PositiveMoney

Options for a windfall tax on banks

November 2023

Summary

- A number of European countries, including the Netherlands, Italy, Spain and Czechia, are introducing higher taxes on the windfall profits banks are making from higher interest rates.
- Based on the latest Q3 results, a windfall tax in the UK could be expected to raise between nearly **£4bn and £16bn from the profits of the big four banks alone in 2023**, depending on how it is designed.

The public are paying the price of banks' windfall profits

- Banks are receiving tens of billions of pounds of public money due to the way in which the Bank of England currently remunerates central bank reserves.
  - Analysis from BoE deputy governor Sir Paul Tucker suggests that **banks are due to receive £42bn and £33bn in 2023 and 2024** from interest paid on risk-free reserves. The costs of this are ultimately borne by the Treasury.
- Higher interest rates have also enabled banks to charge households and firms more for mortgages and other loans. Banks are making exorbitant profits by not passing these gains onto depositors.
- The UK's big four banks - HSBC, Barclays, Lloyds and Natwest - have reported pre-tax profits of more than £41bn for the first three quarters of 2023. This is almost five times the amount recorded for the same period in 2020, before rates started rising, and suggests the big four could be on track to make record annual profits of nearly **£50bn this year**.[1]
- There is strong public support for implementing a windfall tax. YouGov polling commissioned by Positive Money in September 2023 found that 58% of UK adults support a one-off tax on banks, while only 12% opposed. There was majority support among voters for each of the main political parties.

Option 1: reversing recent cuts to the existing surcharge and banking levy

- The government introduced a bank profits surcharge in 2015, in recognition of the need for banks to "make a fair contribution in respect of the potential risks they pose to the UK financial system and wider economy." However, while taxes have been raised on other sectors enjoying windfalls (namely energy), the banking surcharge has recently been cut from 8% to 3%, and the bank levy has also been cut.
- In contrast to this 60% cut to the surcharge in the UK, the Dutch parliament has voted to increase the country's bank levy by 70%.
- Combining the most recent results for the big four banks with forecasts from the OBR's March fiscal outlook, it can be estimated that reversing cuts to both the surcharge and bank levy could be expected to raise an additional **£4.8bn** this year, while analysis from the Trade Unions Congress finds that doing so could raise £15bn over the next four years.

[1] Based on full year profits for the big four banks having been on average around 20% higher than year to date profits for the first three quarters since 2018.

Option 2: raising the surcharge in line with the Energy Profits Levy

- The government could raise significantly more revenue by raising the banking surcharge in line with the 35% Energy Profits Levy imposed on oil and gas companies.
- Doing so could be expected to increase the tax intake by **£16bn** from the 2023 profits of the big four banks alone, based on results reported so far.

Option 3: the Thatcher government model

- In 1981, the Thatcher government introduced a 2.5% tax on banks' non-interest bearing deposits. As Thatcher explained in her memoirs: "Naturally, the banks strongly opposed this; but the fact remained that they had made their large profits as a result of our policy of high interest rates rather than because of increased efficiency or better service to the customer."
- The BoE's latest data shows there are around £450bn of non-interest bearing deposits that could be eligible for such a levy today, with around £270bn held by households and £180bn held by non-financial firms. A 2.5% tax would therefore be expected to raise around **£11bn.**

Option 4: the Czech model

- The Czech government has introduced a 60% windfall tax on bank profits exceeding 120% of the 2018-21 average, which will apply for three years from 2023.
- The big four banks in the UK recorded an average pre-tax profit of £25.9bn between 2018 and 2021. Based on the profits reported by the big four banks this year so far, we estimate that replicating the Czech tax could also be expected to raise more than **£11bn** from these banks' profits in 2023.

Option 5: the Italian model

- The Italian government recently announced a 40% windfall tax on the difference between banks' net interest income (NII) in 2021 and the figure for 2022 or 2023, depending on which is larger.
- In the UK the big four banks' NII was £46.1bn in 2021. Based on their NII for the first half of the year (£30bn), we can estimate a £13.9bn difference in 2021 and 2023 for the big four banks, a 40% levy on which would raise **£5.6bn.**
- The Italian government subsequently watered down its windfall tax, capping it at 0.1% of total bank assets. However, such a cap would still allow around £13bn to be raised in the UK.

Option 6: the Spanish model

- Spain has introduced a 4.8% windfall levy on banks' NII and net commissions above a threshold of 800 million euros.
- In the UK the four biggest banks reported NII and net commissions of £40.5bn in the first half of 2023. A 4.8% levy could therefore be expected to raise nearly **£4bn** from these banks alone in 2023.

Positive Money is a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

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