NOTICES OF AMENDMENTS

given on

Wednesday 26 June 2013

For other Amendment(s) see the following page(s) of Supplement to Votes:
387-88 *and* 389

CONSIDERATION OF BILL

FINANCE BILL, AS AMENDED

High quality liquid assets

Mr Chancellor of the Exchequer

NC6

To move the following Clause:—

‘(1) In paragraph 70 of Schedule 19 to FA 2011 (bank levy: definitions), in sub-paragraph (1), in the definition of “high quality liquid asset” for “section 12.7.2(1) to (4)” substitute “section 12.7 (assets that are eligible for inclusion in a firm’s regulatory liquid assets buffer)’.

(2) The amendment made by this section has effect in relation to chargeable periods ending on or after 1 January 2011, and in relation to those chargeable periods the amendment is to be treated as always having had effect.’.

EXPLANATORY NOTE

NEW CLAUSE 6: BANK LEVY DEFINITION OF HIGH QUALITY LIQUID ASSETS

SUMMARY

1. This clause amends the bank levy definition of high quality liquid assets (HQLA) to put beyond doubt that HQLA for bank levy purposes are identical in concept to the regulatory definition of assets qualifying for the Prudential Regulation Authority's liquid assets buffer. The clause has effect from 1 January 2011.

DETAILS OF THE CLAUSE

2. Subsection (1) amends Paragraph 70, Schedule 19, Finance Act 2011 to confirm that the bank levy definition of HQLA mirrors the regulatory definition of assets that are eligible for inclusion in a firm's regulatory liquid assets buffer.

3. Subsection (2) provides that the changes made by subsection (1) are to be treated as always having had effect in relation to chargeable periods ending on or after 1 January 2011.

BACKGROUND

4. The bank levy is an annual balance sheet charge based upon the chargeable equity and liabilities of all UK banks and building society groups, foreign banks and banking groups operating in the UK and UK banks in non-banking groups from 1 January 2011 onwards.

5. Bank levy is treated as if it is corporation tax, and the relevant entity or, in the case of a banking group, the "the responsible member" (see paragraph 54, Schedule 19) is required to both make a return of the bank levy (as part of its company tax return) and to pay the bank levy.

6. In determining chargeable equity and liabilities a deduction is permitted for any high quality liquid assets that are included within, or could be included within a firm's regulatory liquid assets buffer.

Bank Levy amendment

Who is likely to be affected?

UK banks, banking groups and building societies; foreign banking groups operating in the UK through permanent establishments or subsidiaries, and UK banks and banking sub-groups in non-banking groups.

General description of the measure

This measure will put beyond doubt that High Quality Liquid Assets for bank levy purposes are identical in concept to the regulatory definition of assets qualifying for the Prudential Regulation Authority's liquid assets buffer.

Policy objective

The purpose of the Bank Levy is to ensure that the banking sector makes a fair contribution, reflecting the risks they pose to the financial system and the wider economy. The Bank Levy is also intended to encourage banks to move away from risky funding models that threaten the stability of the financial sector and the wider economy.

This measure will ensure that banks cannot receive a deduction for assets of a type that would not qualify for the PRA's liquid assets buffer, thereby supporting the policy objective of incentivising safer, more stable, funding models and complementing regulatory objectives.

Background to the measure

The Government announced the introduction of the Bank Levy at Budget 2010 to commence for chargeable periods ending on or after 1 January 2011.

Detailed proposal

Operative date

The amended definition of HQLA will be deemed always to have had effect. It will therefore have effect for chargeable periods ending on or after 1 January 2011.

Current law

Paragraph 70 Schedule 19 to the Finance Act 2011 defines a High Quality Liquid Asset as an asset within section BIPRU 12.7.2(1) to (4) of the PRA handbook. This is the section of the handbook which defines the type of assets that may qualify for the Liquid Assets Buffer.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to put beyond doubt that, when applying BIPRU 12.7.2(1) to (4), regard must be had for the remaining provisions of BIPRU 12.7 which directly apply restrictions to 12.7.2.

Summary of impacts

Exchequer impact (£m)	2013-14	2014-15	2015-16	2016-17	2017-18
	Nil	Nil	Nil	Nil	Nil
	This measure supports the Exchequer in its commitment to protect revenue.				
Economic impact	If the changes are not made then some banks could seek to exploit this perceived loophole to artificially reduce their Bank Levy charge. We are not fully aware of the extent to which that would be case but we feel that it could be significant. A reduction in the charge could reduce the incentive for banks to increase their Tier 1 capital, longer-term funding, retail deposits and liquid assets.				
Impact on individuals and households	This measure will have no impact on individuals or households.				
Equalities impacts	This measure should not impact on any of the identified diversity groupings.				
Impact on business including civil society organisations	It is important to ensure that the Bank Levy rules apply equally to all banking groups. As this was the policy intention there will be no additional impact on business. There is no impact on the third sector.				
Operational impact (£m) (HMRC or other)	HMRC will need to intervene in fewer cases to protect the previously understood position, so there will be a resource saving to HMRC.				
Other impacts	Other impacts have been considered and none have been identified.				

Monitoring and evaluation

The Bank Levy will be reviewed during 2013 to make sure it is operating efficiently. Receipts from the Bank Levy are being monitored on an ongoing basis.

Further advice

If you have any questions about this change, please contact Anthony Fawcett on 0207 147 0654 (email: anthony.c.fawcett@hmrc.gsi.gov.uk) or Samantha Brown on 0207 147 0180 (email: samantha.brown@hmrc.gsi.gov.uk).

Declaration

Sajid Javid MP, Economic Secretary to the Treasury has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.