# TAX BRIEFING NOTE
# BANK LEVY

DECEMBER 2017

## What is it?

The bank levy is a tax on bank liabilities. It was introduced in 2011 following the financial crisis as a way to charge banks for the implicit bailout guarantee they enjoyed from the government. There is a standard rate, originally planned to be 0.075 per cent but subsequently repeatedly raised to 0.21 per cent on long-term liabilities together with a short-term liabilities rate of half the standard rate.

In 2021, the bank levy will no longer apply to non-UK liabilities of UK banks, removing a distortion favouring non-UK banks (who already only pay on their UK liabilities). The rate will also fall to 0.1 per cent.

## What's the problem with it?

Research from the Bank of International Settlements has shown that the bank levy has prompted banks to shift risks on balance sheets from liabilities to assets. It has also shown that total risk reductions have been concentrated on low risk institutions which pose little or no threat to financial stability with little change among riskier banks.[1] Following the crash, banks were already reducing both their assets and liabilities to increase their margin for error. This led to lower than expected receipts from the levy, which in turn prompted repeated increases in the rate (initially 0.07 per cent, subsequently revised up to 0.075, then 0.078, then 0.088, then 0.105, then 0.130, then 0.156 and finally 0.210 per cent). This suggests that the rate was not set for the economically neutral reason of pricing risks to taxpayers but instead to raise revenues from an electorally unpopular target.

Fundamentally, the regulatory approach of strengthening powers of the Bank of England to wind up failing banks is a better tool for managing risks to taxpayers from banks. Full regulatory powers to ensure that bank losses fall on shareholders and bondholders instead of taxpayers, often called a 'bail-in', would mean there is no longer a justification for a specific tax on banking. Given the importance of banking and financial and business services in general to the British economy, the best tax and regulatory approach to manage the specific risks from the sector is important.

## What should be done?

The bank levy should be removed from non-UK liabilities of UK banks sooner than the 2021 planned date. Bail-in and wind-up powers should be set to ensure no remaining risks are left with taxpayers and the bank levy should be abolished when this objective has been met.

[1] Gambacorta, L., et al, *The effects of tax on bank liability structure*, BIS Working Papers No 611, Bank for International Settlements, February 2017, http://www.bis.org/publ/work611.pdf