association.*

## *Methodology*

The study uses the PwC Total Tax Contribution (TTC) framework which provides a standardised methodology for companies to measure and communicate all the taxes and contributions that they pay. The study collected data from UK Finance members operating in the banking sector, relating to all UK tax payments in accounting periods ending in the year to 31 March 2017. 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, etc.

Taxes collected are those that the company administers on behalf of government and collects from others, e.g. income tax deducted under PAYE and employee NIC, tax deducted at source, stamp duty. Taxes collected have an administrative cost for the company and will also have an impact on the company's business.

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

**36**

*Thirty-six UK Finance member banks participated in the study, providing a....*

***Valuable resource***

*...valuable resource for the UK banking sector, government and other stakeholders.*

[3] The UK banking sector is defined by HMRC as those businesses that are potentially eligible to pay the bank surcharge. The following list of regulated firms which businesses and the public would tend to think of as banks can be used as a guide: http://www.bankofengland.co.uk/pra/pages/authorisations/banksbuildingsocietieslist.aspx

## *Participation in the TTC study*

Thirty-six UK Finance member 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 2017. The same number of companies provided data in the previous study.

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[4].

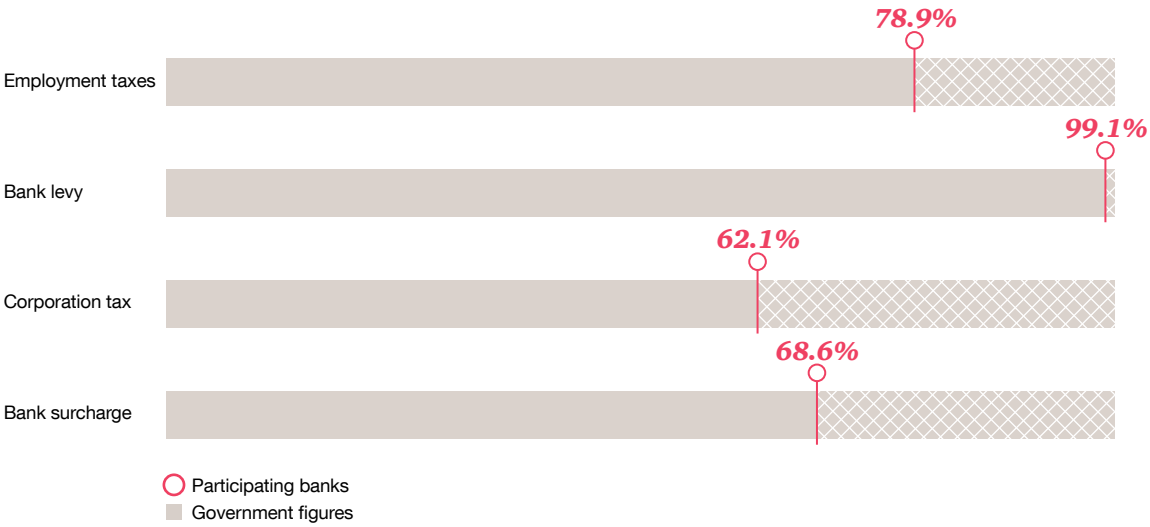
The government publishes data for receipts of employment taxes, bank levy and corporation tax from the banking sector. Figure 1 compares the data received from participating banks in this year's study with the government data:

- Employment taxes (income tax deducted under PAYE, employer and employee NIC) paid by study participants totalled £14.5bn accounting for 78.9% of government receipts from the banking sector (£18.4bn).
- Bank levy paid by study participants was £3.0bn comprising 99.1% of government receipts from the banking sector (£3.0bn).
- Corporation tax payments made by participants totalled £3.0bn which represents 62.1% of corporation tax receipts (£4.8bn) from the UK banking sector.
- Bank surcharge[5] paid by participants totalled £0.8bn making up 68.6% of the total bank surcharge receipts from the banking sector (£1.1bn).

**99.1%**

*of government receipts of bank levy was paid by study participants*

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




Source: Study participants

[4] HMRC "Pay-As-You-Earn and corporate tax receipts from the banking sector" https://www.gov.uk/government/statistics/paye-and-corporate-tax-receipts-from-the-banking-sector-2017

[5] Bank Surcharge – A majority of the participants have December year ends, and the data includes three instalment payments of bank surcharge in the year to 31 December 2016. Since government figures are for the year to 31 March 2017, they consist of four instalments. If the fourth instalment is removed from the government figures, study participants paid 92.9% of overall bank surcharge.

# Total Tax Contribution of the UK banking sector

The banking sector makes a major contribution to the UK Exchequer. The thirty-six companies taking part in the study reported taxes borne of £14.6bn and taxes collected of £13.0bn, making a UK tax contribution of £27.6bn.

Extrapolating from these figures[6], we estimate that the Total Tax Contribution for the entire UK banking sector, including those banks who did not take part in the study, is £35.4bn, which represents 5.4% of total government receipts for all taxes in the year to 31 March 2017. Figure 2 shows that the TTC of £35.4bn is estimated to comprise taxes borne of £19.0bn and taxes collected of £16.4bn. The totals for corporation tax, bank surcharge, bank levy, and employment taxes for the whole of the sector are not extrapolated from study data, but are taken from published government figures.

We estimate that there is a relatively equal contribution from UK and foreign banks: £18.1bn (51.1%) can be attributed to UK-headquartered banks, and £17.3bn (48.9%) to foreign-headquartered banks. However, the profile of this contribution varies significantly, with UK banks contributing a greater share of taxes borne (see next section: The profile of taxes borne and collected).

**5.4%**

*of total government receipts for all taxes in the year came from the banking sector*

**Figure 2:** 2017 Total Tax Contribution of the UK banking sector as a percentage of total UK tax receipts[7]

| £bn | Study participants | Extrapolated to the UK banking sector | As a percentage of Government receipts |
|---|---|---|---|
| Corporation tax | 3.0 | 4.8[8] | |
| Bank surcharge | 0.8 | 1.1[9] | |
| Bank levy | 3.0 | 3.0[10] | |
| Employment taxes borne[11] | 3.5 | 4.7 | |
| Irrecoverable VAT | 3.7 | 4.5 | |
| Other taxes borne[12] | 0.6 | 0.8 | |
| **Total taxes borne** | **14.6** | **19.0** | **2.9%** |
| Employment taxes collected[13] | 11.0 | 13.7 | |
| Tax deducted at source | 0.8 | 0.9 | |
| Other taxes collected[14] | 1.2 | 1.8 | |
| **Total taxes collected** | **13.0** | **16.4** | **2.5%** |
| **Total Tax Contribution** | **27.6** | **35.4** | **5.4%** |

[6] Data was extrapolated to provide an estimate of the total tax contribution of the banking sector. The extrapolation was based on government figures released by HMRC "Pay-As-You-Earn and corporate tax receipts from the banking sector". Extrapolation uses the ratios of (1) employment taxes to taxes borne and (2) employment taxes to taxes collected for different parts of the sector, as established in the study. Extrapolation is an estimate only, apart from corporation tax, bank surcharge, bank levy, and employment taxes, where actual figures are included.
[7] The Office for Budget Responsibility (OBR) – March 2017 Economic and fiscal outlook – supplementary fiscal tables: receipts and other. Table 2.8 Current receipts (on a cash basis)
[8] Represents 9.7% of government corporation tax receipts
[9] Represents 100% of government bank surcharge receipts
[10] Represents 100% of government bank levy receipts
[11] Employer national insurance contributions and PAYE agreements
[12] Business rates, stamp duty land tax, stamp duty and stamp duty reserve tax, insurance premium tax, air passenger duty, vehicle excise duty, customs duty, fuel duty, carbon reduction commitment, climate change levy
[13] Employee national insurance contributions and income tax deducted under PAYE
[14] Stamp duty reserve tax, net VAT, insurance premium tax

The contribution in taxes made by the UK banking sector in 2017 increased by £1.2bn from the previous year, and represents 5.4% of total government receipts (Figure 3). However, the profile of TTC changed significantly, with an increase in taxes borne of £2.8bn and a decrease of taxes collected of £1.6bn. This was not unexpected, as the corporation tax surcharge came into force on 1 January 2016, together with tighter loss relief legislation (with 25% of carried-forward losses eligible to be offset against taxable profit, down from 50% in the previous year) and non-deductibility of compensation payments impacting taxes borne. The next section provides further detail relating to the profile of taxes borne and taxes collected.

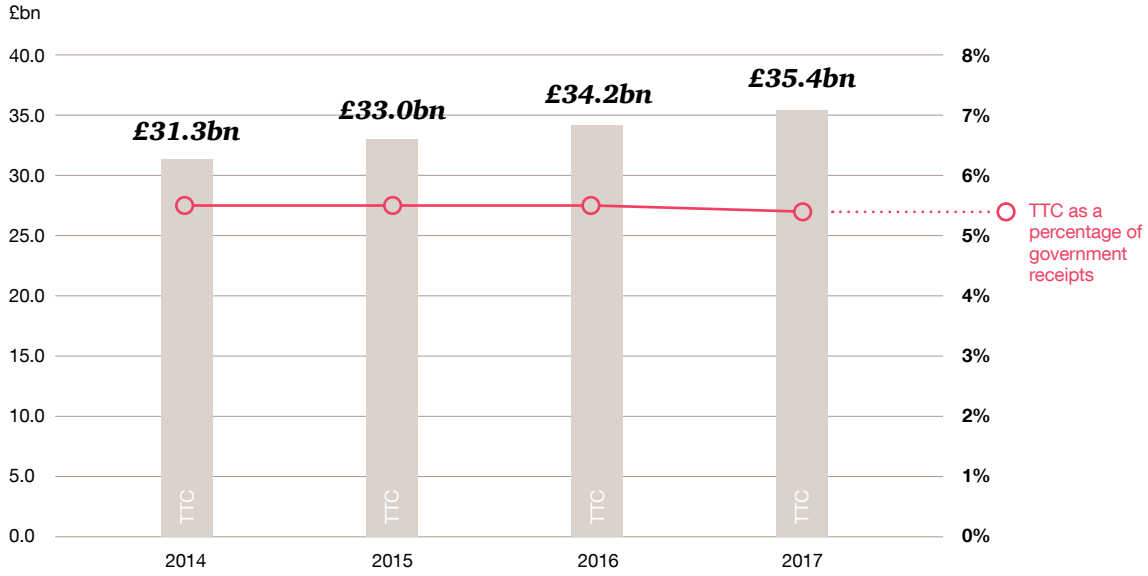
Within the total of £35.4bn, employment taxes comprise the largest element (£18.4bn), reflecting skilled jobs in this sector.

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

**£1.2bn ↑**

*The contribution in taxes made by the UK banking sector in 2017 increased by £1.2bn*

**Figure 3:** The Total Tax Contribution of the UK banking sector, 2014-2017




Source: PwC analysis

# The profile of taxes borne and collected

## *Taxes borne*

Taxes borne are a cost to the business and, therefore, directly affect a company's financial results. The profile for these taxes across the banks that participated in the 2017 survey is shown in Figure 4. This year's profile of taxes borne includes an additional element compared to the previous study: the bank surcharge, which came into force on 1 January 2016 imposing an additional 8% surcharge on the profits of banking companies.

Corporation tax (including the bank surcharge), at 25.6% of the total, has overtaken irrecoverable VAT (25.2%) to become the largest tax borne by participating banks in 2017. Employment taxes, comprising employer NIC and PSA (PAYE Settlement Agreement, a tax on benefits provided by the company), were the third largest tax borne, at 24.2%.

Bank levy accounts for a smaller percentage of taxes borne in this year's study (20.4% compared to 23.4% in 2016) as the bank levy rates, set by HM Treasury, reached their peak in the 2016 survey. From January 2016 bank levy rates were reduced, and will gradually decrease each calendar year up until 2021 when 0.10% will be applied to short term liabilities and 0.05% to long term liabilities (Figure 27). The scope of the bank levy is also due to be reduced in the future. The levy currently applies to the global consolidated balance sheet of a UK-headquartered bank, but only to the UK balance sheet of a foreign-headquartered bank. This scope will be restricted to UK operations only with effect from 2021.

Sector taxes, and other taxes that impact the banking sector, are an important element of the tax profile for these companies. Over half of total taxes borne (50.8%) are made up of bank surcharge, bank levy and irrecoverable VAT. Of these 'sector taxes', bank levy and irrecoverable VAT (together 45.6% of the total) are not dependent on profits, and represent a fixed cost for the sector.

Corporation tax (excluding the bank surcharge) increased significantly in this year's study, accounting for 20.4% of taxes borne, due to a combination of increased profitability and the full impact of compensation and loss relief restrictions.

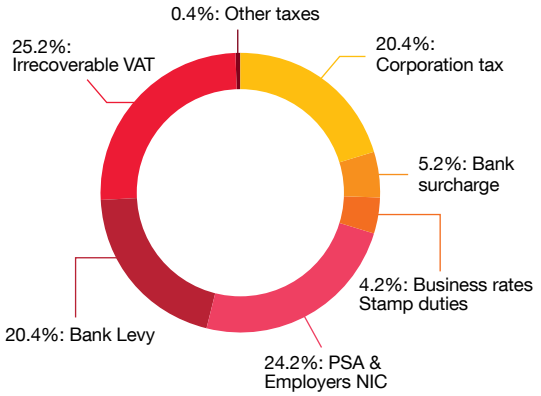
Please refer to Appendix 1 for a detailed list of taxes borne by study participants.

For every £1 of corporation tax (including the bank surcharge), the banking sector in the UK paid £2.84 of other taxes borne.

**£2.84**

*For every £1 of corporation tax (including bank surcharge), the banking sector in the UK paid £2.84 of other taxes borne.*

**Figure 4:** Taxes borne profile for participating banks




Source: Study participants

## *Taxes collected*

Taxes collected are those which are generated by a company's operations, but are collected from others, e.g. income tax deducted under PAYE and net VAT, etc. The company generates the commercial activity that give 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. For every £1 of corporation tax paid (including bank surcharge), there is £3.42 in taxes collected.

Figure 5 shows the profile of taxes collected for the thirty-six participants. Employment taxes (income tax deducted under PAYE and employee NIC) were the largest taxes collected (81.2% of total taxes collected), reflecting skilled jobs in the banking sector. Tax deducted at source (6.1% of the total) decreased this year, due to the cut in interest rates in August 2016 from 0.5% to 0.25%, along with the introduction of the personal savings allowance from 6 April 2016, and the associated removal of the obligation on banks to deduct tax at source from account interest. As a result, stamp duty reserve tax (SDRT) became the second largest tax collected, at 11.8% of the total. Please refer to Appendix 2 for a detailed list of taxes collected by study participants.

## *Total Tax Contribution*

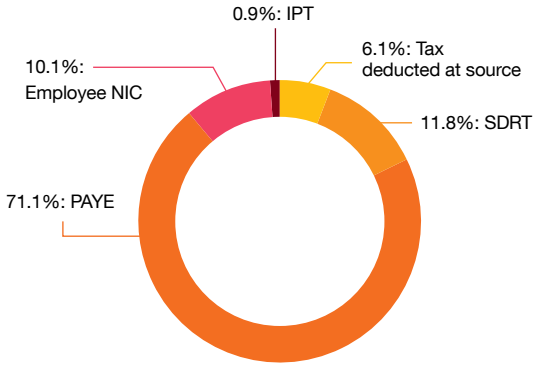
The Total Tax Contribution profile – both taxes borne and taxes collected together (Figure 6) – shows that corporation tax, including the bank surcharge, made up 13.6% of the TTC in the study while employment taxes remained the most significant, at 52.7% of the total. The other significant taxes for the sector – irrecoverable VAT and bank levy – were 13.4% and 10.8% of the TTC respectively. Tax deducted at source, which is affected by factors outside of the banks' control, has fallen from 5.7% of the total in 2016 to just 3.0% in 2017.

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

**£3.42**

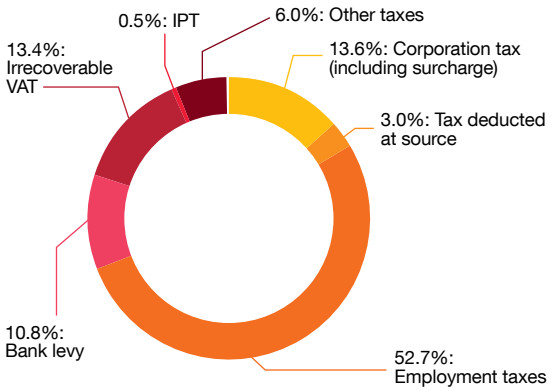
*For every £1 of corporation tax paid (including bank surcharge), there is £3.42 in taxes collected.*

**Figure 5:** Taxes collected profile for participating banks




Source: Study participants

**Figure 6:** The TTC profile for participating banks




Source: Study participants

# Comparing the tax profile for UK and foreign banks

Out of the thirty-six study participants, 14 (39%) were UK-headquartered banks and 22 (61%) were foreign-headquartered banks. Of the total estimated contribution of £35.4bn, we estimate that £18.1bn was paid by UK banks and £17.3bn by foreign banks.

Based on study participants, UK banks and foreign banks contribute a relatively equal share of the overall TTC (Figure 7), but UK-headquartered banks contribute a greater percentage of taxes borne (60.4% of the total).

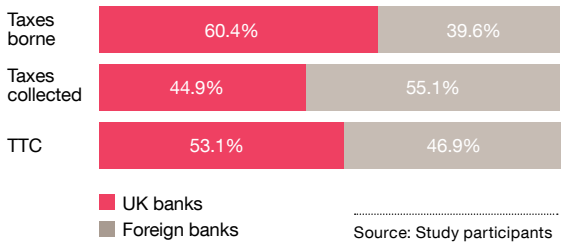
## *Taxes borne profile for UK and foreign banks*

UK banks and foreign banks have a different profile for taxes borne. For UK-headquartered banks (Figure 8), irrecoverable VAT is the largest tax borne (30.4%), followed by bank levy (23.2%) and corporation tax including surcharge (22.3%).

While for foreign-headquartered banks (Figure 9), the largest tax borne is PSA & employer NIC (32.3%), followed by corporation tax including surcharge (31.2%), and irrecoverable VAT (17.3%). The different profiles for UK banks and foreign banks can be partially explained by a higher cost base related to head-office operations for UK-headquartered banks, resulting in higher irrecoverable VAT, and bank levy applying to the global consolidated balance sheet of a UK-headquartered bank, but only to the UK balance sheet of a foreign-headquartered bank. In addition, foreign banks have a higher average wage resulting in a higher proportion of employment taxes.

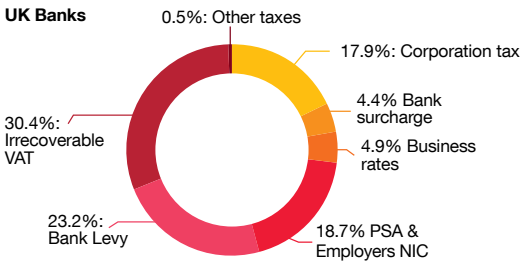
Figure 10 compares the contribution to taxes borne from UK and foreign banks. It highlights the greater proportion of irrecoverable VAT (72.6% of the total) and bank levy (68.8%) that were borne by UK-headquartered banks, along with the significance of employment taxes for the foreign-headquartered banks, at 53.5%, despite employing fewer people.

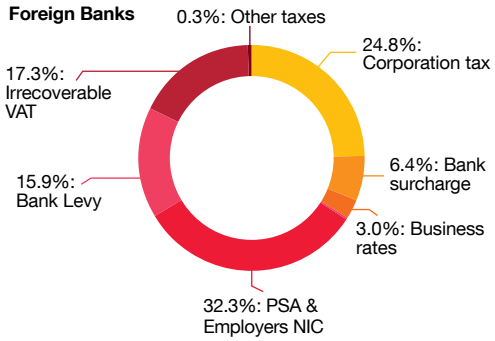
**Figure 7:** Taxes borne, taxes collected and TTC for UK and foreign banks




Source: Study participants

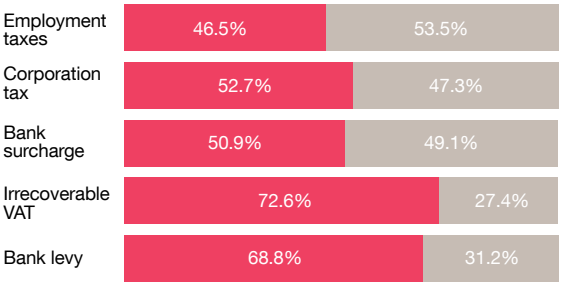
**Figures 8 & 9:** Taxes borne profile for UK banks and foreign banks




Source: Study participants (on an average basis)

**Figure 10:** Comparison of taxes borne for UK and foreign banks




Source: Study participants

## *Taxes collected profile for UK and foreign banks*

Income tax deducted under PAYE and employee NIC are the largest taxes collected for both UK banks (83.5%) and foreign banks (79.0%) (Figures 11 and 12). Tax deducted at source, mainly tax deducted from interest paid to customers by the UK retail banks, accounts for 10.9% of tax collected for the UK banks. This is down from 19.1% in last year's survey, as a result of the removal of the obligation on banks to deduct tax at source from account interest, explained previously. For the foreign-headquartered banks, stamp duty reserve tax (SDRT) was the second largest tax collected, at 18.4%.

## *Total Tax Contribution profile for the UK and foreign banks*

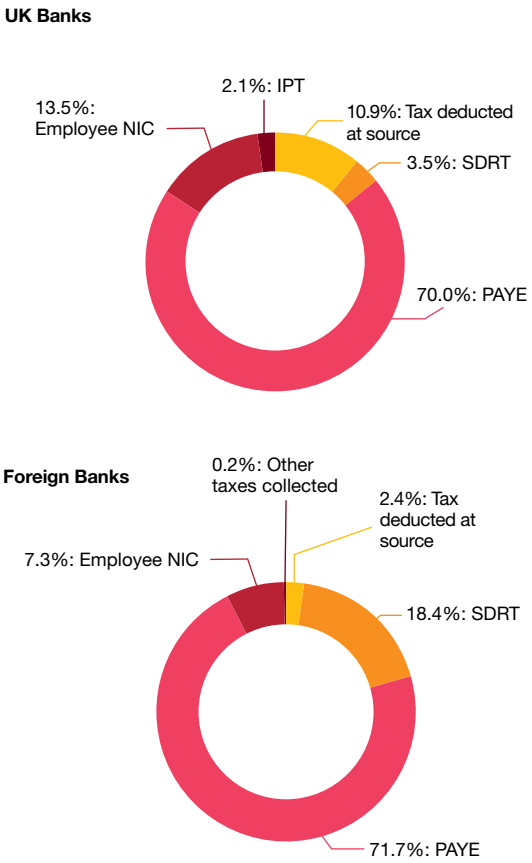
For UK banks, employment taxes made up 45.4% of TTC in the study (Figure 13). Irrecoverable VAT and bank levy were 18.2% and 13.8% of TTC respectively.

By contrast, for foreign banks, employment taxes account for 59.9% of TTC in the study, followed by corporation tax (including bank surcharge) at 14.0% of TTC, and irrecoverable VAT and bank levy of 7.8% and 7.2% respectively.

**10.9%**

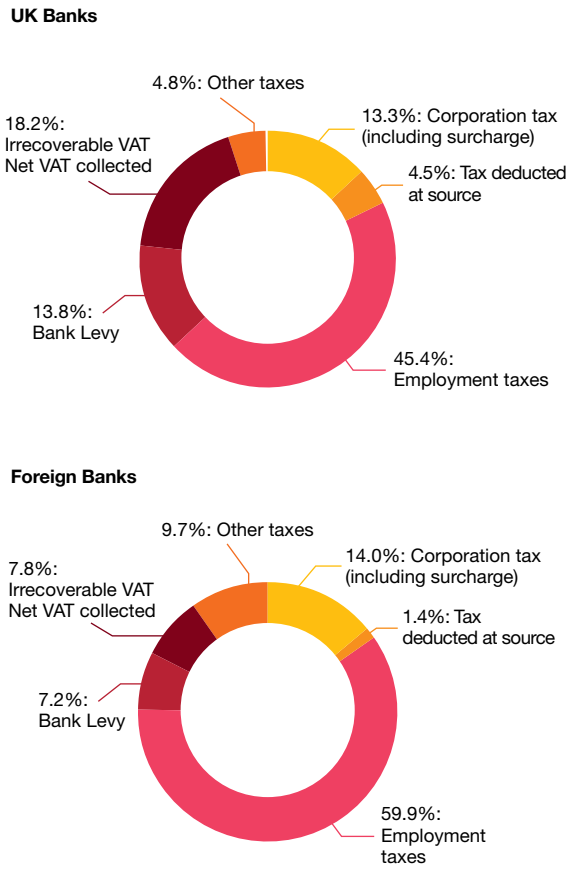
*Tax deducted at source accounts for 10.9% of tax collected for the UK banks – down from 19.1% in last year's survey*

**Figures 11 & 12:** Taxes collected profile for UK banks and foreign banks




Source: Study participants (on an average basis)

**Figures 13 & 14:** TTC profile for UK banks and foreign banks




Source: Study participants (on an average basis)

# Trends in Total Tax Contribution

## *Change in tax legislation*

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

***Loss relief restriction:*** In the 2014 Autumn Statement it was announced that the amount of taxable profit that could be offset by banks' historic carried-forward losses would be restricted to 50% from April 2015. In the budget 2016 it was announced that the restriction would be increased to 25% from April 2016.

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

***Corporation tax:*** The rate decreased from 23% in 2013/14, to 21% in 2014/15, to 20% in 2015/16 and 2016/17 and to 19% in 2017/18. It is expected to fall to 17% in April 2020.

***Compensation expenditure:*** Legislation was introduced to restrict the deductibility of compensation expenditures arising on or after 8 July 2015 covering all compensation costs.

***Bank levy:*** The bank levy rate for long term chargeable equity or liabilities reduced from 0.105% in 2015 to 0.090% in 2016. The rate for short term chargeable equity or liabilities reduced from 0.210% in 2015 to 0.180% in 2016.

***Income tax deducted under PAYE:*** Personal allowance threshold increased from £10,600 to £11,000 in 2016/17.

## *Trend in Total Tax Contribution between 2016 and 2017*

Thirty-three companies provided data for both the 2016 and 2017 studies and we are able to analyse the trends on a like-for-like basis for these companies.

There was an increase in taxes borne, mainly driven by increases in corporation tax and the introduction of the bank surcharge in 2016 (Figure 15). The increase in corporation tax (6.7% of the total increase in taxes borne) was a result of a combination of increasing profitability in the banking sector, along with further restrictions applying to loss relief in 2016 and restrictions to deductibility of compensation payments. The decrease in bank levy (-0.7% of the total) was largely due to the reduction in the bank levy rates in 2016.

***11.0%*** ↑

*There was an increase in taxes borne, mainly driven by increases in corporation tax and the introduction of the bank surcharge*

**Figure 15:** Trend in taxes borne, 2016 – 2017

| | Trend as % of total taxes borne |
|---|---|
| Corporation tax excluding surcharge | +6.7% |
| Surcharge | +5.3% |
| Corporation tax including surcharge | +12.0% |
| Bank levy | -0.7% |
| Employment taxes borne | +0.1% |
| Irrecoverable VAT | +0.1% |
| Other taxes borne | -0.5% |
| **Total taxes borne** | **+11.0%** |

Source: Study participants

Altogether, these movements resulted in an increase of 11.0% for taxes borne by the survey participants as compared to the 2016 survey. Of the total increase in taxes borne, 6.1% is attributed to UK banks and 4.9% to foreign banks.

There was an overall decrease in taxes collected of – 9.1% (Figure 16), largely driven by a decrease in taxes deducted at source. The fall in taxes deducted at source was a result of the cut in interest rates in August 2016 from 0.5% to 0.25%, and the removal of the obligation on banks to deduct tax at source from customer account interest, from 6 April 2016.

While employment taxes borne remained broadly stable, there was a fall in employment taxes collected for this group of companies. This reflects the trends seen for the largest (UK retail) banks where a reduction in the workforce has led to a fall in employment taxes collected. Please see the employment section of this report for more details.

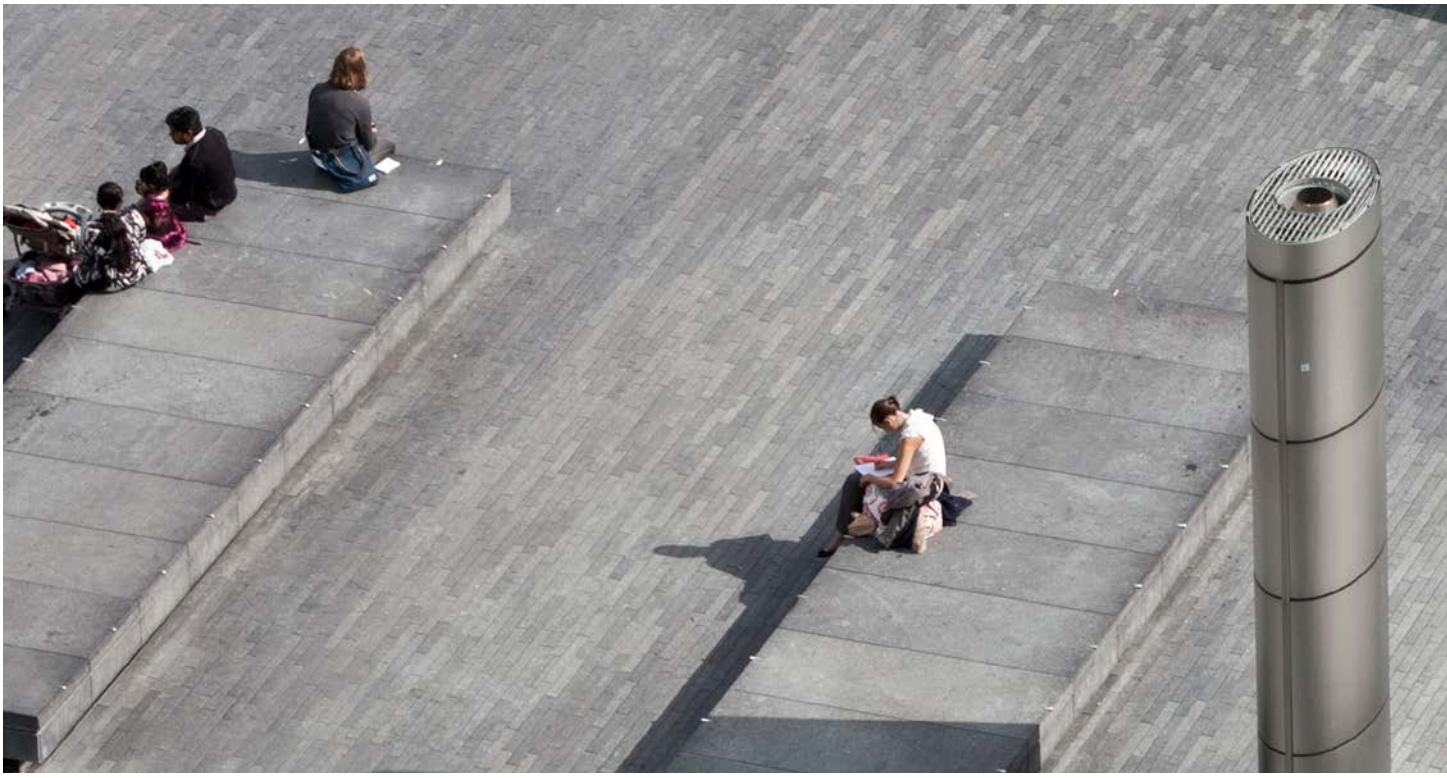
**9.1% ↓**

*There was an overall decrease in taxes collected of – 9.1%, largely driven by a decrease in taxes deducted at source*

**Figure 16:** Trend in taxes collected, 2016 – 2017

| | Trend as % of total taxes collected |
|---|---|
| Employment taxes collected | -1.0% |
| Stamp duty reserve tax | -0.3% |
| Net VAT | -2.3% |
| Other taxes collected | -0.2% |
| Tax deducted at source | -5.3% |
| **Total taxes collected** | **-9.1%** |

Source: Study participants



## *Trend in Total Tax Contribution between 2014 and 2017*

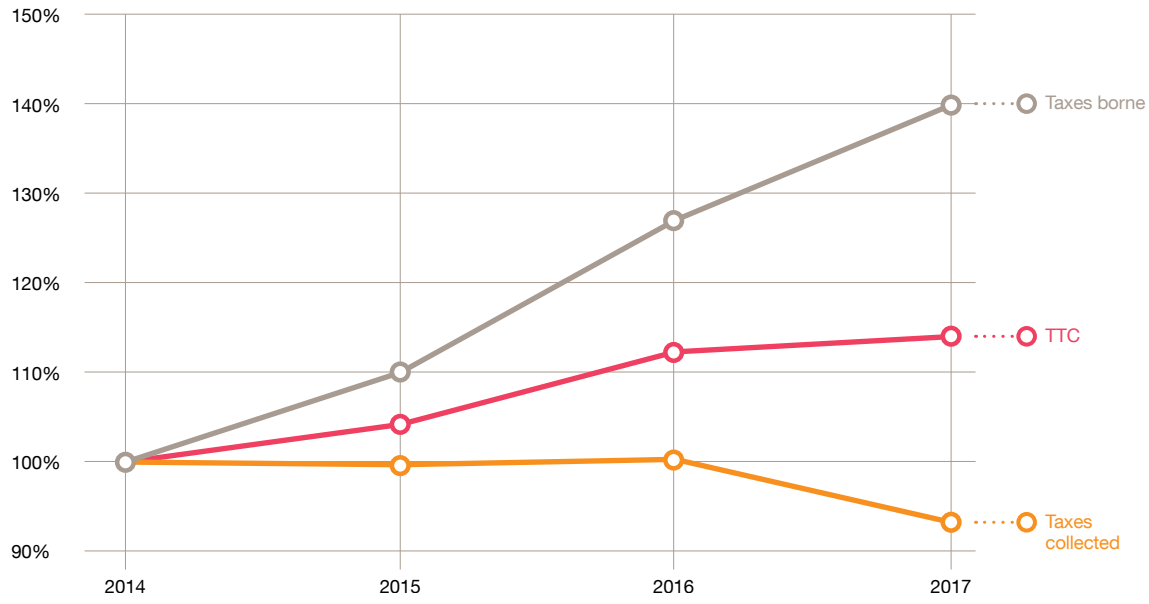
Figure 17 shows an overall increase of 14.0% in the Total Tax Contribution of the sector from 2014 to 2017. The increase in TTC is driven by an increase in taxes borne over the four years, partially offset by a decrease in taxes collected. The fall in taxes collected is driven by a decrease in tax deducted at source.

Taxes borne has increased by 39.8% between 2014 and 2017 (Figure 17), largely driven by a 351.7% increase in corporation tax (including bank surcharge in 2017). The increase in corporation tax, despite a fall in rate from 23% to 20%, is mainly driven by the introduction of loss relief restrictions and compensation expenditure restrictions in 2015, the introduction of the bank surcharge in 2016 and the increased profitability in the sector in 2017. Employment taxes borne and irrecoverable VAT remained more stable over

**39.8%** ↑

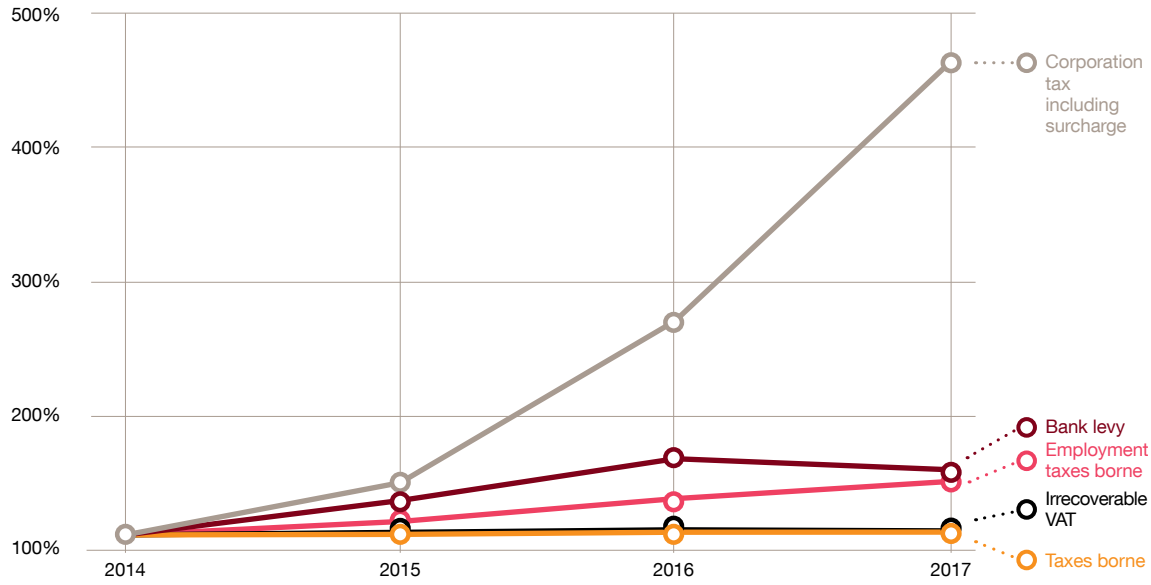
*Taxes borne has increased by 39.8% between 2014 and 2017*

**Figure 17:** Trends in taxes borne, taxes collected and Total Tax Contribution, 2014 – 2017




Source: Study participants, 2014 is shown as 100%.

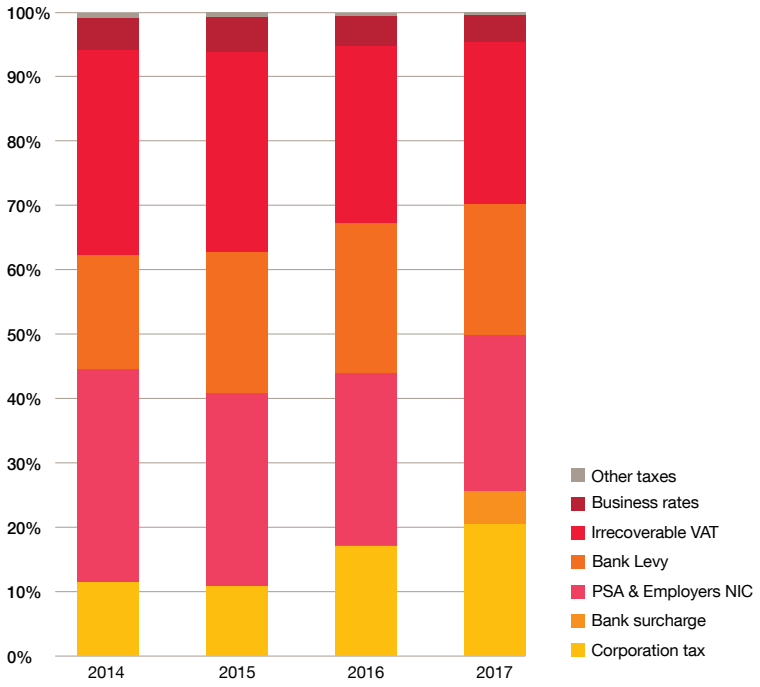
**Figure 18:** Trends in taxes borne, 2014 – 2017




Source: Study participants, 2014 is shown as 100%.

the 4 years (Figure 18).
Figure 19 illustrates the change in the profile of taxes borne from 2014 to 2017. Corporation tax, as a result of legislative changes and increasing profitability, has become more significant in the last two years, accounting for 20.4% of total taxes borne, and 25.6% with the bank surcharge in 2017, compared to 10.8% in 2015. As a result, the relative proportions of irrecoverable VAT and employment taxes borne have decreased over this period. The proportion of taxes borne taken up by bank levy shows the increase to 2016 and a decrease in this year's survey, largely due to the rate changes described in the bank levy section.

**Figure 19:** Trend in the profile of taxes borne, 2014 – 2017




Source: Study participants

# Employment taxes

## *Trends in government data for the banking sector*

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) paid by the sector in 2017 amounted to £18.4bn, 7.2% of all UK employment tax receipts[15]. The sector provides employment for 1.6% of the UK workforce, which is equivalent to 47.6% of the UK Financial Services workforce[16].

Figure 20 shows the trend in employment taxes in the sector based on government receipts since 2006.

Legislative changes to employment taxes have had a significant impact on the UK banking sector. In particular, the one-off bank payroll tax[17], which was paid in 2011, increased government receipts from the banking sector by £3.4bn. In addition to this, there were other changes in employment taxes over the period. Figure 20 also shows the impact of the introduction of the 50% rate of income tax in 2011 and the 1% increase in employer and employee NIC in the same year.

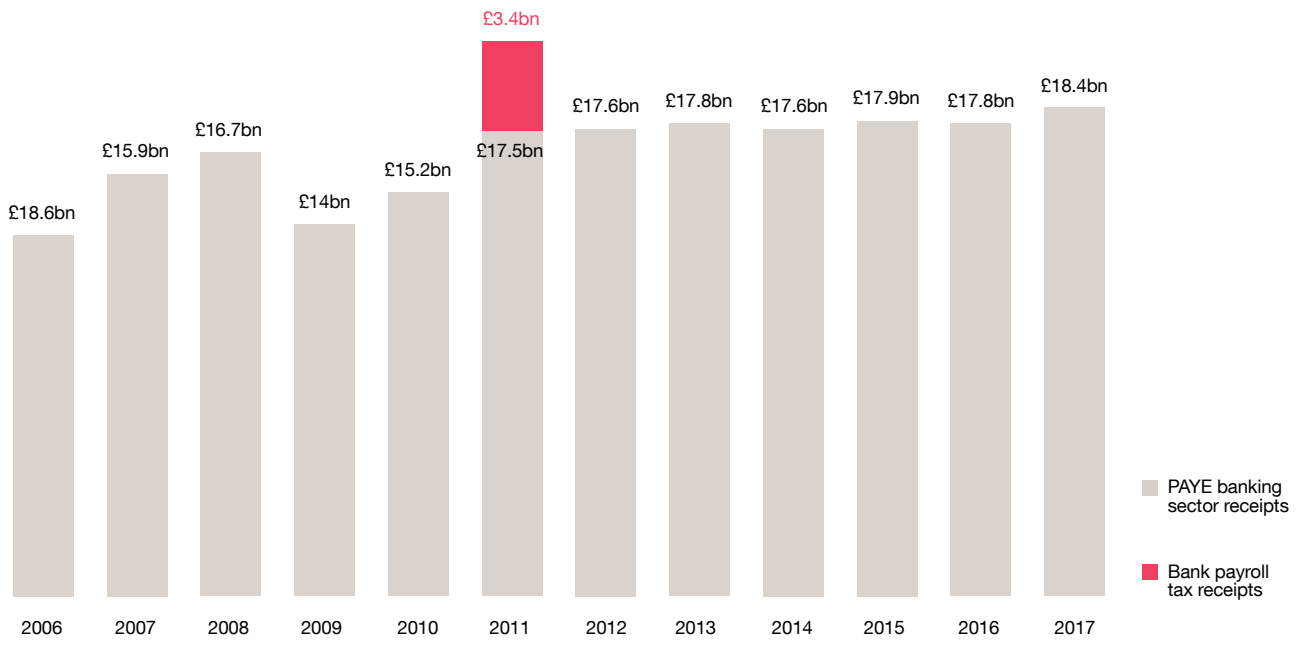
Changes in income tax thresholds and rates and NIC thresholds have also led to increased employment taxes.

ONS data shows a fall in employees working in financial service activities[18] excluding insurance and pension funding. Banking employees make up a large element of this total.

**1.6%**

*The sector provides employment for 1.6% of the UK workforce*

**Figure 20:** Employment tax receipts, 2006 – 2017




Source: HMRC

[15]The Office for Budget Responsibility (OBR) – March 2017 Economic and fiscal outlook – supplementary fiscal tables: receipts and other. Table 2.8 Current receipts (on a cash basis)
[16] 2016 Financial Services workforce was 1.1 million, based on ONS SIC codes 64 (Financial service activities, except insurance and, pension funding), 65 (Insurance; reinsurance and pension funding; except complusory social security), and 66 (Activities auxiliary to financial services and insurance activities): ONS Industry (2, 3 and 5 – digit SIC) – Business Register and Employment Survey (BRES): Table 2
[17]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
[18]Looking at ONS data from UK level employment by 2 digit SIC 2007 for "64-Financial service activities; except insurance and pension funding" the number of employees decreased from 512,800 in 2015 to 511,400 in 2016

## *Employment in the banking sector – study data*

The thirty-six participants in the study employed 357,284 workers comprising 69.9% of total UK banking sector employment[18].

The participating banks paid total employment taxes of £14.5bn, comprising employment taxes borne of £3.5bn (employer NIC and PSA) and employment taxes collected of £11.0bn (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, often from neighbouring countries across the EEA. The average salary, particularly in the investment banks, exceeds the national average, emphasising the contribution that the banking sector makes through the employment of highly skilled people.

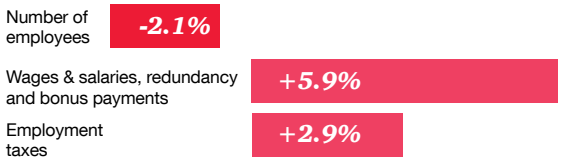
For every employee, an amount is paid to the public finances in employment taxes. Looking at employment taxes borne and collected, the average (calculated by taking the total employment taxes for the study population and dividing it by the total number of employees within that population) was £34,981 for the banking sector. This is approximately six times the amount paid if calculated on the average national wage (£5,856).

## *Trends in employment taxes – study data*

Twenty-three companies provided data on their number of employees, salaries and wages and employment taxes for both the 2016 and 2017 surveys. Ten companies provided the same data for each of the four survey years from 2014 to 2017. We are therefore able to analyse the two-year and four-year trends on a like-for-like basis for these companies.

**Two year trends (2016 – 2017)**
Figure 21 shows an average increase in salaries and wages of 5.9% and a 2.9% average increase in employment taxes paid despite a fall in number of employees of 2.1%. The increase in salaries and wages is driven by bonus and redundancy payments. The relatively smaller increase in employment taxes is broadly explained by bonus payments that include deferred compensation on which PAYE has not yet been paid and the reduced tax on redundancy payments. In addition the survey analysis takes an average trend, so giving equal weight to the large and small banks in the study. The increase in employment taxes is consistent with the trend seen in HMRC data of a 3.3% increase (from £17.8bn to £18.4bn).

**Figure 21:** Trend in number of employees, salaries and wages and employment taxes from 2016 to 2017




Source: Study participants, based on the average result for companies

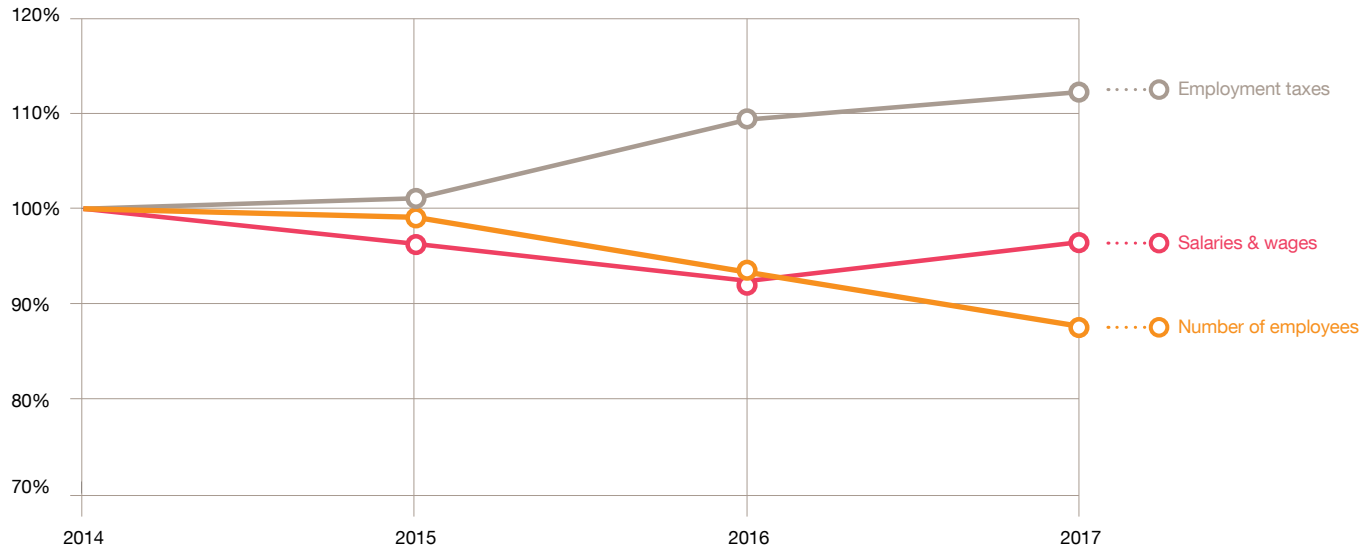
[18]Looking at ONS data from UK level employment by 2 digit SIC 2007 for "64-Financial service activities; except insurance and pension funding" the number of employees decreased from 512,800 in 2015 to 511,400 in 2016

**Four year trends (2014 – 2017)**
Over the four years of the survey, there has been a 12.3% increase in employment taxes paid despite a fall in number of employees of 12.4% (Figure 22). The financial crisis had a significant impact on the UK banking sector, and overall employment has been on a downward trend during this period. The increase in employment taxes may suggest that we are seeing a decline in the number of lower paid roles, particularly in the retail banking sector, and as a consequence, those commanding higher pay account for a larger proportion of the whole. As a result, gross value added (GVA) per employee, a measure of value generated per employee, has started to recover since 2014, reversing the decline since 2009.

**12.3%** ↑

*Over the four years of the survey, there has been a 12.3% increase in employment taxes paid despite a fall in number of employees of 12.4%*

**Figure 22:** Trend in number of employees, salaries and wages and employment taxes from 2014 to 2017




Source: Study participants. 2014 is shown as 100%.

## *Gross Value Added and Return on Equity for the UK banking sector*

To put the trend analysis into context, we reviewed other indicators of the banking sector. At a national level, economic activity is commonly measured by GDP which is generally regarded as one of the most reliable economic indicators. The contribution made to GDP is typically measured by calculating 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 23 shows a falling trend in GVA for the banking sector from 2009 to 2014, with a small increase in 2015. By comparison, the GVA for the economy as a whole has increased steadily over this period. The GVA for the banking sector in 2015 was 4.2% of the GDP of the UK economy[19] which compares to tax receipts for the banking sector in the same year of 5.5% of total government tax receipts.

Another ratio commonly used for the banking sector is Return on Equity (RoE), which measures profitability compared to shareholder equity. Figure 24 shows that the post-financial crisis RoE for the banking sector is significantly lower than the RoE in the preceding decade. The average RoE since 2010 has been 8.6%, compared to 14.1% between 2000 and 2007.

**Figure 23:** Gross Value Added by the banking sector compared with the UK economy, 2007 to 2015 (2007 = 100%)

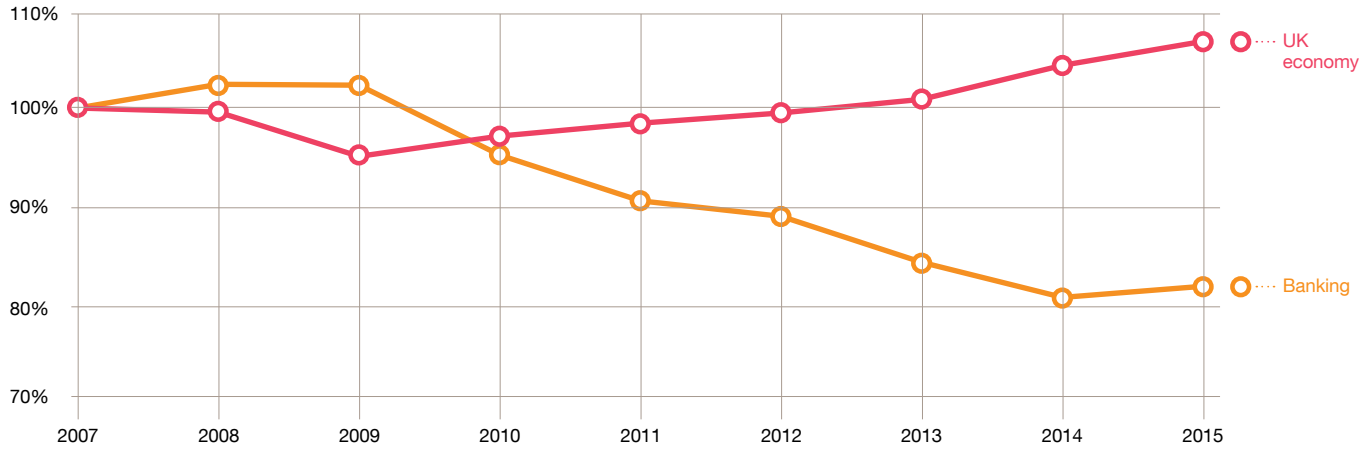
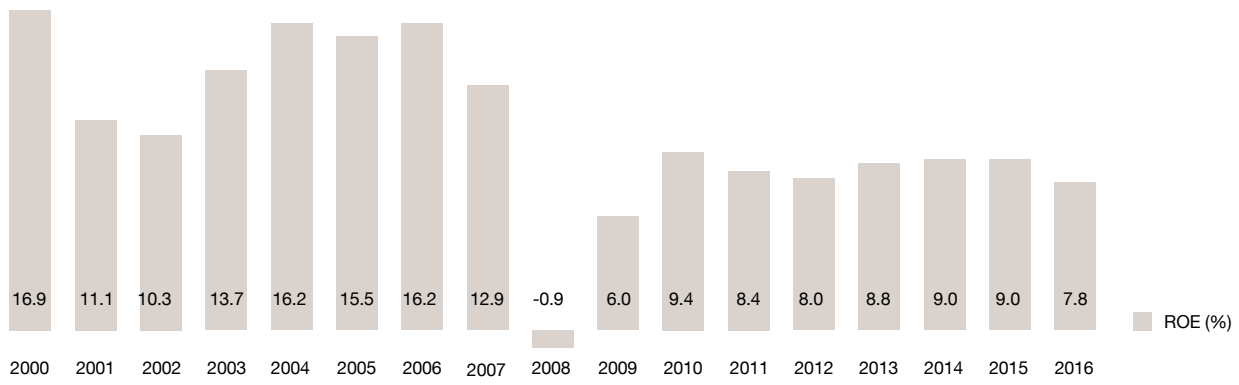



**Figure 24:** Banking sector Return on Equity (%), 2000 – 2016




Source: Eurostat

[19] Eurostat: National Accounts aggregates by industry

# Corporation tax

Corporation tax payments from study participants totalled £3,735 million, including bank surcharge payments of £754 million. Looking at the companies that provided data for both corporation tax and profit, profitability increased between 2016 and 2017, but there was also the impact of tighter loss-relief restrictions from 2016 (allowing 25%, down from 50% the previous year) and the compensation expenditure restrictions which came into force in 2015.

Government figures provide data over a longer period and show that receipts of corporation tax (including bank surcharge) and bank levy are £8.9bn in 2017, higher than pre-financial crisis levels of corporation tax receipts (Figure 25).

Corporation tax (without the additional bank surcharge) increased from £1.6bn to £4.8bn (+200%) between 2014 and 2017. Bank levy increased from £2.2bn to £3.0bn (+36%) over the same period.

### *Loss-relief restrictions:*

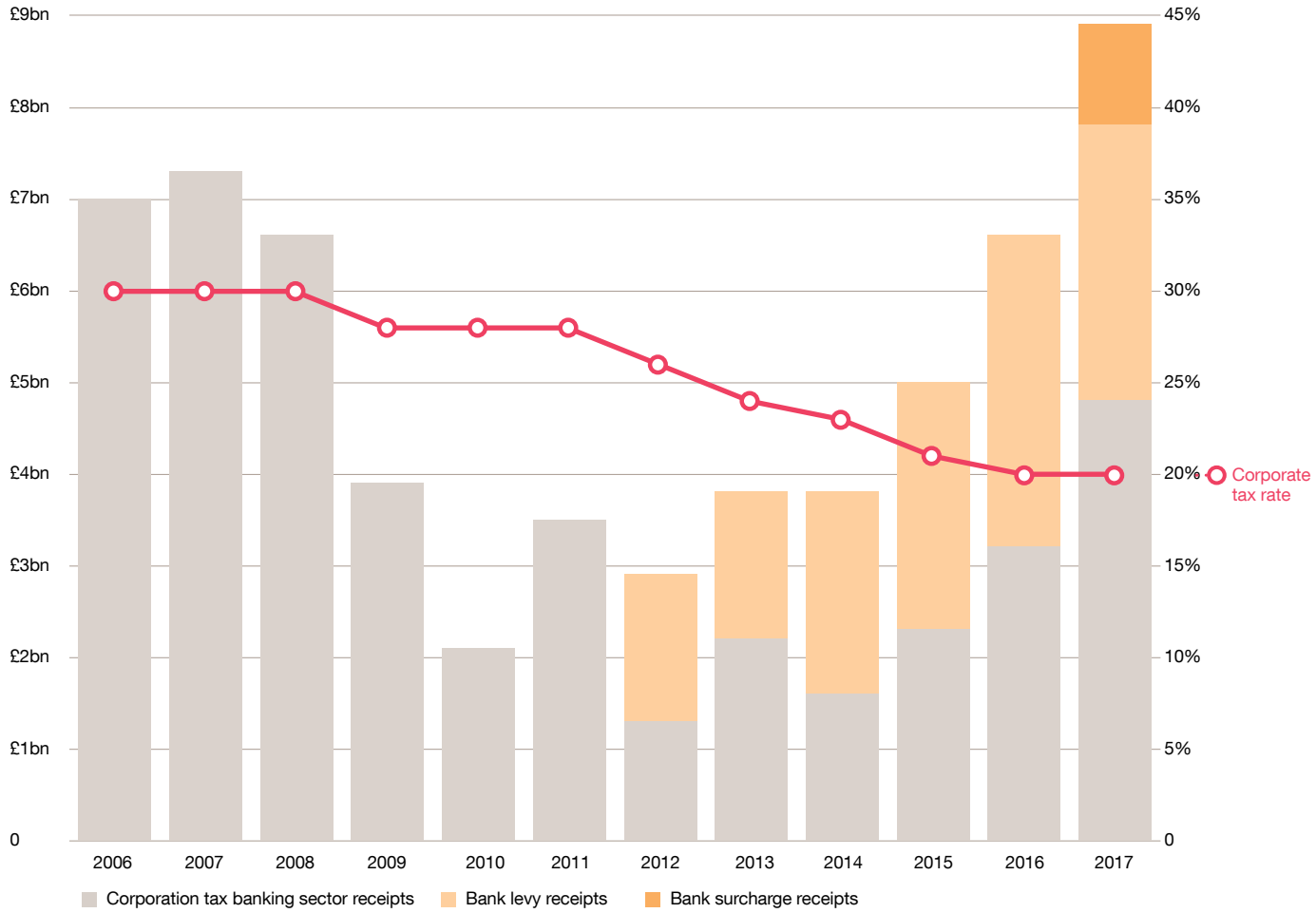
From 1 April 2015, the proportion of banks' taxable profit that is eligible to be offset by carried-forward losses was restricted to 50%, and in April 2016 this was restricted further to 25%. The restriction applies to carried forward trading losses, non-trading loan relationship deficit and management expenses.

Of the thirty-six participant companies, eighteen companies provided data quantifying the impact of the loss restriction in the year. One third of the eighteen banks were affected by the legislation, resulting in an additional £300 million of corporation tax in 2017.

**£4.8bn**

*Banking sector receipts of corporation tax (excluding bank surcharge) increased from £1.6bn to £4.8bn between 2014 and 2017*

**Figure 25:** Government receipts of corporation tax and bank levy from the banking sector




Source: HMRC data

## *Compensation payments restriction for banks:*

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

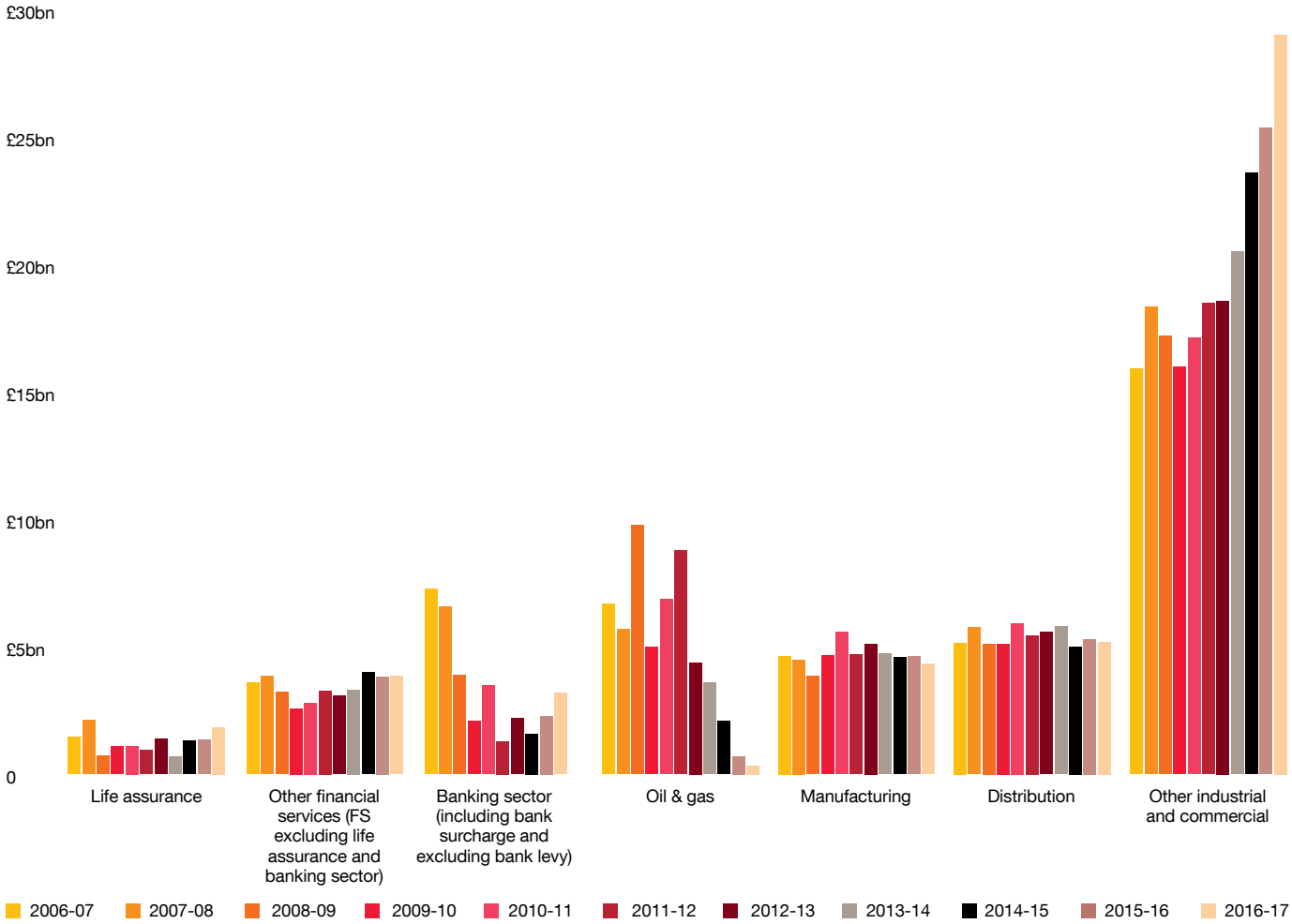
Seventeen of the thirty-six participating banks provided data quantifying the impact of the compensation payment restriction in the year. Out of those seventeen companies, six were affected by the legislation, resulting in an additional £500 million of corporation tax in 2017.

Figure 26, based on government data, shows corporation tax payments by industry sector between 2006-07 and 2016-17. It illustrates the recent growth in corporation tax payments from the banking sector due to recovering profitability and the impact of legislative changes, while growth in corporation tax receipts in most other sectors has remained relatively flat or negative over the same period.

**£500m**

*Out of seventeen companies that provided data, six were affected by the compensation restriction legislation, resulting in an additional £500 million of corporation tax in 2017.*

**Figure 26:** Corporation tax receipts by sector




Source: HMRC data

# Irrecoverable VAT

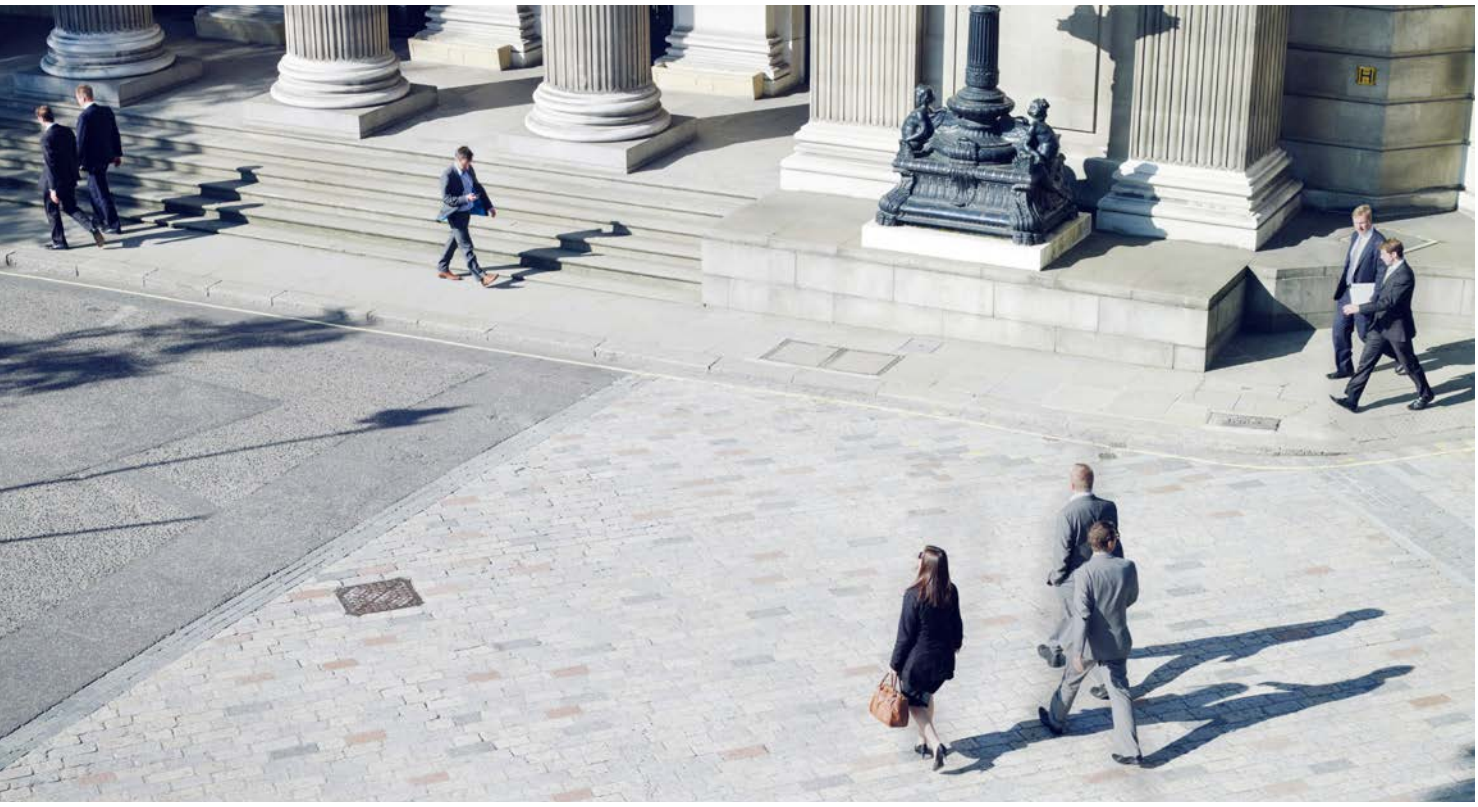
Irrecoverable VAT was the second largest tax payment for the study participants, accounting for 25.2% of total taxes borne, down from 27.5% in the previous study. Its decrease as a proportion of total taxes borne is a result of the increase in corporation tax, largely due to the introduction of the bank surcharge in 2016. The total irrecoverable VAT for the thirty-six participant companies was £3.7bn. We have estimated[20] total irrecoverable VAT for the UK banking sector of £4.5bn in 2016. On a like-for-like trend basis, the amount of irrecoverable VAT paid increased by 0.4% between 2016 and 2017.

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

Irrecoverable VAT has increased significantly since 2011, as explained in the first TTC study. Apart from the increases in the rate of VAT (from 15% to 17.5% in 2010 and 17.5% to 20% in 2011), there has also been increasing investment in information technology and infrastructure throughout the sector, a drive towards outsourcing administrative business functions and a move towards employing more contractors following the financial crisis, all of which increase the cost base and level of input VAT.

**£4.5bn**

*We have estimated total irrecoverable VAT for the UK banking sector of £4.5bn*



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

# Bank levy

The financial crisis and subsequent legislative changes have resulted in a fundamental shift in taxation of the banking sector. The bank levy was introduced in 2011, based on the equity and liabilities of banks, in an attempt to meet the dual targets of encouraging the banking sector to move away from risky funding models and raising a set amount of revenue. The rate of the levy increased each year between 2011 and 2015 and, from 2016, rates began to gradually decrease, and will do so each calendar year up until 2021 (Figure 27).

Figure 27 shows the rate of bank levy since its introduction. Bank levy receipts in 2017 were 11.8% lower than in 2016 (from £3.4bn to £3.0bn). The banks participating in this study paid bank levy of £3.0bn in 2017, accounting for 99.1% of total bank levy receipts, and representing 20.4% of total taxes borne.

The scope of the bank levy is currently applied to the global consolidated balance sheet of a UK-headquartered bank, but only to the UK balance sheet of a foreign-headquartered bank. This scope will be restricted to UK operations only with effect from 2021.

**£3.0bn**

*Participating banks paid bank levy of £3.0bn in 2017, accounting for 99.1% of total bank levy receipts*

**Figure 27:** Changes in the rate of bank levy[21]

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

[21]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 (PBBT)
- Taxes borne and collected as a percentage of turnover

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

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

For each individual participant:

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

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

## *Taxes borne and collected as a percentage of value distributed*

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

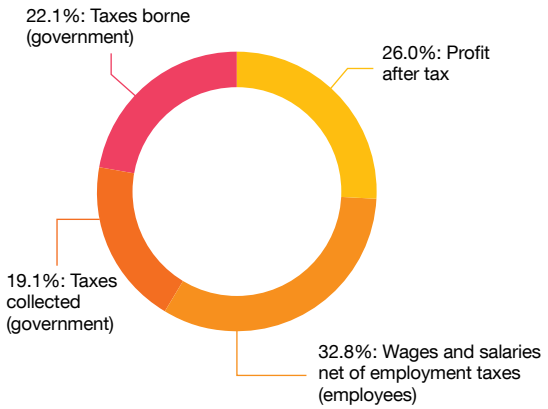
Figure 28 shows the profile of value distributed by the participants on an overall basis. Total Tax Contribution paid to the government represents 41.2% of the value distributed while a further 32.8% is paid to employees as wages and salaries.

Taxes borne account for 22.1% of the total for the study participants.

**41.2%**

*Total Tax Contribution paid to the government represents 41.2% of the value distributed*

**Figure 28:** Taxes borne and collected as a percentage of value distributed




Source: Study participants

## *Total Tax Rate (TTR)*

The TTR is a measure of the cost of all taxes borne in relation to UK profitability before all of those taxes. On an overall basis, taking total taxes borne for participating banks, as a percentage of total profit before taxes borne, the TTR was 47.6%[23]. This reflects the challenging conditions faced by some of the largest banks with low profits or losses.

On a mean average basis, giving equal weight to the large and small banks, the TTR is 36.0% (Figure 29). For companies that provided data in both 2016 and 2017, there has been a 2.5 percentage point fall in mean average TTR between 2016 and 2017.

Appendix 4 gives further details of the Total Tax Rate calculation.

**Figure 29:** Total Tax Rate

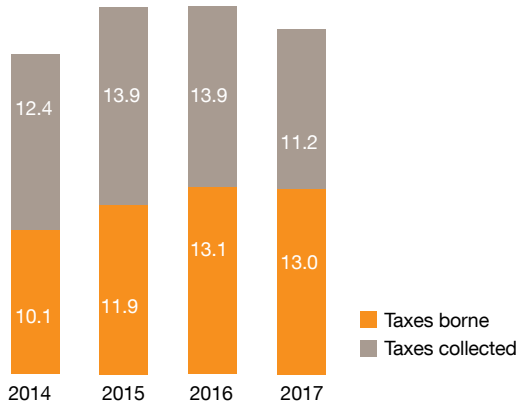
| | |
|---|---|
| Overall | 47.6% |
| Mean Average | 36.0% |
| Median Average | 29.1% |

Source: Study participants

## *Total Tax Contribution as a percentage of turnover*

For the banks participating in the study, TTC as a percentage of total UK turnover was on average 24.2%[24], comprising 13.0% taxes borne and 11.2% taxes collected. Figure 30 shows that 2017 is the first year that TTC as a percentage of turnover has fallen for the study participants since the survey began. Taxes borne as a percentage of turnover has remained relatively stable, while taxes collected has driven the overall decrease in TTC as a percentage of turnover, reflecting the overall trend.

**Figure 30:** TTC as a percentage of turnover, 2014-2017




Source: Study participants

**24.2%**

*TTC as a percentage of total UK turnover was on average 24.2%, comprising 13.0% taxes borne and 11.2% taxes collected*

[23]The overall average Total Tax Rate was 47.6%, the mean average was 36.0%, the median average 29.1%, and the range 15.9% to 62.9%. (2016: The overall average Total Tax Rate was 48.4%, the mean average was 46.4%, the median average 37.0%, and the range 12.7% to 150.7%. Total Tax Rates above 100% may arise in loss making companies).

[24]The overall average TTC as a percentage of turnover was 26.5%, the mean average was 24.2%, the median average 24.1% and the range 11.7% to 47.0%. (2016: the overall average TTC as a percentage of turnover was 24.7%, the mean average was 27.0%, the median average 25.7%, and the range 11.3% to 54.2%)

# Looking forward

Over the next few years, tax rate and legislative changes along with a new tax will affect the TTC of the banking sector.

The rate of bank levy will continue to fall each year to 2021 (see page 25), and from 2021, the scope of the levy will be restricted to UK operations for both UK – and foreign-headquartered banks.

The reduction in bank levy will be partially offset by the apprenticeship levy, which was introduced in April 2017. At 0.5% of total employer's wage bill, this is likely to be another material contribution from the banks.

In addition, the contribution from corporation tax payments made by the banking sector can be expected to remain at the higher levels seen in this year's report. Although the corporation tax rate will be reduced (the main rate is expected to reduce to 17% in 2020), the banking sector will pay corporation tax at a higher rate than the headline rate due to the 8% surcharge.

# Appendices

# Appendix 1 – Taxes borne reported by survey participants

| Taxes borne | £s 2017 |
|---|---|
| Taxes on profits (profit taxes) | |
| Corporation tax | 2,980,809,724 |
| Bank surcharge | 754,354,081 |
| Taxes on property (property taxes) | |
| Business rates | 608,291,658 |
| Stamp duty land tax | 3,238,831 |
| Stamp duty and stamp duty reserve tax | 2,899,192 |
| Bank levy | 2,971,510,016 |
| Taxes on employment (people taxes) | |
| PAYE agreements (tax on benefits) | 55,297,489 |
| Employer NIC | 3,467,168,572 |
| Taxes on consumption (product taxes) | |
| Irrecoverable VAT | 3,677,182,179 |
| Insurance premium tax | 8,800,485 |
| Customs duty | 984,558 |
| Air passenger duty | 11,717,775 |
| Fuel duty | 3,879,644 |
| Vehicle excise duty | 25,827,761 |
| Environmental taxes (planet taxes) | |
| Carbon reduction commitment | 6,961,403 |
| Climate change levy | 3,138,301 |
| **Total** | **14,582,061,669** |

# Appendix 2 – Taxes collected reported by survey participants

| Taxes collected | £s 2017 |
|---|---|
| Taxes on profits (profit taxes) | |
| Taxes deducted at source | 821,528,359 |
| Taxes on property (property taxes) | |
| Stamp duty reserve tax | 1,593,891,017 |
| Taxes on employment (people taxes) | |
| Income tax deducted under PAYE | 9,626,301,623 |
| Employee NIC | 1,360,871,662 |
| Taxes on consumption (product taxes) | |
| Net VAT | -590,979,717 |
| Insurance premium tax | 136,116,290 |
| **Total** | **12,947,729,234** |

# Appendix 3 – The burden of employment taxes

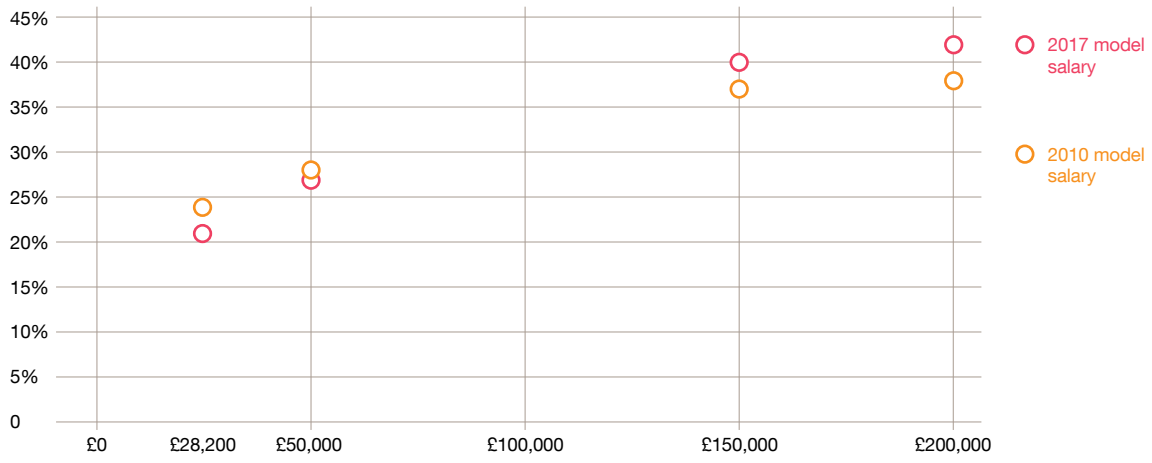
UK employment tax legislation is structured so that higher salaries are taxed at higher rates. Using selected salaries, it is possible to model the employment tax burden.

Figure 1a shows the percentage of gross salary that is paid as tax by employees (income tax deducted under PAYE and employee NIC) in 2010 and in 2017 for a range of example salaries. From the national average salary of £28,200, 20.7% is paid in employee income tax and employee NIC in 2017, while this ratio was 24.0% in 2010. The equivalent figure for a salary of £150,000 is 40% in 2017 and 36.8% in 2010, a 3.2 percentage point increase. Although salaries are higher in the banking sector, a greater percentage of the salary is paid in taxes. Changes to employment tax legislation in the last seven years (shown below) have 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 £28,200 has fallen by 3.3 percentage points since 2010. By contrast, a salary of £150,000 has seen an increase of 3.2 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 1a:** Percentage of gross salary that is paid as tax by employees




Source: PwC analysis

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

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

Source: PwC analysis

# Appendix 4 – Total Tax Rate calculation

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

Assumptions:

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

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

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