

Summer Budget: Bank levy

Bank Levy axed for 'surcharge' on profits

By Dominic Jeff | July 8, 2015



The Chancellor gave to the financial sector with one hand and took away with the other as he tried to balance the concerns of banks with the need to refill the government's coffers.

The bank levy, which was brought in after the financial crisis and is effectively a tax on UK banks' global assets, is to be all but phased out. It was highly unpopular within the industry, which claimed it put British banks at a significant disadvantage on the global stage.

But the levy, which had been cited by HSBC as a reason it is considering moving its headquarters overseas, will be replaced with an extra tax on the profits of banks.

Mr Osborne said: "Our bank levy was introduced to raise revenue and increase the stability of balance sheets, and it's worked – but now it risks doing harm unless we change it. So I will, over the next six years, gradually reduce the bank levy rate – and after that make sure it no longer applies to

worldwide balance sheets.

"But to maintain a fair contribution from the banks, I will introduce a new 8% surcharge on bank profits from the 1st January next year. By getting this balance right, it means we'll actually raise more from the banks this parliament, but at the same time make our country a more competitive place to do business."

The bank levy will be cut from its current 0.21% to 0.1% by 2021, by which time it would apply to banks' UK balance sheets only.

Lindsay Hayward, financial services tax partner, PwC in Scotland, said that the total tax burden on banks looked set to rise following the changes.

She said: "Banks, and in particular those with large overseas operations, are sure to welcome moves to create a 'sustainable, stable and fair' tax system for financial services and the reduction in the bank levy.

"The overall tax burden on the banking sector will go up during this Parliament, however, as a result of the new profits-based 8% corporation surcharge and the long term phased nature of planned reform.

"Britain may be open for business, but when it comes to carrying out banking, these measures send a mixed message in terms of UK competitiveness for this sector."

Dr Dimitris Andriosopoulos, senior lecturer in accounting and finance at Strathclyde Business School, said: "The chancellor is undeterred from the banks' reactions to levies and extra charges, such as the warning shots fired by HSBC threatening to relocate to Asia.

"Nevertheless, the world financial system is still fragile when there is danger looming from the Eurozone, Asia's slowdown and the uncertainty of the US's policy towards interest rates and how this will affect the world's economic powerhouse. I would not be surprised if the surcharge is pushed further back and eventually forgotten."