Summary: Intervention & Options

Department /Agency:	Title:	
HMT/HMRC	**Impact Assessment of Bank Levy**	
Stage: Consultation	**Version:** FINAL	**Date:** 13 July 2010

Related Publications: Consultation: "Implementation of the Bank Levy announced in the June 2010 Budget." published 13 July 2010.

Available to view or download at:

http://www.hm-treasury.gov.uk/consult_bank_levy.htm

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What is the problem under consideration? Why is government intervention necessary?

Risk taking in the banking sector was a significant contributory factor in the recent financial crisis. In particular, problems with risky funding led to serious liquidity problems that played a key role in the financial crisis. Banks should make a contribution that reflects the potential risk to the UK financial system and wider economy from bank failures and consequent loss of consumer and investor confidence.

What are the policy objectives and the intended effects?

The Levy is intended to encourage banks to move away from riskier funding and ensure that they make a contribution that reflects the potential risk to the UK financial system and wider UK economy.

What policy options have been considered? Please justify any preferred option.

1. Do nothing 2. Alternative regulatory measure 3. A levy based on assets 4. A levy based on liabilities

Banks should make a fair contribution reflecting the risks they pose to the financial system and wider economy. A tax rather than regulatory measure better suits this purpose. A levy based on risk-weighted assets has the merit of international comparability but could duplicate the effects of regulations targeted at riskiness on the asset side. The preferred option is a levy based on liabilities because it is more appropriate in assessing funding profiles.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The policy will be reviewed in 2013 to establish the actual costs and benefits and the achievement of the desired effects.

Ministerial Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

....Date: 13 July 2010

Summary: Analysis & Evidence

Policy Option: Bank Levy on liabilities	Description:

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups' Banks will incur one-off costs understanding the impact of the Levy on their business. Banks may also incur costs if they need to set up additional governance and/or procedures in order to comply with the Levy. This consultation will seek to clarify the existence and scale of such additional costs.
One-off (Transition)	**Yrs**	
£ To be quantified		
Average Annual Cost (excluding one-off)		
£ To be quantified		**Total Cost** (PV) **£ To be quantified**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups' The consultation will seek to clarify the existence and scale of any benefits resulting from the Levy.
One-off	**Yrs**	
£ To be quantified		
Average Annual Benefit (excluding one-off)		
£ To be quantified		**Total Benefit** (PV) **£ To be quantified**

Other **key non-monetised benefits** by 'main affected groups'

Key Assumptions/Sensitivities/Risks

This consultation will seek to clarify the costs and benefits incured by banks as a result of the Levy.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) **£ To be quantified**	**NET BENEFIT** (NPV Best estimate) **£ To be quantified**

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			01/01/2011	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£ To be quantified	
Does enforcement comply with Hampton principles?			To be determined	
Will implementation go beyond minimum EU requirements?			To be determined	
What is the value of the proposed offsetting measure per year?			£ To be quantified	
What is the value of changes in greenhouse gas emissions?			£ To be quantified	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro **TBQ**	Small **TBQ**	Medium **TBQ**	Large **TBQ**
Are any of these organisations exempt?	Yes	Yes	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)					(Increase - Decrease)
Increase of	£ TBQ	Decrease of	£ TBQ	**Net Impact**	£ TBQ

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

1. Issue

Excessive risk taking in the banking sector was a significant contributory factor in the recent financial crisis. In particular problems with risky funding led to serious liquidity problems that played a key role in the financial crisis. The Government believes that banks should make a contribution that reflects the potential risk to the UK financial system and wider economy from bank failures and consequent loss of consumer and investor confidence.

2. Options considered

Alternative regulatory measures

There is a significant package of regulatory reform already underway internationally, including proposals for new liquidity regulations to improve the stability of bank funding. Improved regulation is therefore one option for reducing banks' reliance on risky funding in the future. However the Government also believes that banks should make a fair contribution reflecting the risks they pose to the UK financial system and wider economy. A tax rather than regulatory measure better suits this purpose.

The Levy is therefore intended to complement, but not substitute for, wider financial regulatory reforms aimed at increasing the resilience of the financial sector.

Levy design options

The IMF report on how the financial sector can make a fair and substantial contribution noted that a balance sheet levy could be based on either a bank's assets or liabilities. As the report noted, a measure based on risk-weighted assets has the merit of international comparability but could duplicate the effects of regulations targeted at riskiness on the asset side.

The IMF report suggests that a levy based on the liabilities side of the balance sheet could be preferable and may limit unintended distortions.

Further, the risk-weighting of assets is designed to reflect the risk of failure for the individual firm, and is rightly a prime focus of the regulatory system. However, the Levy is aimed at encouraging less risky funding profiles and a liabilities-based measure is appropriate for this.

No other tax measures were identified that would meet the stated objectives.

3. Balance sheet levy

The exemptions to the liabilities base complement wider regulatory reforms aimed at strengthening capital and liquidity standards. The Levy therefore targets risky short-term funding which led to serious liquidity problems that played a key role in the financial crisis.

Policyholder liabilities are excluded from the Levy calculation as it is recognised that those banks are required to contribute as necessary to policyholder protection schemes that provide cover for these liabilities in the event of failure. The Levy will not apply to non-bank insurance companies. Banks are required to make contributions in respect of policyholder protection schemes.

The exclusion for repo liabilities secured against sovereign and supranational debt is intended to reflect the relative low risk associated with those instruments and the deep markets for the collateral.

4. Administrative burdens estimates

To be quantified following consultation.

The Levy will apply to:

- the global consolidated balance sheet of UK banking groups and building societies;
- the aggregated UK subsidiary and branch balance sheets of foreign banks and banking groups operating in the UK; and
- the balance sheets of UK banks in non-banking groups.

The Government proposes to define a "bank" for the purposes of the Levy as per the Bank Payroll Tax provisions. Given that institutions and groups will only be liable for the Levy where their relevant aggregate liabilities that are subject to the Levy amount to £20 billion or more it is anticipated that the Levy will affect approximately 30 – 40 banks.

The UK banks will already have the necessary balance sheets so minimal further work should be required to provide these. Additional work will be required where a foreign owned group prepares an aggregated balance sheet or attributes branch liabilities according to the proposed extension of the capital attribution tax assessment method used for corporation tax purposes.

The tax computation will require a calculation showing how the Levy has been computed, showing the liabilities that the bank has and the various items that have been excluded. This computation is likely to require some supporting schedules showing items such as adjustments for netting of derivatives and attribution of liabilities to branches. The consultation will enable the Government to quantify the relevant costs for banks of calculating their liability under the levy..

Banks may need to consider their current record keeping and IT systems to ensure that relevant information is retained. This will be particularly relevant where information is held in different locations and entities, and where there is complexity in the arrangements.

5. Impact on HMRC

To be quantified following consultation.

Responsibility for processing and administration of the Levy will rest with HMRC. The large majority of the banks and building societies affected by the Levy will have their tax affairs dealt with by the large Business Service and as such the impact on HMRC resources will be mitigated. The cost to HMRC will be further mitigated as the existing Corporation Tax Self Assessment (CTSA) system will be used to report and collect the Levy. It is anticipated that the extent of costs will be quantified as a result of consultation.

6. Impact tests

<u>Competition assessment</u>

The Levy will apply to:

- the global consolidated balance sheet of UK banking groups and building societies;

- the aggregated UK subsidiary and branch balance sheets of foreign banks and banking groups operating in the UK; and
- the balance sheets of UK banks in non-banking groups.

These institutions and groups will only be liable for the Levy where their relevant aggregate liabilities amount to £20 billion or more.

The Levy is not expected to generate competition issues for those banks and building societies subject to the Levy. The Consultation should highlight any areas of concern.

Small firms impact test

Institutions and groups will only be liable for the Levy where their relevant aggregate liabilities subject to the Levy amount to £20 billion or more. The Levy does not apply to small firms.

Other Impact Tests

Initial assessments against the other specific impact tests in the checklist were made. The Government does not expect any significant impact in these areas.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Annexes