2021 Total Tax Contribution of the UK banking sector

A publication prepared by PwC for UK Finance

Seventh edition
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Contents

Foreword

Welcome to the seventh edition of the Total Tax Contribution (TTC) study of the UK banking sector. The TTC data, which covers participants' financial years ending in the year to 31 March 2021, shows that the estimated TTC for the sector was £37.1bn. The data shows that, during the worst economic and public health crisis in over a century, the sector's total tax contribution decreased by just 3.2% and represented a growing share of total government tax receipts (5.5% in 2020/21).

The period covered by this survey was unprecedented, marked by various periods of national 'lockdown' designed to contain the COVID-19 public health crisis and contributing to the steepest drop in gross domestic product (GDP) since records began. As a result, UK retail banks made significant provisions against potential losses, driving down profits and corporation tax payments in 2020, while also reducing expenditure during the year leading to lower irrecoverable VAT. In contrast, the tax contribution from foreign-headquartered banks in the study increased, driven by corporation tax and stamp duties collected as a result of increased trading volumes in 2020.

While the COVID-19 crisis had an impact on all aspects of society, the scale of the support the banks provided to the wider economy and the speed with which they did so played a key role in supporting businesses and livelihoods. In the period covered by this survey, over 1.6 million government loans were approved with a total value of £75bn, demonstrating the importance of a strong and efficient banking sector - especially during times of economic uncertainty. Over 744,000 loans were approved during April and May 2020, when businesses needed vital support during the initial period of national lockdown.

The final section of the report includes an update to the international comparison of bank taxation for 2021, comparing the total tax rate (TTR) of a model bank operating in London, New York, Frankfurt, Amsterdam and Dublin. The analysis for 2021 shows a small decrease in the London TTR compared to 2020 due to a reduction in the bank levy rates. It also shows a significant disparity between the TTRs for London, Frankfurt and Amsterdam (around 45%) compared to New York and Dublin (around 30%).

In addition, this year's analysis includes projected TTRs for 2024, showing the impact of increasing corporate tax rates in the UK and the US. It projects the TTR for the model bank in London rising to over 50% in 2024, as a result of increasing rates of corporation tax and national insurance contributions. With the headline rate of corporation tax set to increase from 19% to 25% in 2023, banks in the UK would pay a combined rate of 33% if the bank surcharge were to remain at 8%. The analysis shows that, in the absence of any change, the TTR in London is set to be significantly higher than the other financial centres in the model and 11.9 percentage points higher than the location with the second highest TTR.

As the economy begins to recover from the COVID-19 pandemic along with further restructuring as the UK adapts after leaving the European Union, the government will be looking to balance international competitiveness with repairing the public finances. This study shows that the tax contribution from the banking sector continues to be significant, but the UK is on course to become less competitive from a tax perspective and therefore a less attractive banking location compared to other financial centres. This is due to sector-specific taxes together with the increasing rate of corporation tax and rising national insurance contributions. Meanwhile, the report also shows the importance of the sector in providing highly-skilled jobs distributed throughout the UK, the majority (65%) of which are based outside of London.

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

Andrew Packman

PwC, Total Tax Contribution and Tax Transparency Leader

Executive summary

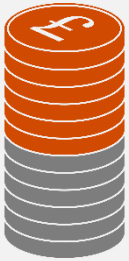
Total Tax Contribution

The Total Tax Contribution of the UK banking sector

The estimated Total Tax Contribution is £37.1bn made up of £18.7bn in taxes borne and £18.4bn in taxes collected[1], and represents 5.5% of total government receipts.

£37.1bn
Total Tax Contribution

5.5%
Total government receipts



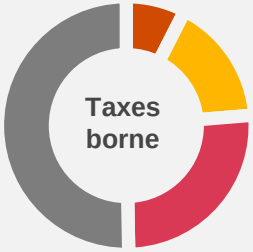
£18.4bn
taxes collected

£18.7bn
taxes borne

Profile of taxes borne

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

Half of total taxes borne (49.7%) are made up of bank surcharge, bank levy and irrecoverable VAT. Of these 'sector taxes', bank levy and irrecoverable VAT (together 42.2% of the total) are not dependent on profits.



- **7.5%** Bank surcharge
- **16.2%** Bank levy
- **26.0%** Irrecoverable VAT

2-year TTC trends

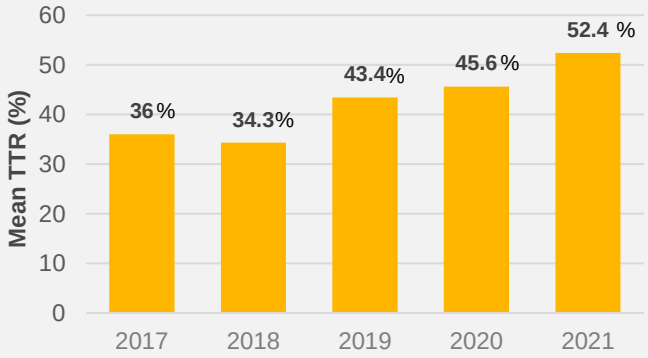
There has been a decrease in both taxes borne and taxes collected compared to last year's report, which is driven by reduced profitability among UK-headquartered banks in the survey as a result of the COVID-19 crisis.

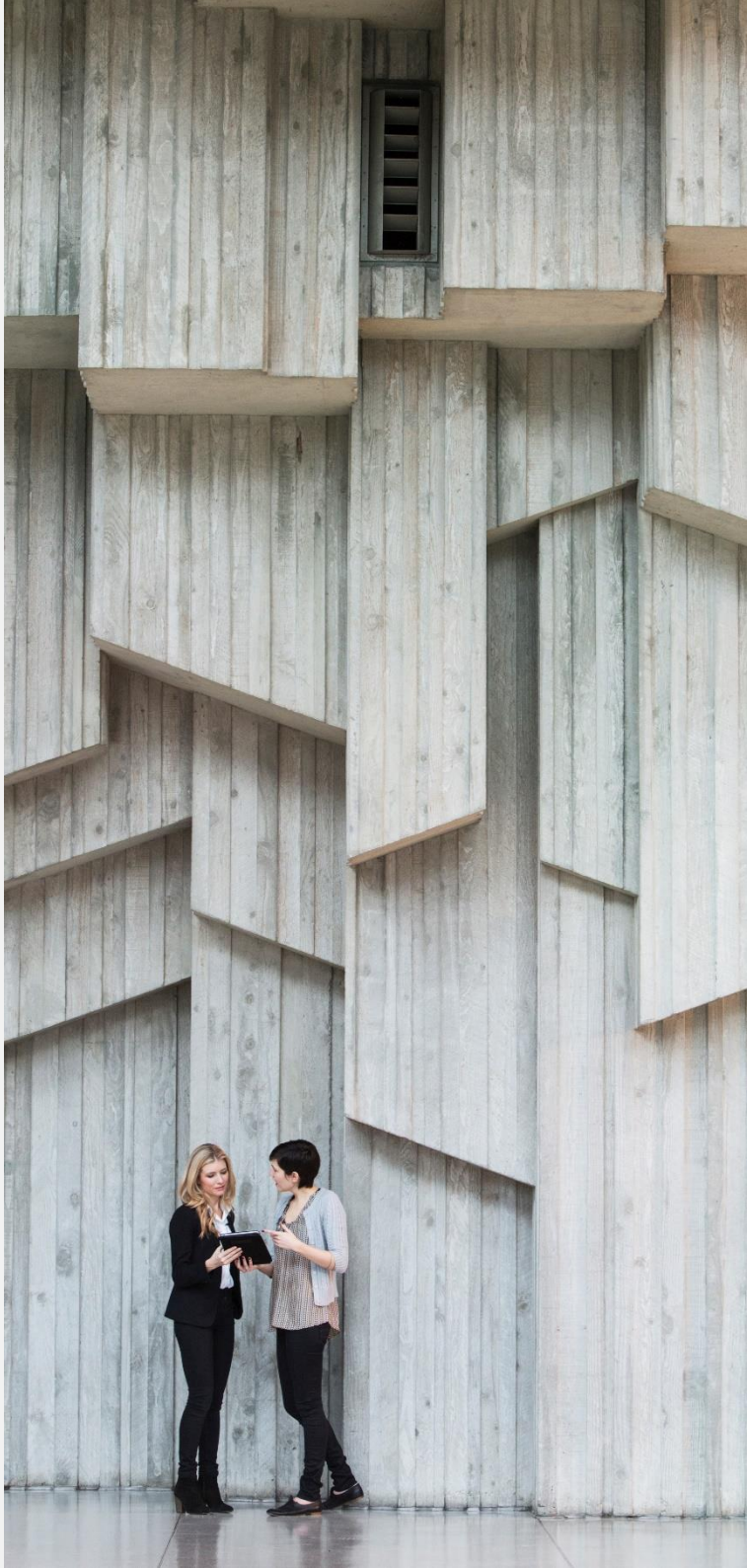
The decrease of 3.6% in taxes borne is driven principally by irrecoverable VAT. The decrease of 2.7% in taxes collected is driven by employment taxes and net VAT.

Total Tax Rate

The total tax rate (TTR) is calculated taking the cost of all taxes borne in relation to commercial profit.

The mean TTR for the banks increased by 6.8 percentage points, to 52.4%. This was driven by reduced profitability among UK-headquartered retail banks due to provisions against potential losses during the COVID-19 crisis[2] and represents the third consecutive annual increase.





[1] Taxes borne are a direct cost to the company and impact the financial results, for example corporation tax and employer national insurance contributions. Taxes collected are those taxes which the company administers on behalf of government and collects from third parties, such as employment taxes collected from employees under PAYE.

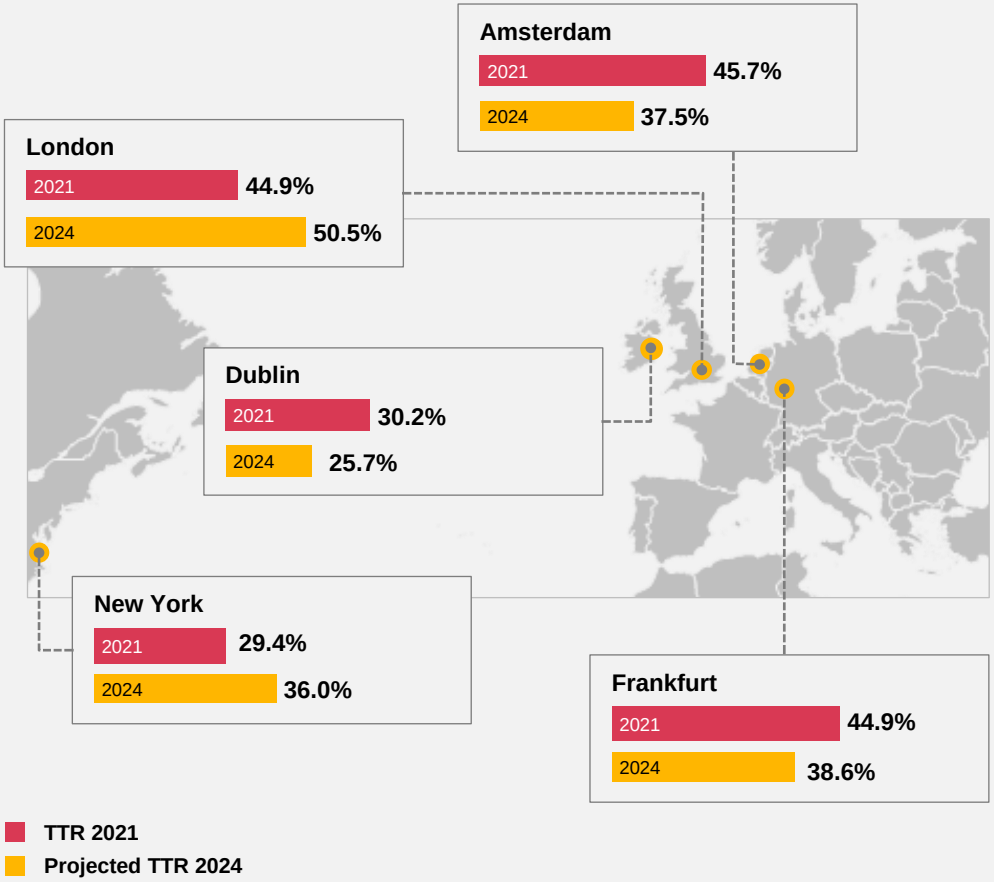
[2] Owing to better economic conditions in the first half of 2021, many provisions have been unwound. As such we expect the TTR to return to a normal range in next year's survey.

Executive summary

International comparison

TTR for a model bank in 2021 & projected TTR for 2024

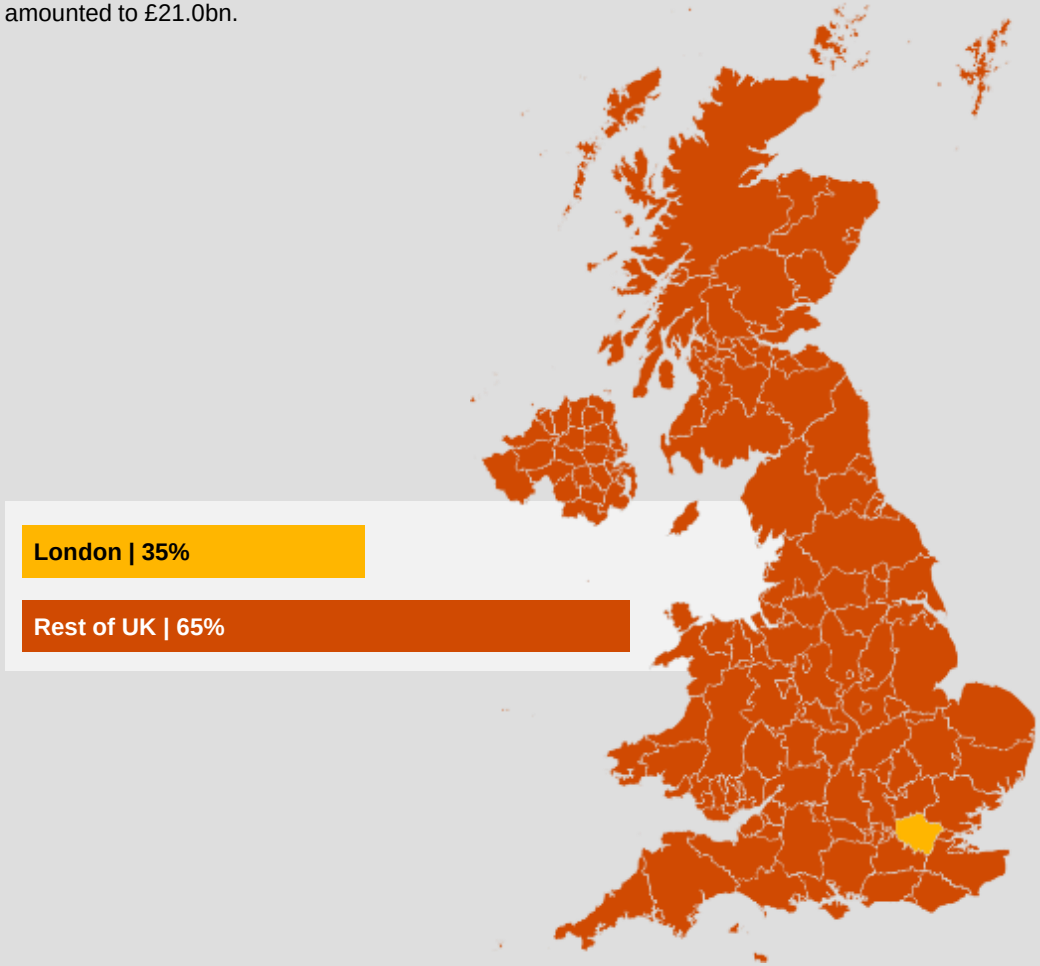
This year's international comparison study calculated the Total Tax Rate (TTR) for a model bank operating in London compared to other financial centres in 2021 and 2024. With the rate of corporation tax set to increase from 19% to 25% in 2023 and with the additional bank surcharge currently at 8%, the projected 2024 TTR for London is 50.5% (11.9 percentage points higher than the location with the second highest rate: Frankfurt, 38.6%).



Geographic distribution of UK banking sector jobs

The banking sector creates employment for 1.2% of the UK workforce and accounts for 6.7% of all employment tax receipts.

Half a million people are employed in the banking industry across the UK, with 65% of all banking jobs based outside of London. Employment taxes paid by the sector in 2021 amounted to £21.0bn.



TTC 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 40 companies taking part in the study reported taxes borne of £13.8bn and taxes collected of £12.0bn, making a UK tax contribution of £25.8bn.

Extrapolating from these figures[3], we estimate that the Total Tax Contribution for the entire UK banking sector is £37.1bn, which represents 5.5% of total government receipts for all taxes in the year to 31 March 2021.

Figure 1 shows that the TTC of £37.1bn is estimated to comprise taxes borne of £18.7bn and taxes collected of £18.4bn. 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-headquartered and foreign-headquartered banks. However, the tax profile of UK and foreign banks varies significantly, with UK banks contributing a greater share of taxes borne, and foreign banks contributing a relatively equal share of taxes collected despite employing just over a quarter of total employees in the study (see page 10: Comparing the tax profile for UK and foreign banks).

Figure 1: 2021 Total Tax Contribution of the UK banking sector as a percentage of UK total tax receipts[4]

	Study participants £bn	Extrapolated to the UK banking sector £bn	% of total government receipts
Corporation tax	2.8	4.1	
Bank surcharge	1.0	1.4	
Bank levy	2.2	2.3	
Employment taxes borne	3.3	5.5	
Irrecoverable VAT	3.6	4.3	
Other taxes borne	0.8	1.1	
Total taxes borne	**13.8**	**18.7**	**2.8%**
Employment taxes collected	9.6	15.5	
Tax deducted at source	0.7	0.8	
Other taxes collected	1.7	2.2	
Total taxes collected	**12.0**	**18.4**[5]	**2.7%**
Total Tax Contribution[6]	**25.8**	**37.1**	**5.5%**

[3] Data was extrapolated to provide an estimate of the Total Tax Contribution of the banking sector. The extrapolation was based on government figures released by HMRC 'Pay-As-You-Earn and corporate tax receipts from the banking sector'. 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.

[4] The Office for Budget Responsibility (OBR) - 2021 March Economic and fiscal outlook - supplementary fiscal tables: receipts and other. Table 2.8 Current receipts (forecast).

[5] The increase in taxes collected for the sector, compared with the total in last year's report, does not align with the two year trends in study data (shown in Section 4) which show a decrease on a like-for-like basis, for the following reason: There is a timing difference between this survey data (for most banks, the 2020 calendar year) and the HMRC data (covering the financial year to March 2021). Owing to a successful vaccination campaign in the UK and a gradual easing of lockdown restrictions, economic sentiment was more optimistic in Q1 of 2021, resulting in more business activity and a stronger labour market.

[6] Owing to the degree of rounding, the individual numbers and totals may not add up exactly.

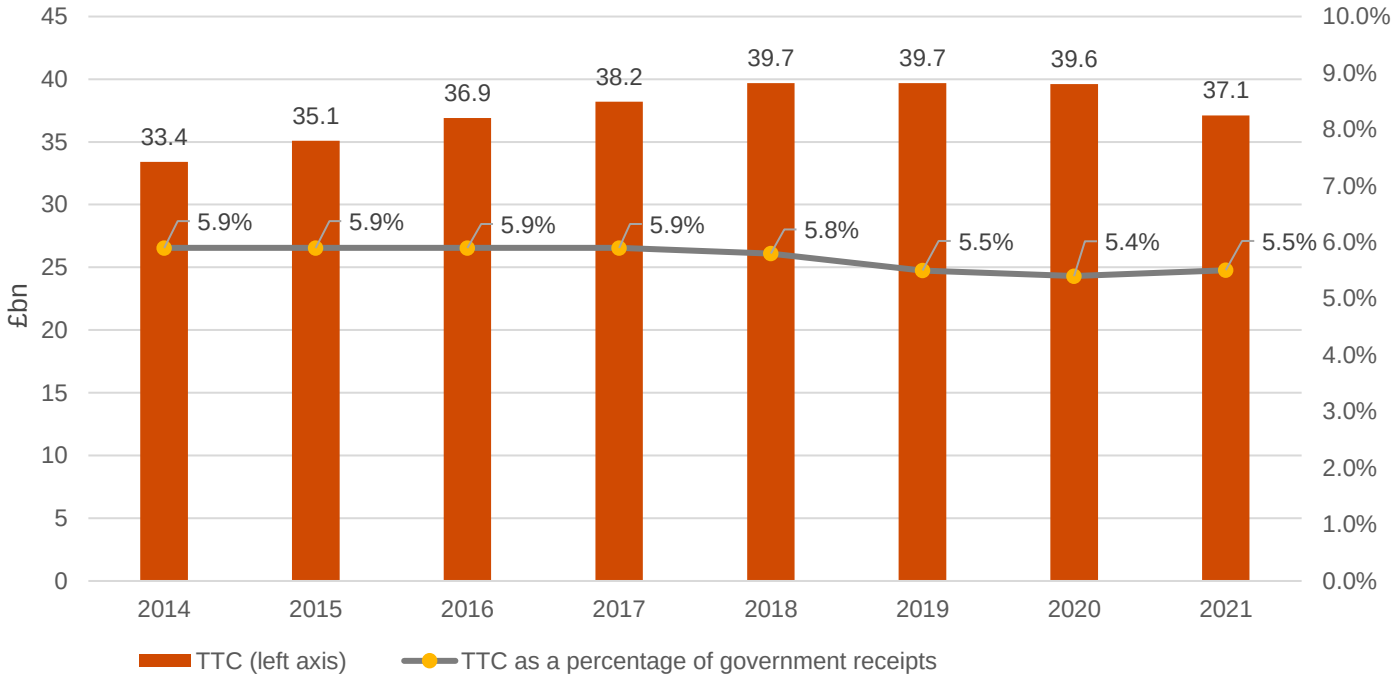
Total Tax Contribution of the UK banking sector

The 2021 tax contribution of the UK banking sector decreased by £2.5bn compared to the previous year and represents 5.5% of total government receipts (Figure 2). The increase from 5.4% to 5.5% as a share of total government receipts can be explained by two reasons:

a) Total UK government tax receipts decreased by 8.5% driven by VAT and corporation tax which fell 24% and 23% on the prior year, respectively. The decrease in tax receipts is a result of the COVID-19 pandemic and the impact of the national lockdowns on the wider economy as many businesses, especially those in the retail and hospitality sectors, experienced sharp declines in consumer demand and profitability. The lower VAT receipts also reflect the UK government's VAT deferral payment scheme established to support businesses adversely impacted by the lockdown measures introduced during 2020.

b) The banking sector experienced decreases in irrecoverable VAT, corporation tax and bank levy, which were partially offset by increases in stamp duty reserve tax (SDRT) collected. The largest movement for the sector was in irrecoverable VAT which is a reflection of lower expenditure among UK-headquartered retail banks. The decrease in corporation tax for the sector reflects lower profitability, particularly for domestic banks, and the return to more regular quarterly instalments following the introduction of a new payment regime by Her Majesty's Revenue and Customs (HMRC) in April 2019[7]. The decline in bank levy is due to the annual rate reductions, while the increase in SDRT collected reflects an increase in equity trading volumes during 2020[8].

Figure 2: The Total Tax Contribution of the UK Banking Sector, 2014 - 2021



Source: Survey analysis

Within the total of £37.1bn, employment taxes comprise the largest element (£21.0bn[9]), reflecting the skilled jobs in this sector. The data in this study provides visibility over other taxes such as irrecoverable VAT, stamp duties and tax deducted at source, to provide a more informed view of the taxes paid by the sector. The extrapolation for the sector is performed at the level of taxes borne and taxes collected using government data 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'.

[7] The decrease in corporation tax for the sector represents a return to more evenly distributed quarterly instalments following the introduction of the new payments regime by HMRC which brought forward quarterly payments for the largest banks in the prior year. As the new payments regime was applicable to accounting periods beginning on or after 1 April 2019, the effects of this change has had an impact on this year's survey data as the majority of study participants have December year ends.

[8] Total UK order book trading volumes were 23% higher in 2020 compared to 2019. https://docs.londonstockexchange.com/sites/default/files/reports/LSEG%20market%20report%20December%202020.pdf

[9] Government data has been revised for Pay-As-You-Earn figures from 2014. For this reason, the 2019, 2020 and 2021 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 2021 survey is shown in Figure 3. Corporation tax (including the bank surcharge) is the largest tax borne, at 28.1% of the total. Irrecoverable VAT represents 26.0% of the total, a decrease of 2.8 percentage points compared to last year's report. Employment taxes, comprising employer NIC, PSA (PAYE Settlement Agreement, a tax on benefits provided by the company) and net apprenticeship levy, made up the third largest element at 24.4%.

Bank levy as a percentage of taxes borne has increased to 16.2% in this year's study despite the reduction in rates. However, this is within the context of an overall decrease in total taxes borne in 2021. Bank levy rates have been gradually decreasing each year since their peak in the 2016 survey (Figure 26). The scope of the bank levy has also been reduced in 2021. For the first ten years, the levy 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 of the levy was restricted to UK operations regardless of the headquarter location. Since the majority of UK-headquartered participants have December year-ends, the scope change has had limited impact on this year's study.

Sector-specific taxes, and other taxes that impact the banking sector, are an important element of the tax profile of these companies. Half of the total taxes borne (49.7%) are made up of bank surcharge, bank levy and irrecoverable VAT. Of these 'sector taxes', bank levy and irrecoverable VAT (together 42.2% of the total) are not dependent on profits, and represent a fixed cost for the sector. For every £1 of corporation tax (including bank surcharge) paid, the banking sector in the UK paid a further £2.56 of other taxes borne.

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

Taxes collected

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

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

Figure 4 shows the profile of taxes collected for the 40 participating banks. Employment taxes (income tax deducted under PAYE and employee NIC) were the largest element (79.5% of total taxes collected), reflecting skilled jobs in the banking sector. Stamp duty reserve tax (SDRT) continued as the second largest tax collected, at 12.2% 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

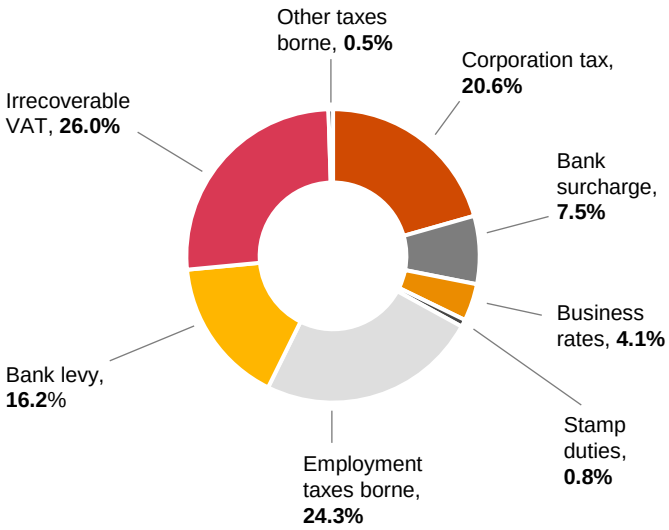
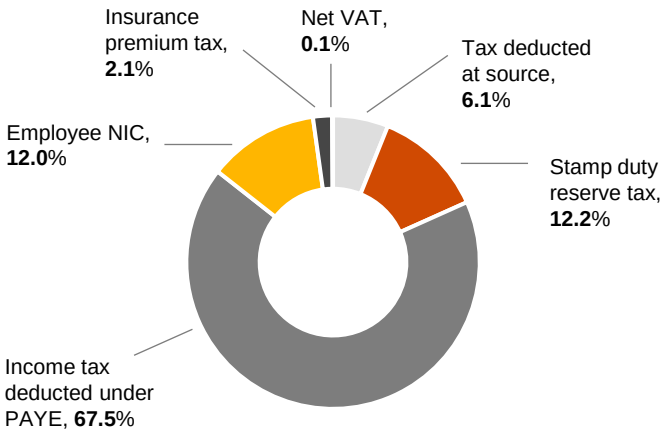


Figure 4: Taxes collected profile for participating banks



Source: Survey analysis

Comparing the tax profile for UK and foreign banks

Of the 40 study participants, 18 were UK-headquartered banks and 22 were foreign-headquartered banks. Based on study participants, there has been an increase in the TTC of the foreign banks in 2021, while the UK banks have seen their TTC decrease. As a result, there has been an increase in the share of the foreign-headquartered banks' taxes borne (from 35.8% to 42.3%) and taxes collected (from 46.5% to 47.8%) in 2021 (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 (73.7% of the total) and bank levy (75.3%) 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 far greater share of employment taxes borne, corporation tax and bank surcharge, indicating a greater contribution per employee.

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

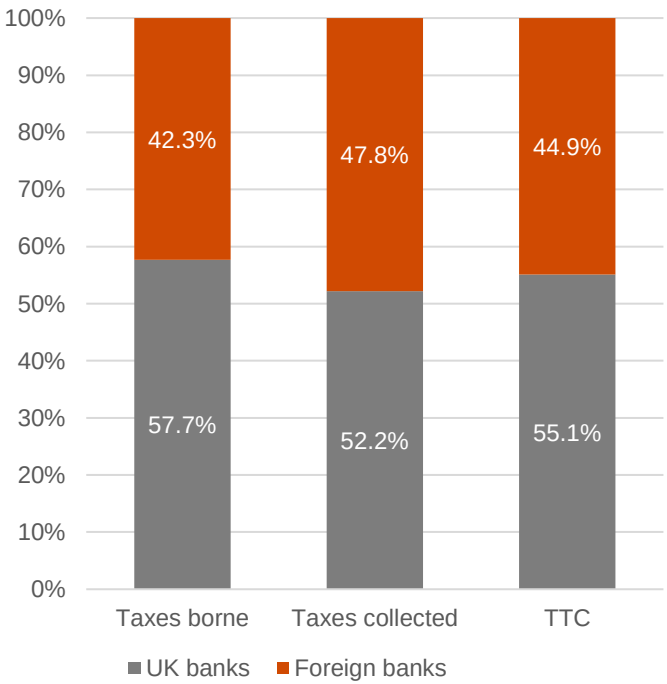
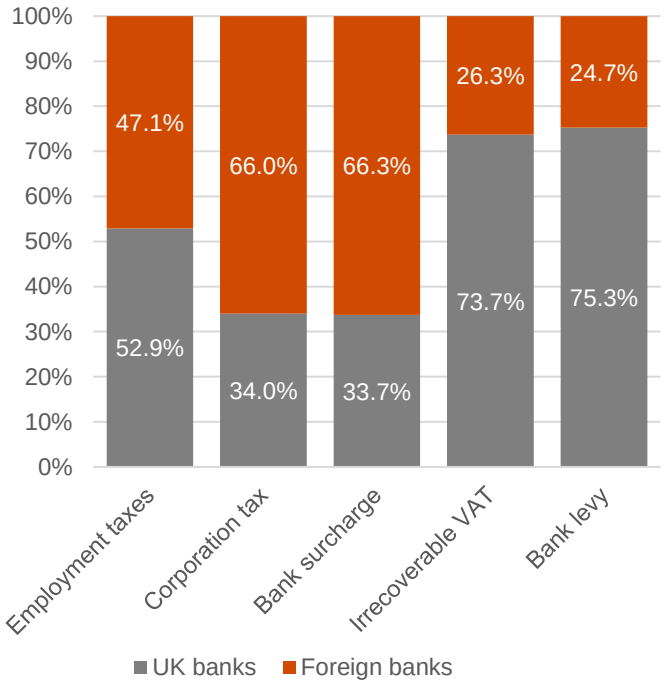


Figure 6: Comparison of taxes borne for UK and foreign banks



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

Total Tax Contribution profile for UK and foreign banks

Figure 8 shows the proportion of taxes borne and taxes collected as a percentage of TTC. For the study participants, taxes borne make up 55.9% of TTC for UK banks and 50.3% for foreign banks. In the 100 Group study[10], in which PwC surveys the largest companies in the UK, taxes borne made up 31.8% 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 impact of the bank surcharge, the bank levy and irrecoverable VAT.

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

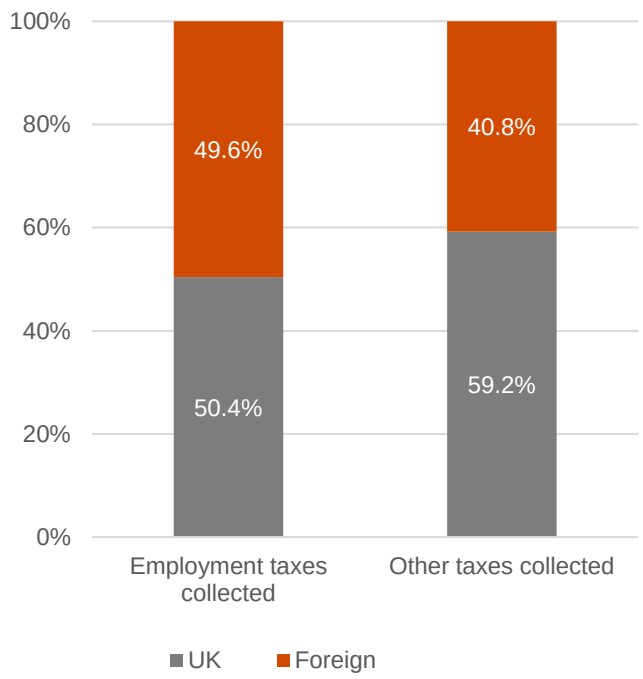
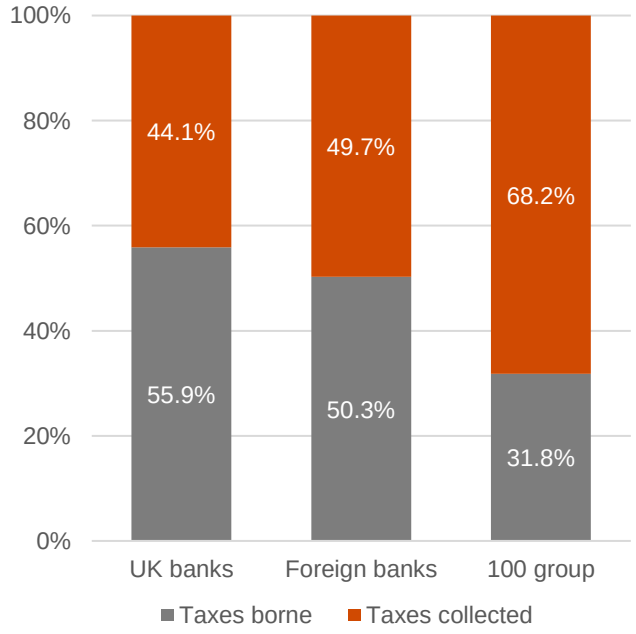


Figure 8: TTC profile for UK and foreign banks and 100 Group



Source: Survey analysis

[10] 2020 Total Tax Contribution study for the 100 Group: presents the analysis of data received from the largest companies in the UK.

Banking sector employment across the UK

Banking sector employment across the UK

Nearly half a million people work in the banking industry across the UK, comprising direct banking activities, building societies, and other credit related institutions. Of this total, 350,000 people were employed by banks, 35,750 by building societies and 89,000 by other credit-related companies. This accounts for 1.4% of total UK employment and 44% of all employment in the financial services industry[11].

65% of banking sector jobs were based outside of London.

Scotland is home to **43,225** banking jobs, making it one of the largest workforces for the sector outside of London.

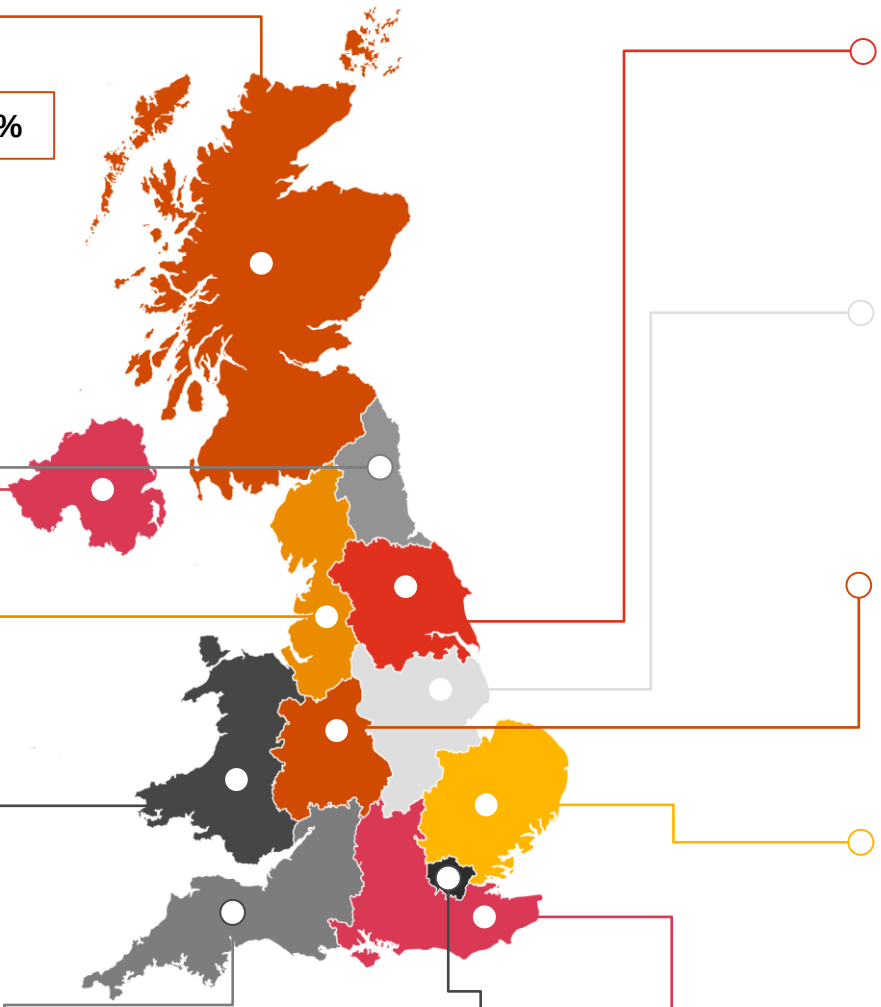
21% of all banking sector jobs are based in the North of England (North West, North East and Yorkshire and the Humber).

25% of all building society jobs are based in The Midlands.

[11] Calculations based on ONS data from Nomis and the Northern Ireland Business Register and Employment Survey. ONS Employees Jobs by Industry – 2019 banking sector workforce was 475,825 based on ONS SIC 641 (Monetary intermediation), SIC 642 (Activities of holding companies), SIC 649 (Other financial service activities; except insurance and pension funding). 2019 financial service workforce was 1,078,000 based on ONS SIC codes 64 (Financial service activities), 65 (Insurance; reinsurance and pension funding), and 66 (Activities auxiliary to financial services and insurance activities).

Banking sector employment across the UK

Total banking sector employment
475,825



Scotland
43,225 | 9%

Yorkshire & The Humber
36,700 | 8%

North East
14,935 | 3%

East Midlands
16,940 | 4%

Northern Ireland
11,670 | 2%

West Midlands
30,670 | 6%

North West
49,425 | 10%

East of England
15,015 | 3%

Wales
12,015 | 3%

South West
35,730 | 8%

London
168,450 | 35%

South East
41,050 | 9%

Source: Calculations based on ONS data for 2019 from Nomis and the Northern Ireland Business Register and Employment Survey.

International comparison

International comparison

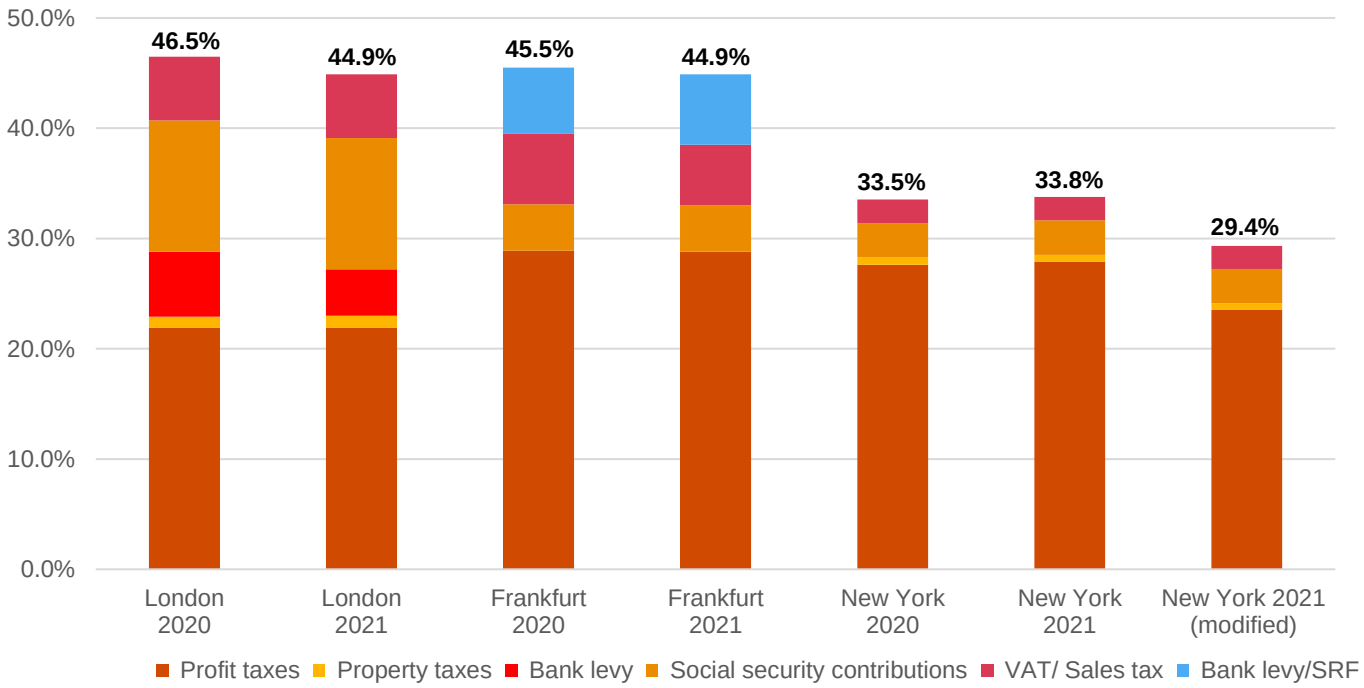
We are often asked how the taxation of banks in the UK compares with that in competitor jurisdictions. It is however not possible to use TTC data to compare bank taxation in the UK with that of other jurisdictions as, to date, similar TTC exercises have not been carried out in other significant financial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

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

To aid this understanding, we have again undertaken an international comparison of bank taxation in the UK with that in other major financial centres: New York, Frankfurt and, for the first time this year, Dublin and Amsterdam. The comparison uses a high-level modelling approach based on that used by the World Bank for the Paying Taxes indicator in their Doing Business study[12].

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

Figure 9: Total Tax Rate of the model bank in 2020 and 2021



Source: PwC analysis

As shown in Figure 9 the TTRs for the model banks were broadly similar between 2020 and 2021 across London, New York and Frankfurt. The 1.6 percentage point reduction in the TTR for London was driven by the decrease in the levy rates. In all three countries there were minor changes to the rates and/or thresholds for employers' social security contributions, but these had only a minor impact on the TTRs. The 2021 TTR for New York includes an additional estimate to reflect modifications in the assumptions made concerning state and local tax rates in order for the estimate to be more representative of real-world examples. More details on this adjustment can be found in Appendix 2.

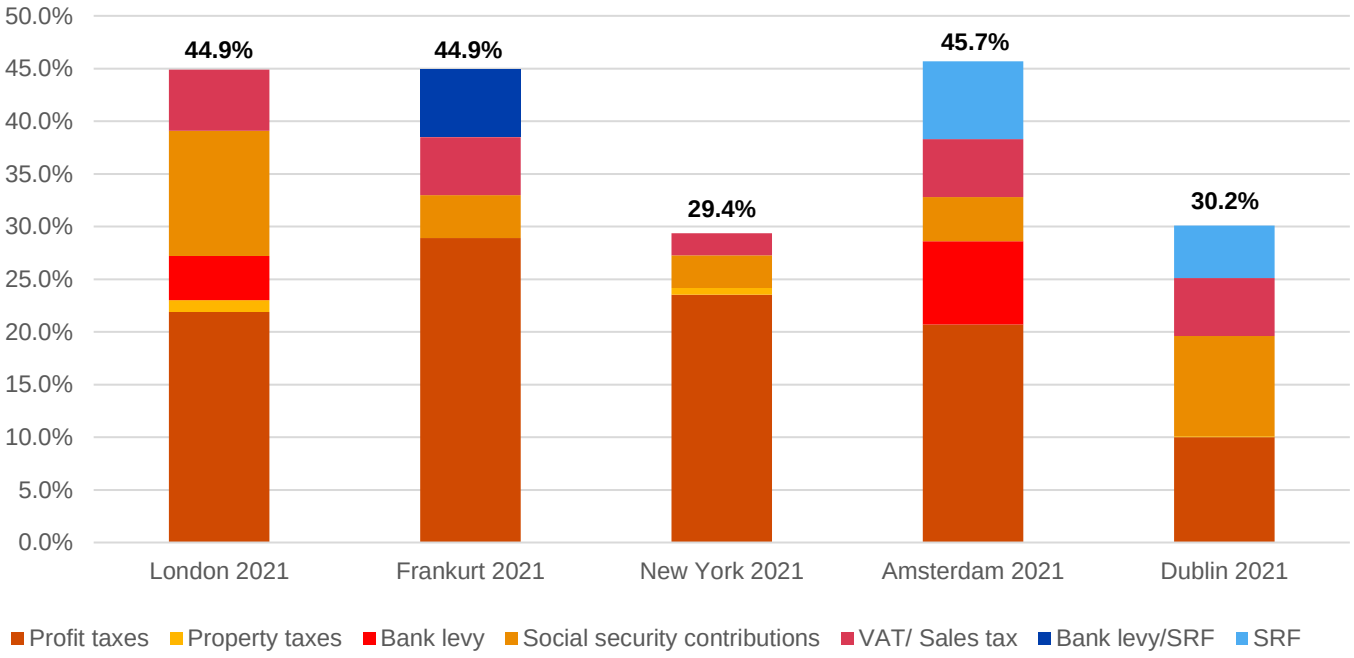
[12] www.doingbusiness.org

International comparison

Figure 10 shows the TTRs for the model banks for 2021, including the two new locations added to the study this year, Dublin and Amsterdam. The TTR for the model bank in Dublin is 30.2% (14.7 percentage points lower than London). The relatively low TTR is a reflection of the lower rate of corporate income tax (12.5% in Ireland), and the bank levy not being applicable based on the parameters of the model bank's activities[13]. The model bank would, however, contribute to the European Single Resolution Fund[14] (SRF).

The TTR for Amsterdam in 2021 is marginally higher than London, at 45.7%. This is primarily a reflection of the model bank being subject to both the SRF and a bank levy. Furthermore, the bank levy rates were temporarily increased in 2020.

Figure 10: Total tax rate of the model bank in 2021 (including Dublin and Amsterdam)



Source: PwC analysis

[13] The assumptions made vis-a-vis the model bank's activities are that it carries out 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 is not applicable for investment/corporate financing activities, the model bank would not be subject to it. More information on the assumptions can be found in Appendix 2.

[14] 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

International comparison

Projected Total Tax Rate for 2024

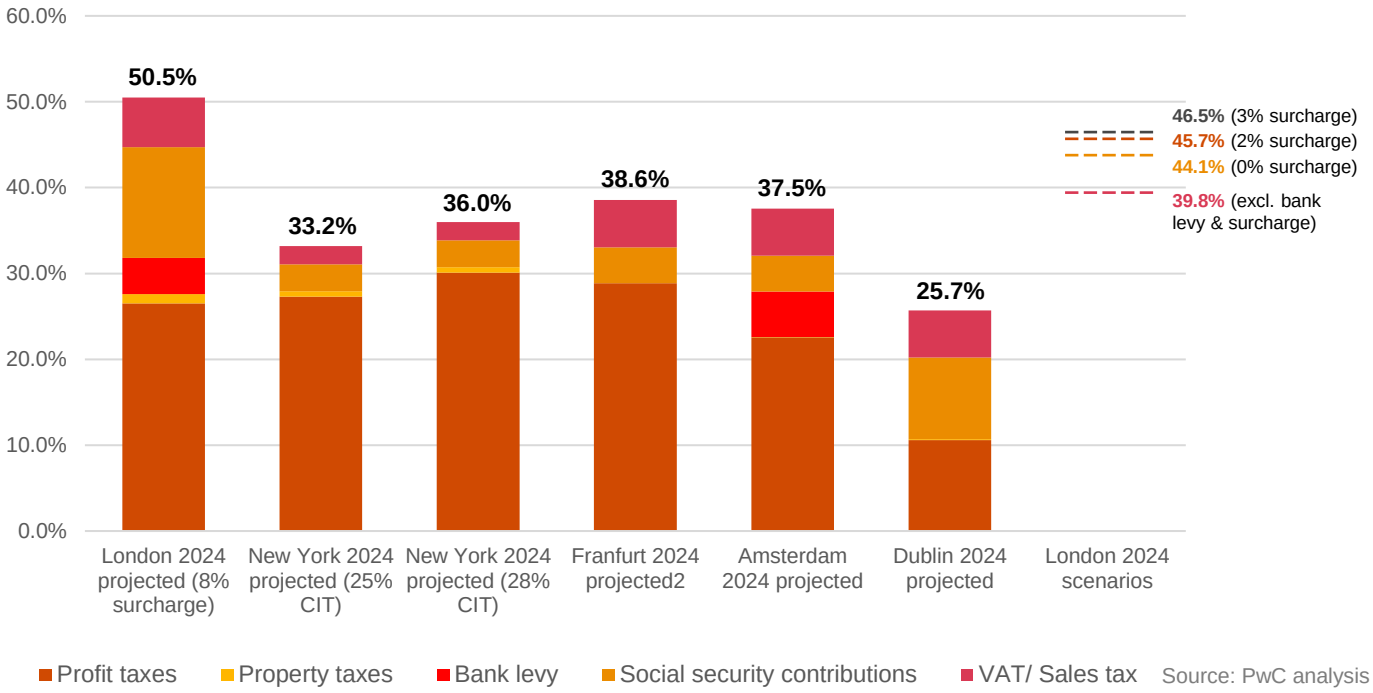
The COVID-19 pandemic and subsequent economic crisis has led to widening budget deficits, and many governments are under pressure to raise taxes to repair public finances. With headline corporate tax rates set to increase in both the UK and the US in 2023, we have modelled the expected TTRs for the five locations (Figure 11).

The significant changes to the calculations used in the 2024 projection are as follows:

- The London calculation is based on a corporation tax rate of 25% and includes the 1.25 percentage point NICs increase as a result of the Health and Social Care Levy.
- Two versions of the New York calculation have been shown, based on federal corporate income tax rates of 25% and 28%. Two alternative calculations were made due to uncertainty as to whether President Joe Biden's reforms will be enacted in full. The election campaign policy was based on increasing the federal corporate income tax rate from 21% to 28%.
- The European Single Resolution Fund is due to reach its target level in 2023. As a consequence the projected calculations for the Netherlands and Ireland do not include the SRF and the calculation for Germany does not include the bank levy.

The increase in the corporation tax rate in the UK pushes the projected TTR for London up from 44.9% in 2021, to 50.5%. This projection includes the current 8% bank surcharge and the 1.25% increase in NICs as a result of the Health and Social Care Levy due to take effect from April 2022. The projected TTR for London is therefore 11.9 percentage points higher than the TTR for Frankfurt for the same year. In contrast, the model banks in Amsterdam, Frankfurt and Dublin would see their projected TTR decline by 8.2, 6.3 and 4.5 percentage points respectively, compared to 2021. This is primarily driven by the removal of the SRF which is due to end in 2023[15]. The TTR for Amsterdam is also projected to be lower due to a reduction in the rates of bank levy, which were increased temporarily in 2021.

Figure 11: Total Tax Rate of the model bank in 2024



Source: PwC analysis

In the US, owing to uncertainty on the final proposals for the increase in the federal corporate income tax rate, the model includes a projection for both a 25% and 28% federal rate (up from the current rate of 21%). Under either scenario, the TTR for the model bank in New York, at 33.2% with a projected 25% CIT rate, or 36.0% with a projected 28% rate, remain below its European counterparts, with the exception of Dublin. Under these proposals the TTR for New York would increase by 3.8 or 6.6 percentage points from the TTR for 2021.

In addition, the comparison includes TTR projections for the model bank operating in London under different hypothetical scenarios. A reduction in the bank surcharge to 3%, 2% or 0% (from the current 8%) brings the London TTR down to 46.5%, 45.7% and 44.1%, respectively. Excluding both the bank surcharge and the bank levy would result in a TTR of 39.8%, 1.2 percentage points higher than the next highest rate for Frankfurt.

[15] Frankfurt would see the removal of its bank levy which is used to fund the SRF.

International comparison

A number of other tax changes have been proposed across the five locations, but the modelling within the scope of this exercise was limited to official policy announcements. The most significant development is the ongoing work by The Organisation for Economic Co-operation and Development (OECD) on its Base Erosion and Profit Shifting project concerning multilateral reform of the international tax system. At the core of these proposals is a global minimum corporate income tax rate of 15%[16] and the distribution of profit and taxing rights based on the location of businesses activity.

[16] Dublin is the only location included in the international comparison study with a corporate tax rate below 15% (currently 12.5%). With a corporate tax rate of 15%, the TTR for Dublin would increase to 27.9% in 2024 (2.2 percentage points higher than shown in Figure 11)

Trend analysis and TTC within context of other economic indicators

Trends in Total Tax Contribution

Trend in Total Tax Contribution between 2020 and 2021

37 banks provided data for both the 2020 and 2021 studies and we have analysed the trends on a like-for-like basis for these companies. There has been a decrease in both taxes borne and taxes collected in 2021, resulting in a 3.2% decrease in TTC.

Taxes borne decreased by 3.6%, as lower expenditure led to a decrease in irrecoverable VAT, particularly for the UK-headquartered banks (Figure 12). The overall decrease in taxes borne was partially offset by an increase in corporation tax as a result of increasing profitability for the foreign-headquartered banks along with the impact of the change to the quarterly instalments regime introduced by HMRC which, despite being introduced in 2019, had a greater impact on this year's survey due to the majority of banks having December year-ends[17]. After irrecoverable VAT, bank levy was the second largest driver of the overall decrease in taxes borne, as a result of the annual reduction in levy rates. Employer NIC also decreased due to lower wages and salaries compared to the prior year.

Taxes collected decreased by 2.7%, driven by employment taxes and net VAT (Figure 13). The decrease in employment taxes was due to lower wages and salaries in 2020/21. The decrease in net VAT is partially due to an increase in recoverable input VAT (e.g. on commodities trading and leasing deals). The overall decrease in taxes collected was partially offset by an increase in stamp duty reserve tax (SDRT), due to higher trading volumes as a result of greater volatility in equity markets in 2020[18].

Figure 12: Trend in taxes borne, 2020 - 2021

	Trend as % of total taxes borne
Irrecoverable VAT	-4.5%
Bank levy	-0.7%
Employer NIC	-0.5%
Other taxes borne	-0.1%
Corporation tax (incl. bank surcharge)	+2.2%
Total taxes borne	**-3.6%**

Figure 13: Trend in taxes collected, 2020 - 2021

	Trend as % of total taxes collected
Employment taxes	-2.9%
Net VAT	-1.5%
Tax deducted at source	-0.2%
Other taxes collected	-0.0%
Stamp duty reserve tax	+1.9%
Total taxes collected	**-2.7%**

Source: Survey analysis

[17] There is a slight misalignment between the survey data, which for the majority of banks covers the calendar year to December 2020, and the HMRC data on corporate tax receipts for the banking sector, which covers the year to March 2021. The impact of the new quarterly payments regime was seen in this year's study data but had a greater impact on last year's HMRC data. As a result, while corporation tax has increased in the survey trends, total corporation tax receipts for the sector have decreased compared to the previous year (as shown in the extrapolation for the sector in section 1).

[18] LSEG market report, December 2020 LSEG – Electronic Order Book Trading

Trends in Total Tax Contribution

There was significant variation between the two-year trends of the UK-headquartered and foreign-headquartered banks, with the UK banks driving the overall decrease as shown in Figures 14 and 15.

For the UK-headquartered banks in the survey, taxes borne decreased by 14.8%, driven by irrecoverable VAT and corporation tax. Taxes collected decreased 3.8% compared to the previous year, driven by employment taxes as a result of lower wages and salaries in 2020/21 (Figure 22).

For the foreign-headquartered banks in the survey, taxes borne increased by 17.4%, driven by corporation tax (Figure 16). Taxes collected decreased by 1.4%, driven by employment taxes and net VAT. The decrease in taxes collected was partially offset by an increase in SDRT collected (Figure 17). SDRT is a larger share of foreign banks' taxes collected compared to the UK banks, as trading makes up a larger proportion of their operations. Foreign banks account for close to 90% of the SDRT in the survey.

Figure 14: Trend in taxes borne for UK-headquartered banks, 2020 - 2021

	Trend as % of total taxes borne
Corporation tax (incl. bank surcharge)	-7.8%
Bank levy	-0.1%
Irrecoverable VAT	-6.4%
Employer NIC	-0.3%
Other taxes borne	-0.2%
Total taxes collected	**-14.8%**

Figure 15: Trend in taxes collected for UK-headquartered banks, 2020 - 2021

	Trend as % of total taxes collected
Employment taxes	-3.4%
Net VAT	+0.3%
Tax deducted at source	-0.3%
Stamp duty reserve tax	-0.4%
Other taxes collected	0.0%
Total taxes borne	**-3.8%**

Figure 16: Trend in taxes borne for foreign-headquartered banks, 2020 – 2021

	Trend as % of total taxes borne
Corporation tax (incl. bank surcharge)	+21.0%
Bank levy	-1.7%
Irrecoverable VAT	-0.9%
Employer NIC	-0.9%
Other taxes borne	-0.1%
Total taxes collected	**+17.4%**

Figure 17: Trend in taxes collected for foreign-headquartered banks, 2020 - 2021

	Trend as % of total taxes collected
Employment taxes	-2.3%
Net VAT	-3.5%
Tax deducted at source	-0.2%
Stamp duty reserve tax	+4.5%
Other taxes collected	+0.1%
Total taxes collected	**-1.4%**

Source: Survey analysis

Trends in Total Tax Contribution

Trend in Total Tax Contribution between 2014 and 2021

Figure 18 displays the trends in taxes borne, taxes collected and TTC since the survey began in 2014, based on data from banks that have participated in each year of the survey. It shows that the increasing TTC between 2014 and 2018 was due to increases in taxes borne by the banks. Over this period, taxes borne increased by 58%, primarily due to increases in corporation tax, bank levy and irrecoverable VAT (Figure 19). The increase in corporation tax was driven by the introduction of loss relief restriction and compensation payment restrictions in 2015, the introduction of the bank surcharge in 2016, and increasing profitability over that period.

The gradual decrease in taxes borne since 2018 reflects weaker economic growth and economic uncertainty impacting overall profitability, together with annual bank levy rate reductions, while the sharper decrease 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.

Taxes collected decreased in 2017 following the introduction of the personal savings allowance in 2016 and the associated removal of the obligation on banks to deduct tax at source from account interest. While there has been a decrease in taxes collected on a two-year like-for-like basis, the increase between 2020-2021 for this subset of banks in the long-term trend is driven by SDRT collected as trading volumes increased in 2020.

Figure 18: Trend in taxes borne, taxes collected and Total Tax Contribution, 2014 - 2021

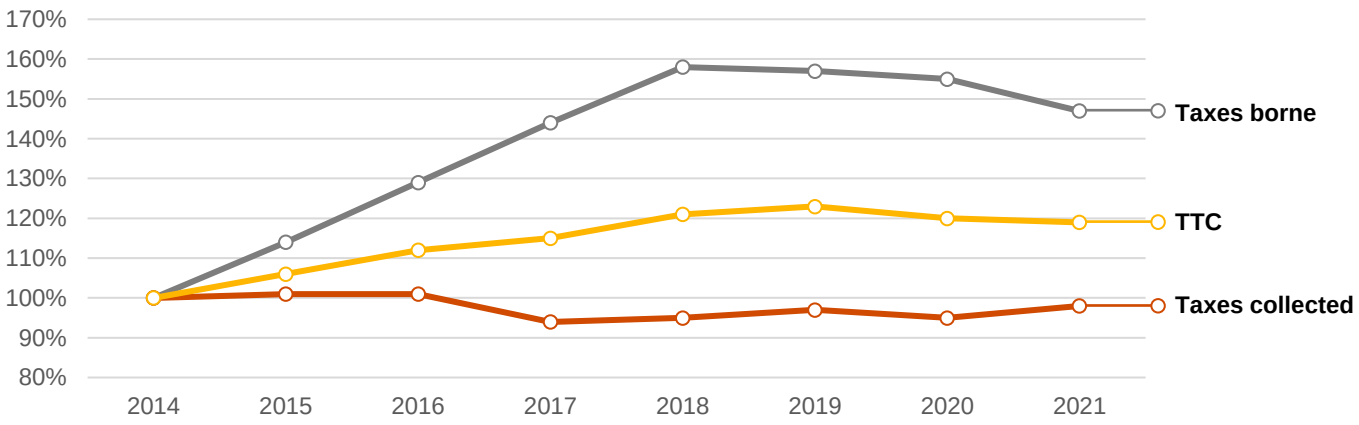
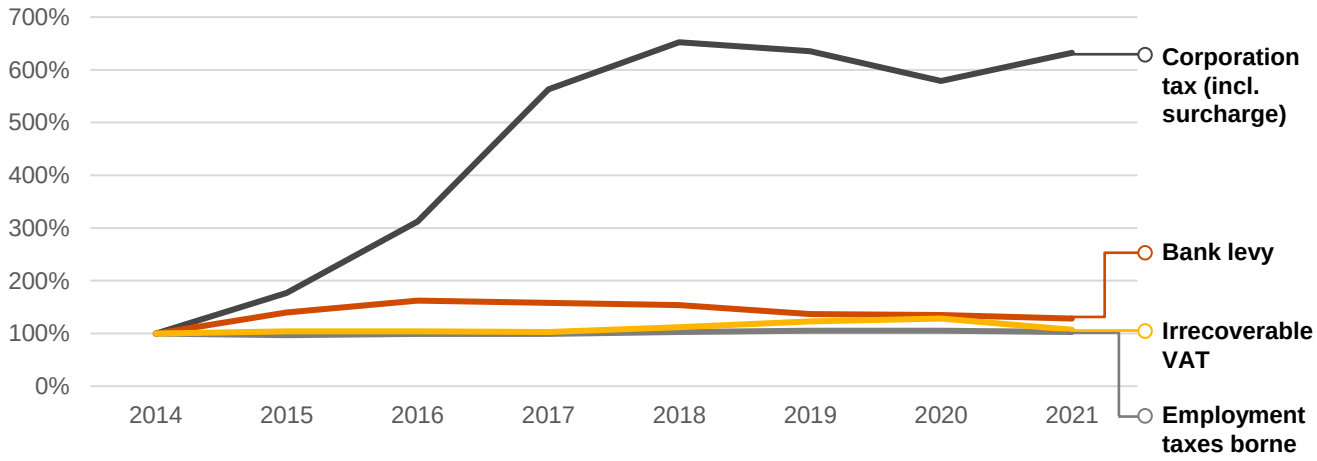


Figure 19: Trends in taxes borne, 2014 - 2021

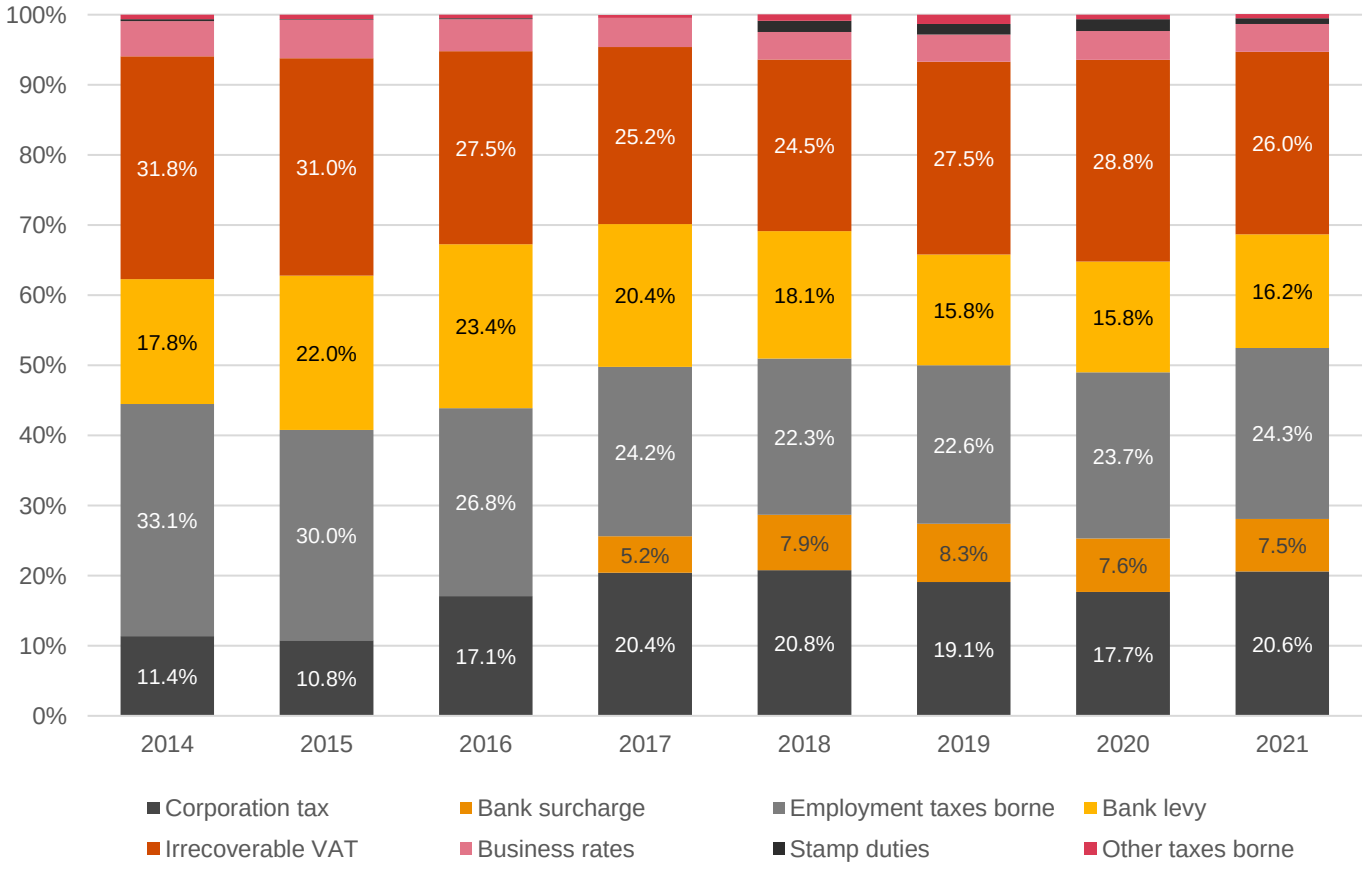


Source: Survey analysis

Trends in Total Tax Contribution

Figure 20 illustrates the change in the profile of taxes borne from 2014 to 2021. Corporation tax has become more significant from 2016 onwards, reflecting growth in profits as well as the impact of the bank surcharge and legislative changes restricting loss relief and compensation payment relief. The proportion of taxes borne taken up by bank levy shows the increase to 2016 and a decrease commencing from 2017, largely due to the rate changes described in the bank levy section. The relative proportions of employment taxes borne have decreased over this period due to the increases in corporation tax and bank surcharge.

Figure 20: Trend in the profile of taxes borne, 2014 - 2021



Source: Survey analysis

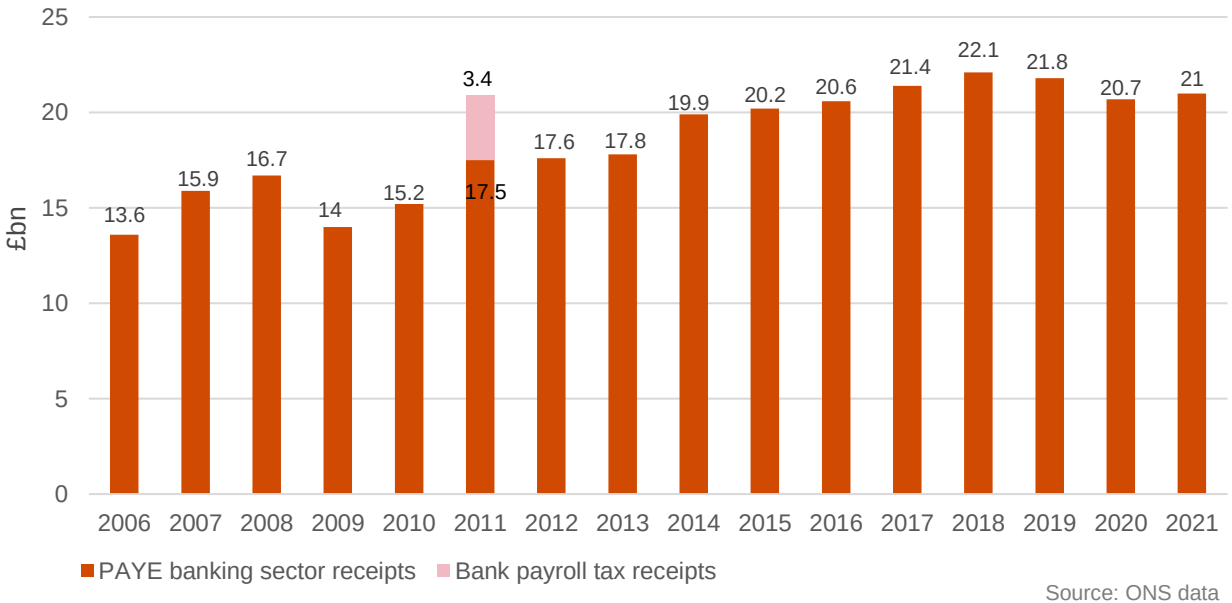
Employment taxes

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 in 2021 amounted to £21.0bn, 6.7% of all UK employment tax receipts[19]. The sector provides employment for 1.2% of the UK workforce, and accounts for 36.0% of the UK financial services workforce[20].

Figure 21 shows the employment taxes trend for the banking sector based on government receipts since 2006. Legislative changes to employment taxes have had a significant impact on the UK banking sector. In particular, the one-off bank payroll tax[21], 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 21 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 led to increased employment taxes.

Figure 21: Employment tax receipts, 2006 - 2021[22]



Source: ONS data

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

[20] ONS Employees Jobs by Industry (not seasonally adjusted) Table 1. 2019 banking sector workforce was 388,200, based on ONS SIC 641 (Monetary intermediation). 2019 financial services workforce was 1,073,000, based on ONS SIC codes 64 (Financial service activities), 65 (Insurance; reinsurance and pension funding), and 66 (Activities auxiliary to financial services and insurance activities). Note: This is the latest available information for the UK banking sector at the time of publication and the figures are not directly comparable to pages 13 and 14 given the broader definition of banking activities used in the chapter on Banking sector employment across the UK.

[21] 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.

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

Employment taxes

Employment in the banking sector – survey data

The 40 participants in the survey employed 327,350 workers and paid total employment taxes of £12.9bn comprising employment taxes borne of £3.3bn (employer NIC, PSA and apprenticeship levy) and employment taxes collected of £9.6bn (income tax deducted under PAYE and employee NIC).

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

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

Looking at employment taxes borne and collected, the average tax per employee (calculated by taking the total employment taxes for the study population and dividing it by the total number of employees within that population) was £36,132 for the banking sector.

Trends in employment taxes – survey data

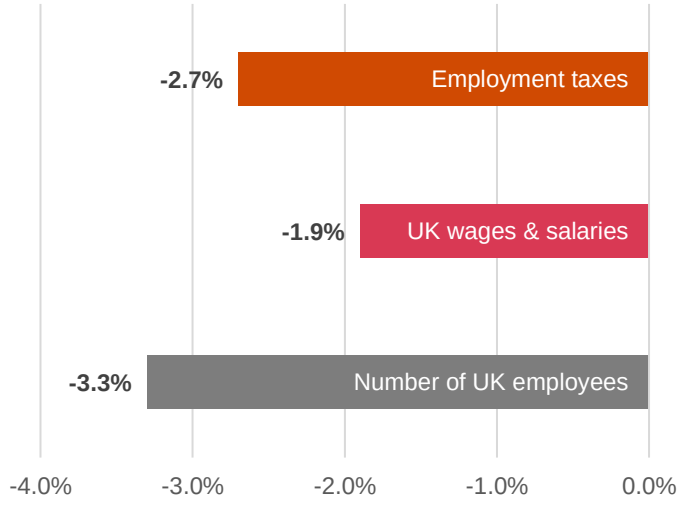
32 companies provided data on their number of employees, wages and salaries and employment taxes for both the 2020 and 2021 surveys. We are therefore able to analyse the two-year trend on a like-for-like basis for these companies.

Two-year trends (2020 – 2021)

Figure 22 shows that employment taxes decreased by 2.7% driven by the decrease in UK wages and salaries of 1.9% and a 3.3% decrease in the number of UK employees.

The decrease in the two-year employment trends data is being driven by both UK and foreign headquartered banks.

Figure 22: Trend in number of employees, salaries and wages and employment taxes, 2020 - 2021



Source: Survey analysis

Gross value added for the UK banking sector

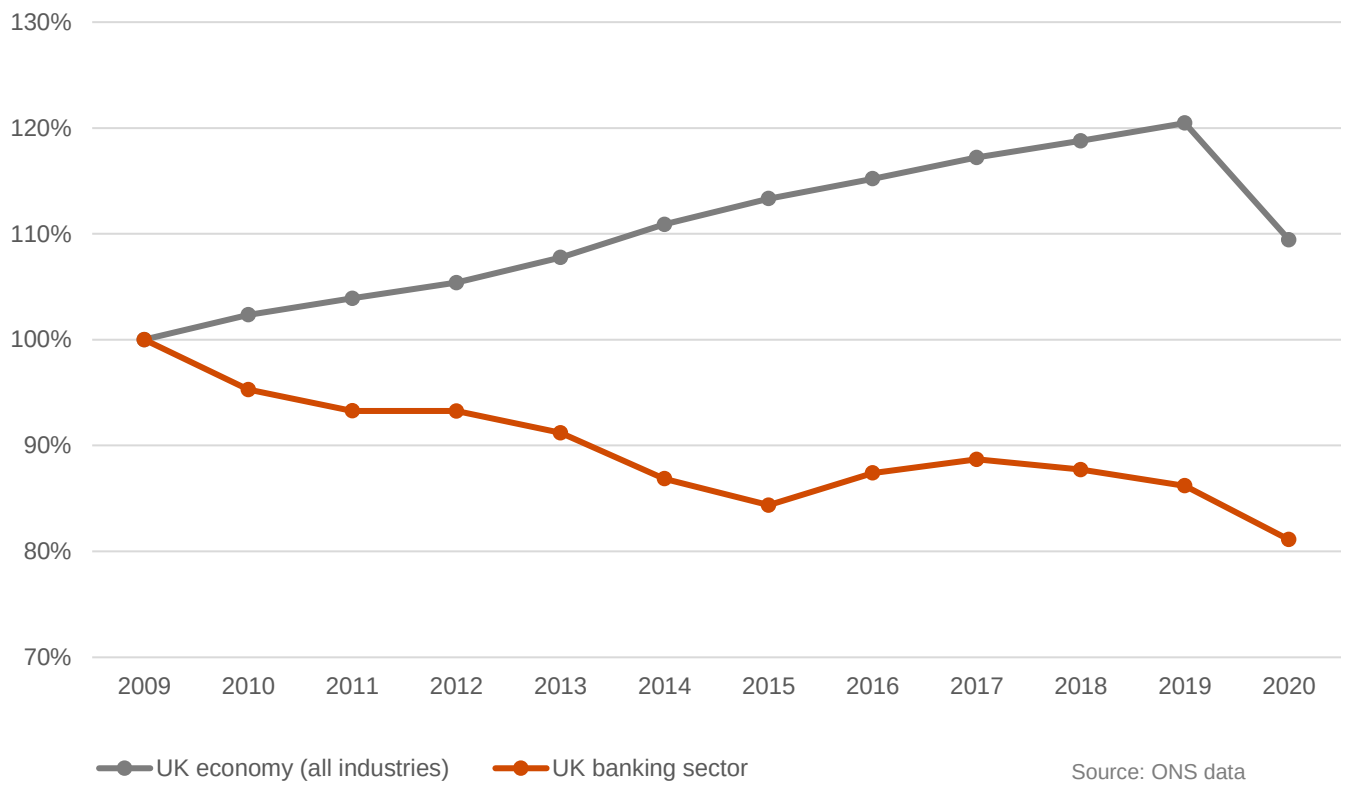
To put the trend analysis into context, we reviewed other indicators of the banking sector. At a national level, economic activity is commonly measured by gross domestic product (GDP). The contribution made to GDP is typically measured by calculating gross value added (GVA) which is a measure of the value of goods and services produced in an area, industry or sector of an economy.

Figure 23 shows a falling trend in the banking sector GVA from 2009 to 2015, with an upturn from 2015 to 2017. A period of economic uncertainty 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 was greater in the wider economy compared to the banking sector, in 2020.

The GVA for the banking sector in 2020 was 3.8% of the GDP of the UK economy[23] which compares to tax receipts for the banking sector in the same year of 5.5% of total government tax receipts.

Figure 23: Gross value added by the banking sector compared with the UK economy, 2009 to 2020 (2009 = 100)[23]



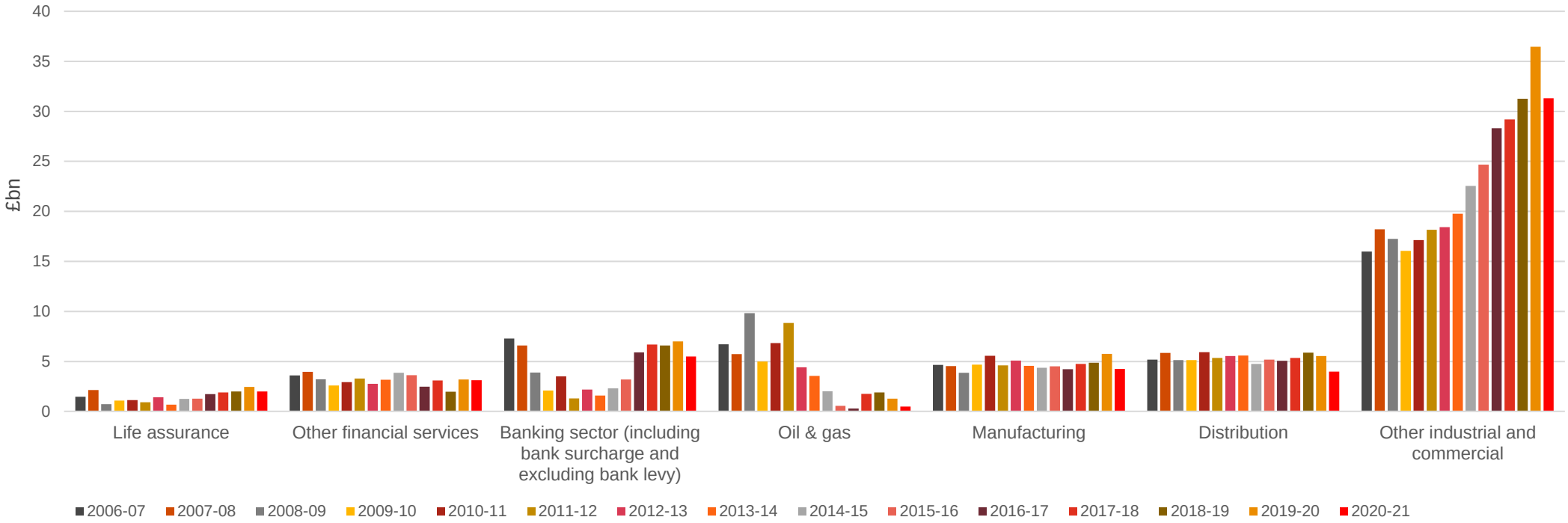
Source: ONS data

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

Corporation tax

Figure 24, based on government data, shows corporation tax payments by industry sector between 2006-07 and 2020-21. 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.

Figure 24: Corporation tax receipts by sector, 2007 to 2021[24]



Source: HMRC data

[24] Source: https://www.gov.uk/government/statistics/corporation-tax-statistics-2021

Corporation tax

Corporation tax payments from study participants totalled £3,865 million, including bank surcharge payments of £1,034 million. Looking at the companies that provided data for both profits and corporation tax, profits decreased compared to the previous year largely driven by UK-headquartered retail banks which were more exposed to the domestic economy and the adverse impact of the COVID-19 pandemic. The lower profitability is a result of significant provisions being made to cover potential loan defaults. This is expected to be largely reversed as the economy recovers throughout 2021. Profits for foreign-headquartered investment banks increased slightly due to a recovery in equity trading conditions during 2020.

Government figures provide data over a longer period and show that receipts of corporation tax (including bank surcharge) and bank levy were £7.8bn in 2021 (Figure 25). HMRC data shows that corporation tax (including the surcharge) has decreased by 21.4% compared to 2020 from £7.0bn to £5.5bn

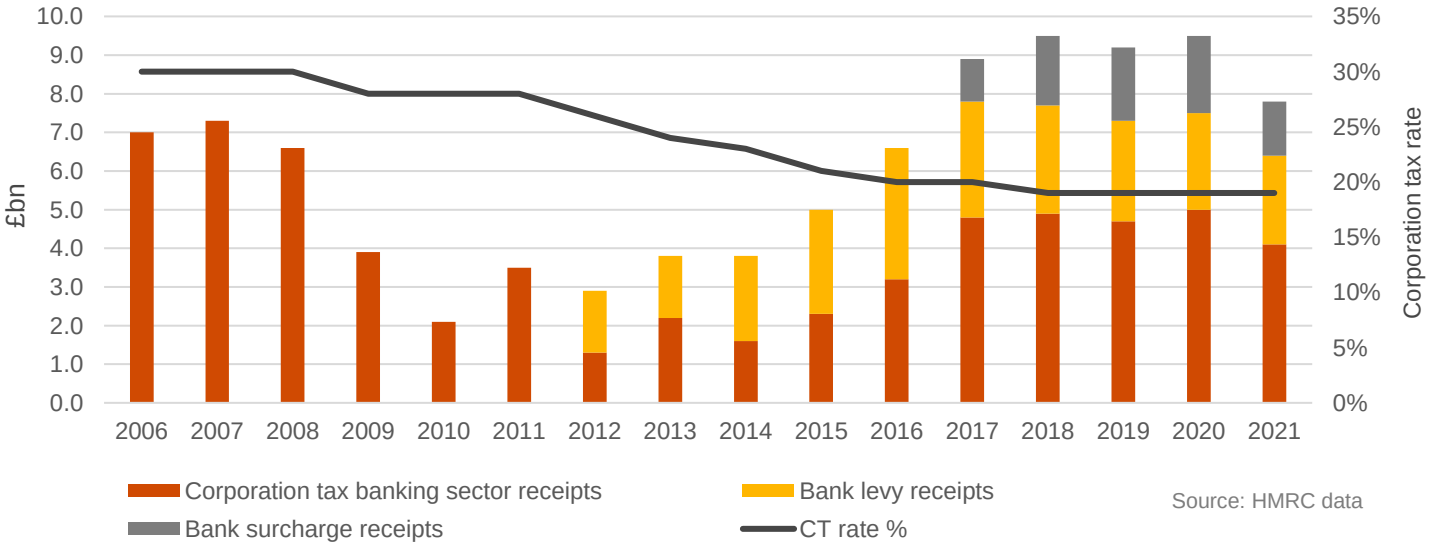
Loss-relief restriction

From 1 April 2015, the proportion of banks' taxable profit that is eligible to be offset by carried-forward losses was restricted to 50%, and in April 2016 this was restricted further to 25% for pre-April 2015 losses. The restriction applies to carried forward trading losses, non-trading loan relationship deficit and management expenses. Of the 40 participating banks, 38 companies provided data quantifying the impact of the loss restriction in the year. Three of the 38 banks were affected by the legislation, resulting in an additional £94 million of corporation tax in 2021. Since the legislation was introduced in 2015, banks in the survey have paid an additional £2.4bn in corporation tax

Compensation payments restriction

Compensation expenditure arising on or after 8 July 2015 is not deductible for corporation tax purposes. 39 of the 40 participating banks provided data quantifying the impact of the compensation payment restriction in the year. Out of those 39 companies, six were affected by the legislation, resulting in an additional £36 million of corporation tax in 2021. Since the legislation was introduced in 2015, the banking sector has paid an additional £2.37 billion in corporation tax.

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



Source: HMRC data

[25] Source: https://www.gov.uk/government/statistics/paye-and-corporate-tax-receipts-from-the-banking-sector-2021

Irrecoverable VAT

Irrecoverable VAT was the second largest tax payment for the study participants, accounting for 26.0% of total taxes borne, a decrease from 28.8% in the previous study. In 2021, irrecoverable VAT decreased for the UK-headquartered banks, reflecting a decrease in input tax due to reductions in expenditure. This was partly driven by cost-saving measures undertaken by retail banks as a result of the COVID-19 pandemic, alongside ongoing restructuring across the sector. The total irrecoverable VAT for the 40 participant banks was £3.6bn. We have estimated[26] total irrecoverable VAT for the UK banking sector of £4.3bn in 2021. On a like-for-like trend basis, the amount of irrecoverable VAT paid decreased by 15.1% between 2020 and 2021.

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 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.

Despite the decrease in this year's study, irrecoverable VAT has increased significantly since 2011, as explained in the first TTC study in 2015. Apart from the increases in the rate of VAT (from 15% to 17.5% in 2010 and 17.5% to 20% in 2011), there has also been increasing investment in information technology and infrastructure throughout the sector, a drive towards outsourcing administrative business functions and a move towards employing more contractors following the financial crisis, all of which increase the cost base and level of input VAT.

While irrecoverable VAT has increased in recent years, it is anticipated that this trend will start to reverse as a result of recent legislative changes. The most significant of which is a change in the UK's VAT recovery rules following its departure from the EU, which will likely result in a decrease in irrecoverable VAT[27]. A further reduction could be expected from the full implementation of the reformed IR35 rules which took effect from April 2021[28].

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

[27] The UK formally left the EU customs union and single market on 31 December 2020. The changes to the UK's VAT recovery rules will likely result in a decrease in irrecoverable VAT for the banking sector, as banks in the UK will be able to deduct input tax for specified supplies made to EU customers.

[38] Reforms to IR35 off-payroll working legislation came into force on 6 April 2021. Determination of whether contractors are working outside IR35 will now become the responsibility of the employer instead of the contractor themselves. As a result, the changes are expected to lead to fewer contractors being used across the banking sector,

Bank levy

The financial crisis and subsequent legislative changes resulted in a fundamental shift in the taxation of the banking sector. The bank levy, charged on the equity and liabilities of banks, was introduced in 2011 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 have gradually decreased up until 2021 (Figure 26).

Bank levy receipts in 2020-21, published by HMRC, were 8.0% lower than in 2019-20 (from £2.5bn to £2.3bn). The banks participating in this study paid bank levy of £2.2bn in 2021, accounting for 96.8% of total bank levy receipts, and representing 16.2% of total taxes borne.

Since its introduction in 2011, the levy applied to the global consolidated balance sheet of UK-headquartered banks, but only to the UK balance sheet of a foreign-headquartered bank. However, from 1 January 2021, the bank levy scope was reduced to apply to the UK balance sheet for all banks. Alongside the annual reduction in levy rates, this change is likely to result in a decrease in the bank levy paid in the 2022 survey.

Figure 26: Changes in the rate of bank levy[29]

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

Source: HMRC data

[29] 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 TTC metrics were generated using the study data:

- Taxes borne and collected as a percentage of value distributed
- Total Tax Rate (TTR) – the total tax borne as a percentage of profit before all taxes borne
- 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 participating banks as a whole, but will give weight to the larger banks.
2. Mean – using the individual metrics for each participant bank and then calculating a simple average. The mean 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 in the context of value distributed by companies. Value is distributed to the following recipients:

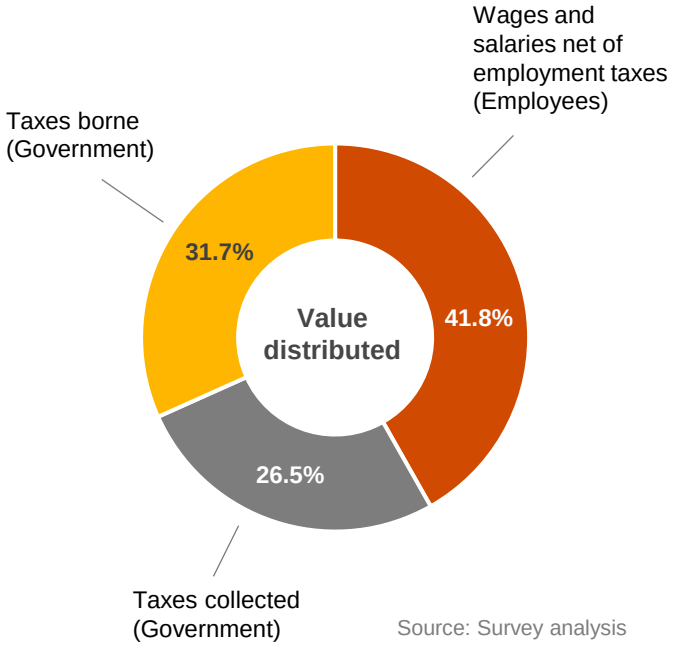
- To the government in taxes borne and collected,
- To employees in wages (net of employment taxes),
- And is distributed to shareholders or retained in the business (for reinvestment) from profits after tax.

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 27 shows the profile of value distributed by the participants on an overall basis.

Total Tax Contribution paid to the government represents 58.2% of the value distributed, while a further 41.8% is paid to employees as wages and salaries (net of employment taxes). Taxes borne account for 31.7% of the total for the study participants, and taxes collected a further 26.5% of the total.

Owing to the significant decline in profits in this year's data, survey participants reported an overall loss after tax. As a result, the value distributed pie chart includes just three segments: (a) the value distributed to the government through taxes borne, (b) value distributed to government in taxes collected on behalf of third parties, and (c) the value distributed to employees in wages and salaries net of employment taxes. Overall there is no profit after tax to be distributed to shareholders or for reinvestment.

Figure 27: Taxes borne and collected as a percentage of value distributed



Source: Survey analysis

Profit to be distributed to shareholders or for reinvestment – 0%

Putting the TTC data into the context of other economic indicators

Total Tax Rate

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 107.9%[30]. This reflects the significant drop in profits largely due to provisions made by the UK retail banks against potential losses as a result of the economic crisis caused by the COVID-19 pandemic[31]. 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 52.4% (Figure 28). Appendix 6 gives further detail on the Total Tax Rate calculation.

Figure 28: Total Tax Rate

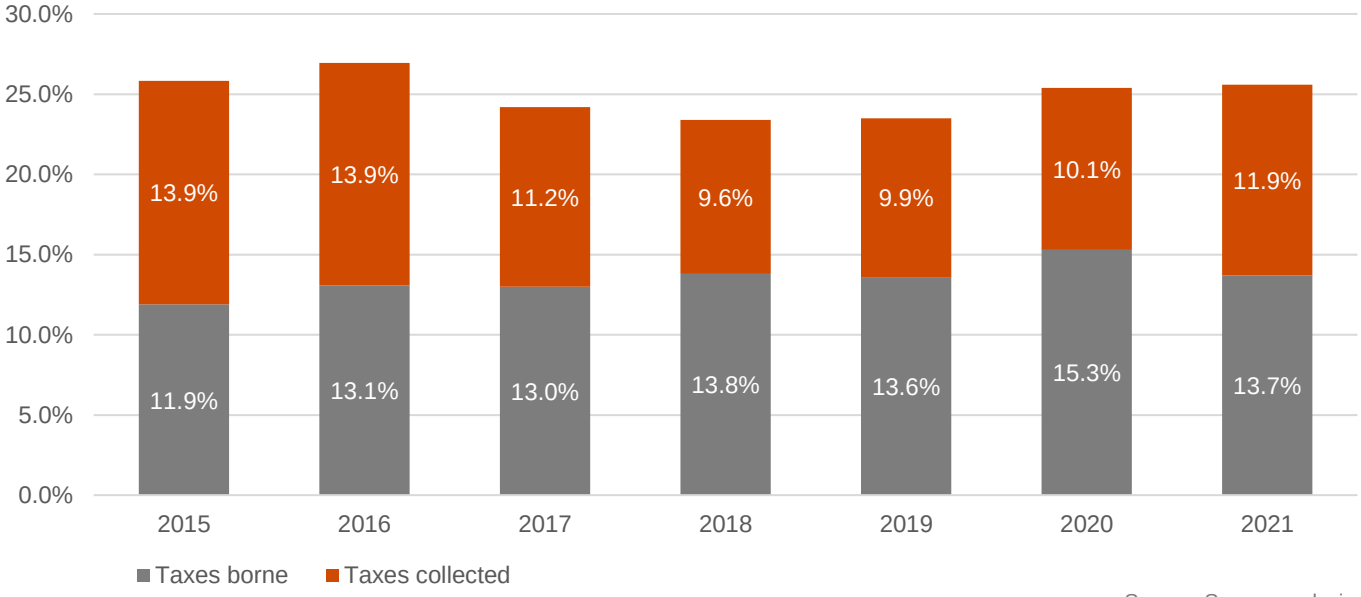
	TTR
Overall	107.9%
Mean	52.4%
Median	36.4%

Source: Survey analysis

Total Tax Contribution as a percentage of turnover

On average, for the banks participating in the study, TTC as a percentage of total UK turnover[32] was 25.6%, comprising 13.7% of taxes borne and 11.9% of taxes collected[33]. Figure 29 shows that the percentage in 2021 has increased compared to 2020, as turnover decreased at a greater rate in comparison to 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 - 2021



Source: Survey analysis

[30] The overall average Total Tax Rate was 107.9%, the mean was 52.4%, the median 36.4%, and the range 13.7.0% to 141.4%. (2020: The overall average Total Tax Rate was 51.1%, the mean was 45.6%, the median was 40.0%, and the range 16.0% to 91.7%.)

[31] The decrease in profitability among the largest retail banks in the UK was driven by their exposure to the domestic UK economy. In anticipation of significant defaults on loans across their retail and commercial lending portfolios during 2020, many banks established expected credit loss (ECL) provisions designed to absorb losses against their loan books. The provisions are deductible against taxable income during the accounting period they are accrued. As a result of better economic conditions than initially anticipated in the first half of 2021, many banks have subsequently derecognised the ECL provisions. As such we expect the TTR to return to a normal range in next year's survey.

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

[33] The overall average TTC as a percentage of turnover was 23.5%, the mean was 25.6%, the median 22.8%, and the range 10.2% to 72.5.2%. (2020: the overall average TTC as a percentage of turnover was 21.9%, the mean was 25.4%, the median 22.7%, and the range 9.2% to 84.2.5%)

Looking forward

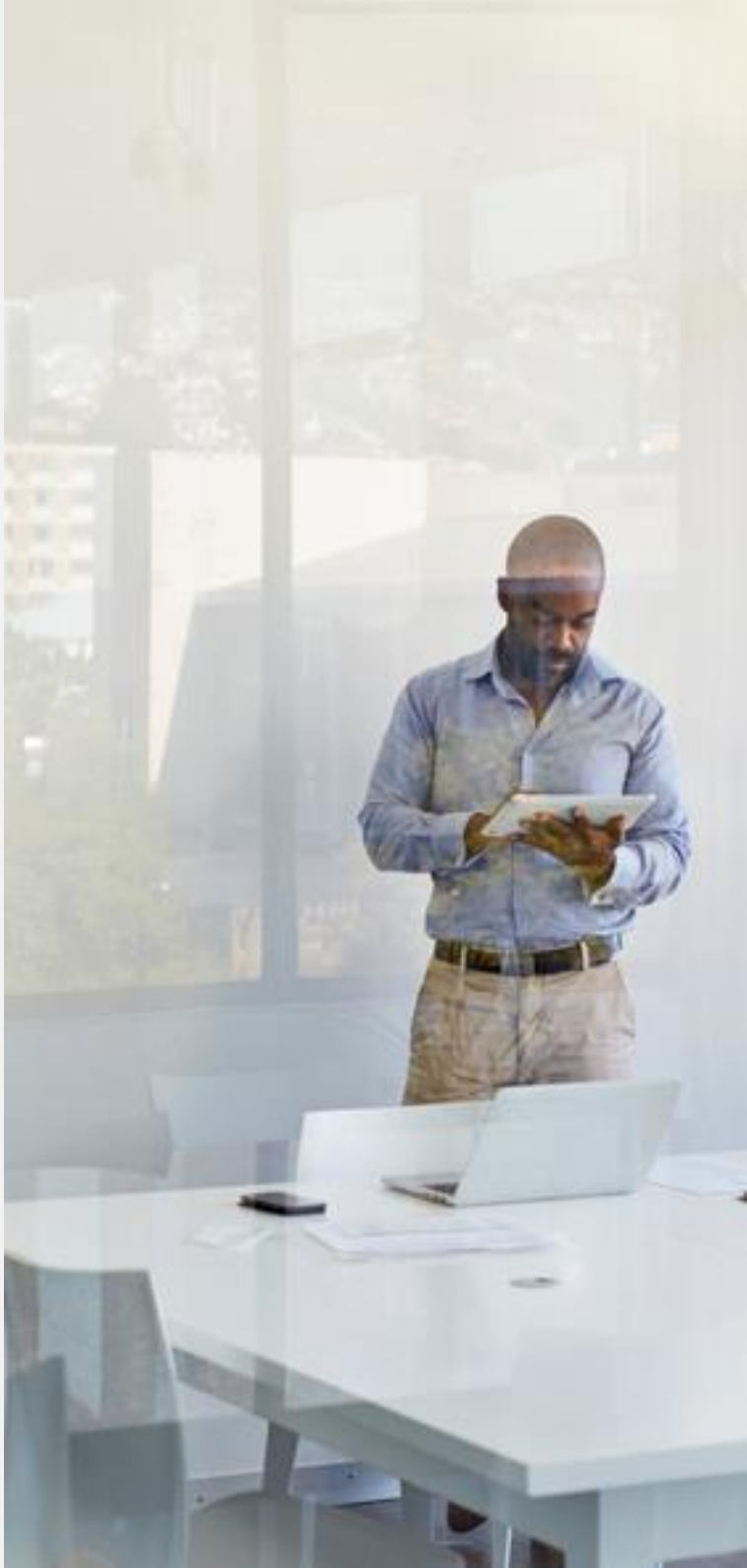
The COVID-19 pandemic continues to cause disruption across the world and the possibility of new variants emerging remains a threat to the global economic recovery. Thanks to a successful vaccination campaign in the UK and many other countries, the economy has rebounded more quickly than many anticipated although it remains below its pre-pandemic level. The impact of the pandemic on the tax contributions of the UK banking sector is expected to be more limited in the 2022 survey as profits are expected to recover, with many of the largest UK retail banks reversing their 2020 provisions in 2021. As a result, we expect to see an increase in corporation tax paid by the UK-headquartered banks in next year's survey.

Other factors that will have an impact on the 2022 survey include the adjustment to the scope of the bank levy for UK-headquartered banks. Since its introduction in 2011, the levy has applied to the global consolidated balance sheet of UK-headquartered banks, but only to the UK balance sheet of a foreign-headquartered bank. From 1 January 2021, the bank levy scope is limited to the UK balance sheet for all banks. Alongside the annual reduction in levy rates, this change is likely to result in a decrease in the bank levy paid in the 2022 survey.

The Brexit transition period ended on 31 December 2020 when the UK formally left the EU customs union and single market. The full impact and the related changes to VAT recovery rules have therefore had a minimal impact on this year's survey. Looking ahead, it is likely that the changes to the VAT recovery rules (i.e. the extension of the Specified Supplies Order to include supplies to EU counterparties) will see the irrecoverable VAT borne by the banking sector decrease, as banks in the UK will be able to deduct input tax for specified supplies made to EU customers.

Looking beyond the next 12 months, we can expect to see more developments emerging from the ongoing work by The Organisation for Economic Co-operation and Development (OECD) on its Base Erosion and Profit Shifting project concerning multilateral reform of the international tax system. At the core of these proposals is a global minimum corporate income tax rate of 15% and the distribution of profit and taxing rights based on where businesses have economic activity.

As of publication[34], proposals have received endorsement from 136 jurisdictions around the world and all countries in the G20. The international political consensus reached has resulted in one of the most significant multilateral developments in the establishment of an international tax system.



[34] As at 25 October 2021.

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[35] to look at the Total Tax Contribution made by a selection of its members in the banking sector.

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

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

The analysis provided by this study is not available elsewhere and, therefore, provides a valuable resource for the UK banking sector, government and other stakeholders.

Methodology

The study uses the TTC framework which provides a standardised methodology for companies to measure and communicate all the taxes and contributions that they pay. The study collected data from companies operating in the banking sector, relating to all UK tax payments in accounting periods ending in the year to 31 March 2021. For most study participants this was the year ending 31 December 2020.

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.

[35] 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

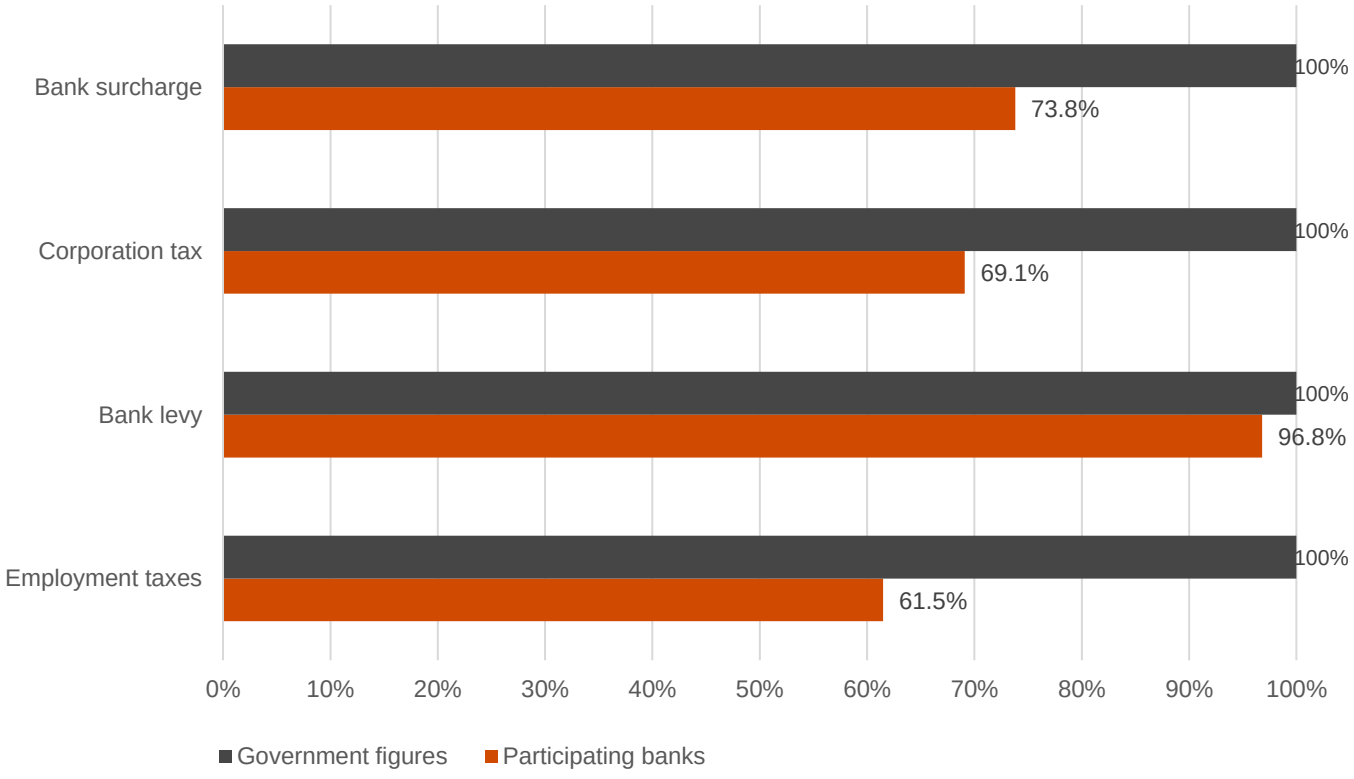
Participation in the TTC study

Forty 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 2021. 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[36].

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

- Employment taxes (income tax deducted under PAYE, employer and employee national insurance contributions and the apprenticeship levy) paid by study participants totalled £12.9bn accounting for 61.5% of government receipts from the banking sector (£21.0bn).
- Bank levy paid by study participants was £2.2bn comprising 96.8% of government receipts from the banking sector (£2.3bn).
- Corporation tax payments made by participants totalled £2.8bn which represents 69.1%[37] of corporation tax receipts (£4.1bn) from the UK banking sector.
- Bank surcharge paid by participants totalled £1.0bn making up 73.8% of the total bank surcharge receipts from the banking sector (£1.4bn).

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



Source: HMRC and survey data

[36] HMRC 'PAYE and Corporate Tax receipts from the banking sector: 2021'

[37] The share of banking sector corporation tax and bank surcharge from survey participants is higher this year, as a result of the change to the timing of instalment payments for the largest banks, which has inflated the study figures but did not have a significant impact on the HMRC data this year (in last year's report the reverse was true. The HMRC data was inflated as a result of the regime change, whereas the 2020 survey data largely preceded it. This is due to a misalignment between the periods covered by the survey, where the majority of study participants provide data up until December, whereas the HMRC data covers the period up until March).

Appendix 2

International comparison of tax rates based on a model bank

Methodology

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

While the parameters of the model are broadly the same as those in our previous report[38], modifications were made in this year's study to the assumptions concerning local and state taxes for New York in order for the model to be more representative of real-world examples. In prior years, the New York calculation was based on all customers and US banking activities being located in New York City.

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 major financial centres, namely 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[39] of the model bank totals £866 million. Specifically, for the London model, we have estimated the profit before tax to be £653 million with a 24% profit margin. The commercial profit will be the same in all three jurisdictions, however, the profit before tax will vary depending on the amount of the taxes borne in each jurisdiction.

Comparing 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 2021 where they amount to 11.5% of commercial profit as a result of national insurance contributions being charged at 13.8% on the full amount of salary above £737 a month. For the other financial centres, the employer's social security contributions range between 3.1% and 9.5% 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.

[38] 2020 UK Finance report https://www.ukfinance.org.uk/policy-and-guidance/reports-publications/2020-total-tax-contribution-uk-banking-sector

[39] The commercial profit is the profit before all taxes borne

Appendix 2

International comparison of tax rates based on a model bank

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 16% for Germany that drives the different amounts of irrecoverable VAT estimated for these jurisdictions[40]. For New York we have adopted a conservative approach and applied a combined sales and use tax rate of 8.875%. This is a combination of New York City sales tax of 4%, New York State sales and use tax of 4.5% and the Metropolitan Commuter Transportation District surcharge of 0.375%. We have also assumed that the sales tax base would be similar to that for VAT, although in practice we would expect it to be somewhat narrower.

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

Although VAT and sales tax are difficult to estimate, given the aforementioned rates, the similarities of many of the regimes, different levels of recoverability and proportions of costs being subject to VAT, the relative ordering of the locations is likely to be the same. As a percentage of commercial profit, the locations had the following irrecoverable VAT/sales tax costs: London: 5.8%, Frankfurt: 5.5%, New York: 2.1%, Amsterdam: 5.5%, Dublin: 5.0%.

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: 5.5%, Dublin: 5.0%.

Bank Levy / 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 Single Resolution Fund (SRF) which is expected to reach its target level of funding in 2023. After that it is expected that the bank levy will be suspended or at least greatly reduced as further funds will be needed only to maintain the level of the fund. The UK negotiated that it too would meet its obligations under the Bank Recovery and Resolution Directive and the Deposit Guarantee Schemes Directive through the bank levy and that historic receipts would count toward its target level. However, there is currently no indicated end point for the UK bank levy.

In the UK, the levy is calculated by applying a pre-determined rate to the bank's liabilities (see Figure 26). 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. For 2021, the bank levy rates in the Netherlands were increased temporarily, from 0.044% to 0.066% (short-term debt) and from 0.022% to 0.044% (long-term debt).

In Germany, the bank levy is assessed by the authorities based on the amount that needs to be paid to the Single Resolution Fund[41].

The amount is divided between the banks based on their size and the risk profile of their balance sheets, amongst other factors. Given the amount is assessed by the authorities, it has not been possible to calculate from first principles the amount of bank levy that our model bank would pay in Germany. We have instead relied on macro level data to estimate a typical payment for the model bank in this study. The Single Resolution Fund raised €2.23bn from Germany in 2020 and is expected to raise a similar amount in 2021. The most recently available data is the 2020 annual report from BaFin[42], the German regulator, which shows that total assets in 2019 were €9,244.9bn. 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. As a result the bank levy would not be applicable owing to the assumptions made concerning the activities undertaken by the model bank.

The SRF is applicable for 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 2021 our model bank would be subject to bank levy amounting to 4.2% of commercial profits in London, 6.4% in Frankfurt and 7.9% in Amsterdam. While the model bank would be subject to SRF amounting to 7.4% of commercial profit in Amsterdam and 5.0% in Dublin.

[40] The German VAT rates were reduced from 19% to 16% and from 7% to 5% for a limited period during 2020 as part of the German government response to the COVID-19 pandemic. However, the rates were reverted back from 1 January 2021.

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

[42] BaFin Annual Report 2020 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

Corporate Income Tax

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

The bank levy is not deductible for corporate income tax in the UK, 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 2021 tax rate of 19%, plus the 8% bank surcharge. For Germany, we have used a corporate income tax rate of 15%, plus a 5.5% surcharge and a 16.1% 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 4%. For Amsterdam, we have used the corporate income tax rate of 25%. And for Ireland, 12.5%.

Based on the above rates and our calculations, we have estimated the following profit taxes as a percentage of commercial profit: London: 21.9%, Frankfurt: 28.8%, New York: 23.5%, Amsterdam: 20.7%, Dublin: 10.0%.

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.

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.

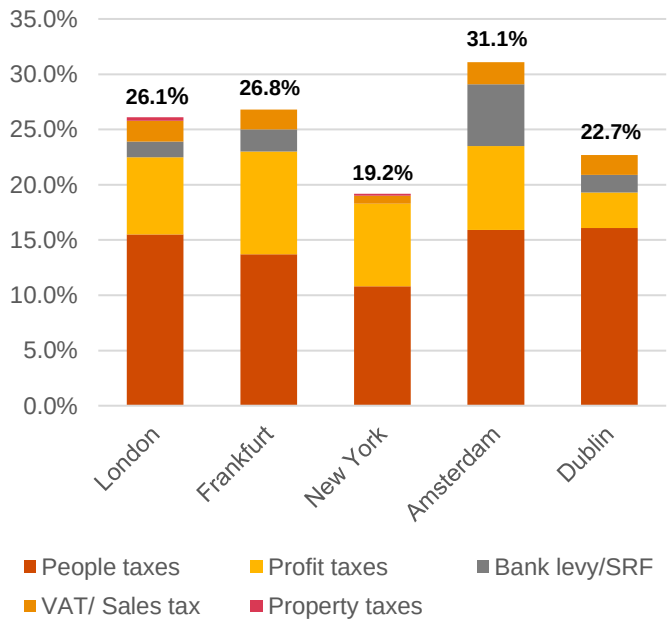
Employee social security contributions

In all five jurisdictions, employee social security contributions are relatively similar and are between 0.9% and 1.4% of net operating income (£23m to £36m).

Personal income tax

With respect to personal income tax, our model bank would collect tax amounting to 11.0% of net operating income in Germany, 10.7% in the UK, 8.7% in the US, 11.8% in Amsterdam and 11.9% 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

Appendix 3

Taxes borne reported by survey participants

Taxes borne	£s 2021
Taxes on profits (Profit Taxes)	
Corporation tax	2,831,150,375
Bank surcharge	1,033,893,372
Taxes on property (Property Taxes)	
Business rates	567,596,647
Bank levy	2,226,644,127
Stamp duty land tax	8,100,457
Stamp duty reserve tax	99,495,673
Taxes on employment (People taxes)	
PSA (taxes on benefits)	53,461,422
Employer NIC	3,208,372,207
Apprenticeship levy	87,677,139
Taxes on consumption (Product taxes)	
Irrecoverable VAT	3,575,455,864
Insurance premium tax	4,867,886
Air passenger duty	5,608,729
Customs duty	14,450
Environmental taxes (Planet taxes)	
Landfill tax	184,479
Climate change levy	4,966,266
Other	63,421,928
Total	**13,770,911,023**

Appendix 4

Taxes collected reported by survey participants

Taxes collected	£s 2021
Taxes on profits (Profit Taxes)	
Tax deducted at source	730,200,863
Taxes on property (Property Taxes)	
Stamp duty reserve tax	1,471,943,497
Taxes on employment (People taxes)	
Income tax collected under PAYE	8,117,197,777
Employee NIC	1,446,975,256
Taxes on consumption (Product taxes)	
Net VAT	14,428,747
Insurance premium tax	247,552,974
Total	**12,028,299,114**

Appendix 5

Employment taxes

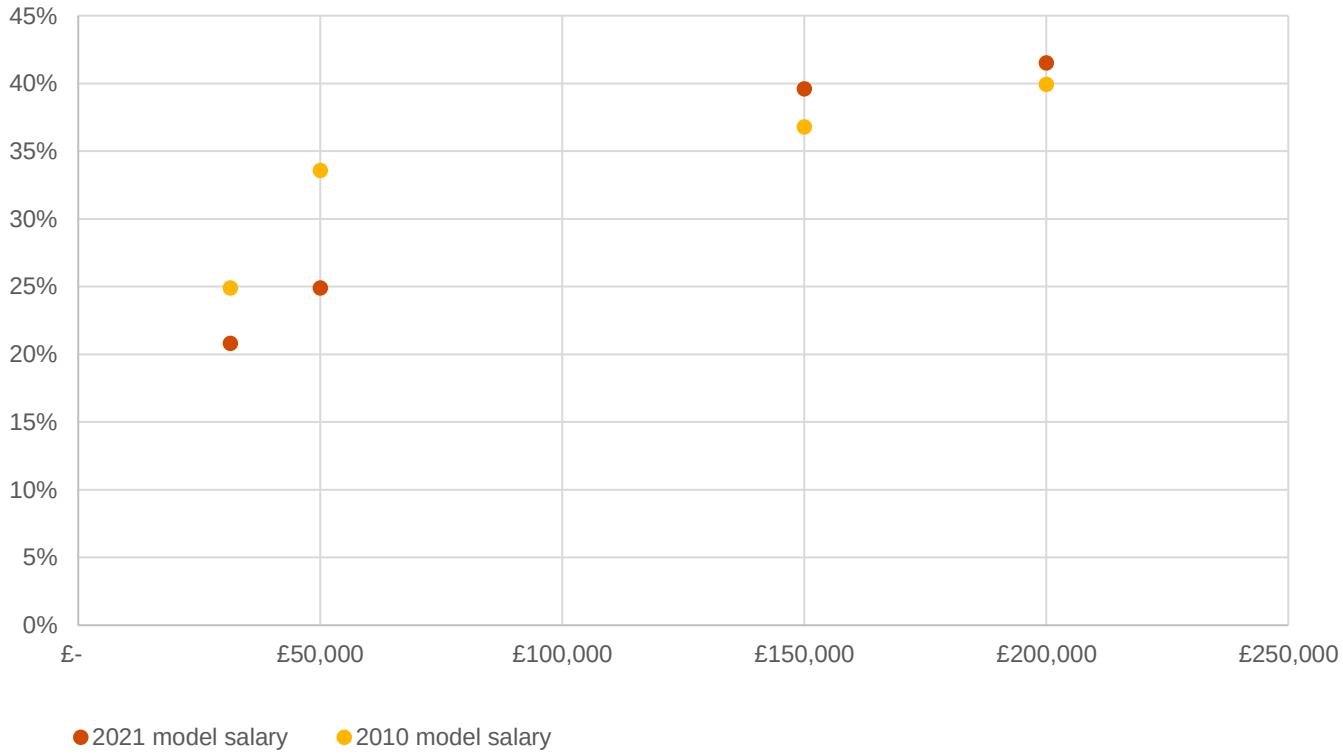
UK employment tax legislation is structured so that higher salaries are taxed at higher rates. Using selected salaries, we have modelled the total employment tax that would be paid per employee.

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 2021 for a range of example salaries. From the national average salary of £31,461[43], 20.4% is paid in employee income tax and employee NIC in 2021, while this ratio was 24.9% in 2010. The equivalent figure for a salary of £150,000 is 39.6% in 2021 and 36.8% in 2010, a 2.8 percentage point increase. Although salaries are higher in the banking sector, a greater percentage of the salary is paid in taxes. Changes to employment tax legislation in the last eight years (shown below) increased the burden of taxes on higher salaries.

Changes in PAYE thresholds and rates and NIC thresholds and rates mean that the employee tax paid on a salary of £31,461 has fallen by 4.1 percentage points since 2010. By contrast, a salary of £150,000 has seen an increase of 2.8 percentage points.

- In 2010/11, an additional rate of income tax under PAYE was introduced, taxing income over £150,000 at 50% (this tax rate was reduced to 45% in 2013/14 onwards).
- In 2011/12 both employer and employee NIC increased by one percentage point for employers and employees, counteracted in part by an increase in the primary and secondary thresholds.

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



Source: PwC analysis

[43] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2020

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	£6035 - 34,800	£34,800 - over	NA
2009-10	£6475 - 37,400	£37,400 - over	NA
2010-11	£6475 - 37,400	£37,400 - 150,000	£150,000 - over (50%)
2011-12	£7475 - 35,000	£35,000 - 150,000	£150,000 - over (50%)
2012-13	£8105 - 34,370	£34,370 - 150,000	£150,000 - over (50%)
2013-14	£9440 - 32,010	£32,010 - 150,000	£150,000 - over (45%)
2014-15	£10,000 - 31,865	£31,865 - 150,000	£150,000 - over (45%)
2015-16	£10,600 - 31,785	£31,785 - 150,000	£150,000 - over (45%)
2016-17	£11,000 - 32,000	£32,000 - 150,000	£150,000 - over (45%)
2017-18	£11,500 - 33,500	£33,500 - 150,000	£150,000 - over (45%)
2018-19	£11,850 - 34,500	£34,500 - 150,000	£150,000 - over (45%)
2019-20	£12,500 - 37,500	£37,500 -150,000	£150,000 - over (45%)
2020-21	£12,500 - 37,500	£37,500 - 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 recent changes in tax rates and regulations are summarised below:

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

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

Corporation tax: The rate decreased from 23% in 2013/14, to 21% in 2014/15, to 20% in 2015/16 and 2016/17 and to 19% in 2017/18. In March 2021, the UK government announced an increase in the rate from 19% to 25% from 2023.

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 0.075% in 2019 to 0.070% in 2020. The rate was 0.050% from 1 January 2021. The rate for short term chargeable equity or liabilities reduced from 0.150% in 2019 to 0.140% in 2020. The rate was 0.100% from 1 January 2021. The scope of the bank levy previously 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 was reduced to UK operations only with effect from 2021.

Income tax deducted under PAYE: The personal allowance threshold remained the same as the prior year at £12,500 in 2020/21. The higher rate threshold in England, Northern Ireland and Wales remained at £37,501 in 2020/21.

National Insurance Contributions: The upper earnings limit remained at £50,004 in 2020/21. 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 will take effect as a result of the Health and Social Care Levy.

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

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