Pay-As-You-Earn and corporate tax receipts from the banking sector

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About these statistics

This is an Official Statistics publication produced by HM Revenue & Customs (HMRC). It provides statistics on Pay-As-You-Earn Income Tax and National Insurance contributions and Corporation Tax receipts from the banking sector. For the first time in this publication statistics are included on receipts of the Bank Levy and Bank Payroll Tax.

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Section 1: Introduction

What does this publication tell me?

This publication provides outturn statistics for Pay-As-You-Earn Income Tax and National Insurance contributions (PAYE) and Corporation Tax receipts from the banking sector in the UK. For the first time these statistics additionally include receipts from the Bank Levy and Bank Payroll Tax. Not all tax receipts from the banking sector are included in these statistics, in particular irrecoverable VAT and Insurance Premium Tax (IPT). The reasons for this are discussed in section 4 of this publication, which also includes estimates of receipts of these taxes from the banking sector.

Who might be interested in these statistics?

This publication is likely to be of interest to policy makers in Government, academics, research organisations, the media and the UK banking and financial sectors. It will be of particular interest to those who want to know the PAYE and corporate tax contribution of the banking sector, including its employees.

What does the receipts table show?

This presents annual figures for 2005-06 to 2011-12 on PAYE and Corporation Tax receipts from the banking sector, along with receipts of Bank Payroll Tax for 2010-11 and the Bank Levy for 2011-12. The period covered by these statistics (2005-06 to 2011-12) was chosen to give a reasonable coverage both before and after the banking crisis. Due to the changing and complex structure of the banking sector it is impractical to extend the statistics earlier than 2005-06.

Taxpayer confidentiality

HMRC has a legal duty to maintain the confidentiality of taxpayer information and disclosing information to persons outside of HMRC is only allowed in a limited number of circumstances.

These are set out in Section 18 of the Commissioners of Revenue and Customs Act 2005:

http://www.legislation.gov.uk/ukpga/2005/11/section/18

The statistics in this release are presented at an aggregate level so that no individual bank's tax payments can be identified or inferred.

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https://www.surveymonkey.com/s/user_reg

If you have any comments or questions about these statistics then please contact the responsible statistician directly (contact details provided below and on the cover page). Alternatively, you can use the HMRC statistics feedback form linked below. We will undertake to review user comments on a quarterly basis and use this information to influence the development of our Official Statistics:

http://www.hmrc.gov.uk/statistics/feedback.htm

Statistical contacts

Enquiries about statistics on PAYE and Corporation Tax receipts should be directed to the statisticians responsible for these statistics.

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Media enquiries should be directed to the HMRC Press Office contacts listed on the front page of this release.

Section 2: Receipts table

Table 1 (next page) presents PAYE and Corporation Tax receipts from the banking sector in the UK (including from UK branches of foreign banks) and receipts from Bank Payroll Tax and the Bank Levy. Section 3 provides a commentary on the figures and trends. Section 4 gives details of the definition of the banking sector used to produce these statistics and the different taxes affecting the sector.

Table 1: PAYE, Bank Payroll Tax, Corporation Tax and Bank Levy net receipts from the banking sector (£ billions)

Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
PAYE	13.6	15.9	16.7	14.0	15.2	17.5	17.6
Bank Payroll Tax (important: see note 4)						3.4	
Corporation Tax	7.0	7.3	6.6	3.9	2.1	3.5	1.3
Bank Levy (important: see note 5)							1.6
Total receipts	**20.6**	**23.2**	**23.3**	**17.9**	**17.3**	**24.4**	**20.5**

Notes

1. Corporation Tax liabilities fall to companies to pay from their own resources. Sums paid through PAYE include a) Income Tax and National Insurance that employers deduct from employees' earnings and pensions and then pay to HMRC on employees' behalf, and b) the separate National Insurance contributions for which employers themselves are directly liable.

2. Annual Corporation Tax receipts relate to cash receipts, net of repayments and tax credits, between 1 April and the following 31 March.

3. Annual PAYE receipts relate to cash receipts between 1 May and the following 30 April. These include Income Tax and class 1 National Insurance contributions (both employee and employer components). See page 13 for further detail.

4. The gross receipts figure is shown in the table for the (temporary) Bank Payroll Tax. HMRC have estimated the net yield, taking account of behavioural effects which may have affected other tax receipts, was £2.3bn. Cash receipts from the Bank Payroll Tax relate to the period 9 December 2009 to 5 April 2010. In line with ONS guidance, the yield from Bank Payroll Tax has been scored in 2010-11, after it had passed into legislation. Please see page 15 for more details.

5. The Bank Levy receipts for 2011-12 represent less than a full year's liabilities. This is because payments are not due immediately that liabilities arise. Payments of the Bank Levy became due for the first time in 2011-12. All companies subject to the Bank Levy are deemed to be 'large companies' for payment purposes and therefore all liabilities are paid by quarterly instalments. The receipts for 2011-12 typically include three out of four instalments for the first year of the Bank Levy, with the final instalment due in 2012-13. At Budget 2012, the Government announced an increase in the rate of the Bank Levy to restore expected yield for future years above £2.5 billion, as set out in the Office for Budget Responsibility's March Economic and Fiscal Outlook..

6. Receipts of Insurance Premium Tax and of irrecoverable VAT paid by the banking sector are not included in this table. Please see pages 17-19 for details of these taxes and for estimates of receipts of these taxes from the banking sector.

7. Figures are independently rounded to the nearest £0.1 billion. This means that the individual tax components as shown may not sum to the total as shown.

Section 3: Statistical commentary

Table 1 (above) shows PAYE, Corporation Tax, Bank Payroll Tax and Bank Levy receipts from the banking sector for the years 2005-06 to 2011-12.

PAYE and Corporation Tax trends

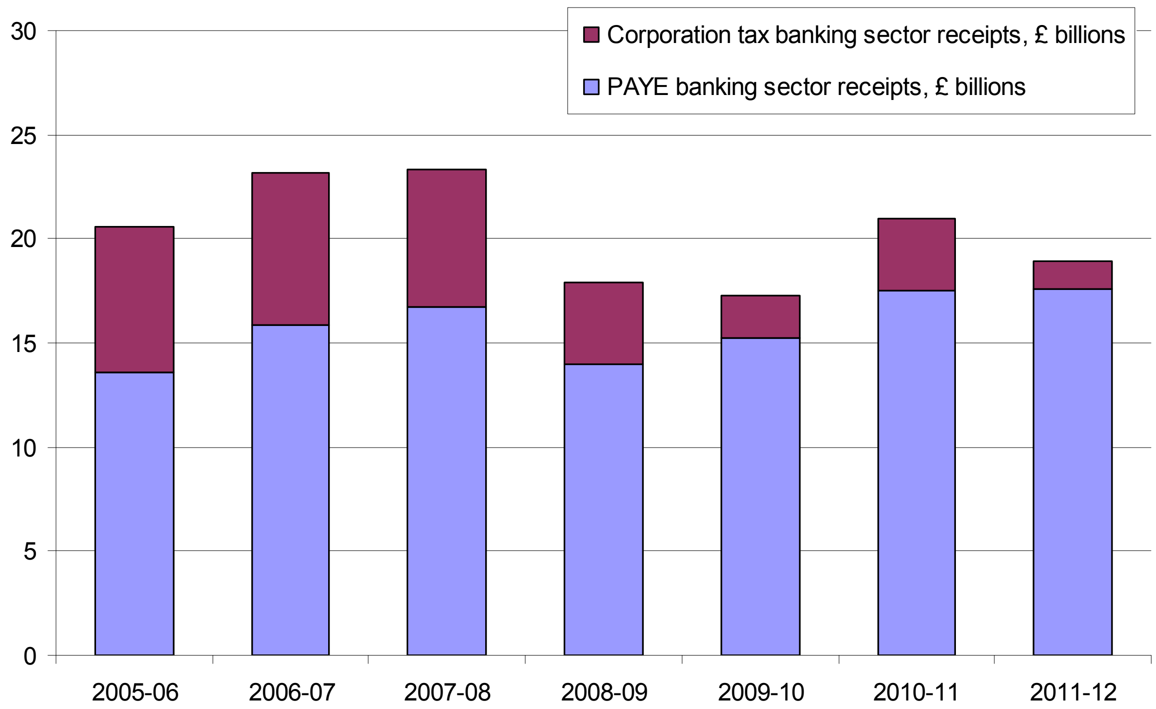
Chart 1 below shows net receipts of PAYE and Corporation Tax over the years 2005-06 to 2011-12.

The total level of PAYE and Corporation Tax has fluctuated over the period 2005-06 to 2011-12. Total receipts increased strongly (by 13 percent) from 2005-06 to 2006-07, and rose very slightly again (by less than 1 percent) between 2006-07 and 2007-08.

The global financial crisis in 2008 and the associated economic downturn were reflected in a 23 percent fall in total PAYE and Corporation Tax receipts from 2007-08 to 2008-09, and there was a further slight decrease in 2009-10 to an overall reduction of 26 percent from peak value in 2007-08.

Some recovery in total PAYE and Corporation Tax receipts was seen in 2010-11 with an increase of 21 percent from the previous year. In 2011-12 there was a decrease of 10 percent from 2010-11, with receipts around 19 percent below the 2007-08 level.

Chart 1:   PAYE and Corporation Tax receipts from the banking sector (£ billions)



In cash terms, banking sector Corporation Tax receipts have varied considerably more than the sector's PAYE receipts over the period covered by this bulletin and the pattern of variation has been different in some respects.

PAYE receipts are driven by levels of pay and employment, whereas Corporation Tax receipts relate to companies' profits. Profit levels are more sensitive to the economic cycle than pay and employment levels, so Corporation Tax receipts vary with the economic cycle more than PAYE receipts.

PAYE

Banking sector PAYE receipts fell in only one year (in 2008-09, by 16 percent). There was then a recovery and by 2011-12 receipts had surpassed their previous peak in 2007-08.

The banking sector share of total PAYE paid by the economy as a whole is relatively stable throughout the period covered by these statistics. The proportion ranges between 6.3 percent in 2008-09 and 7.8 percent in 2010-11.

Corporation Tax

Corporation Tax receipts from the banking sector reached £7.3 billion in 2006-07 but then fell year-on-year in 2007-08, 2008-09 and 2009-10. In all, between 2006-07 and 2009-10 there was a reduction of 71 percent. Although Corporation Tax receipts recovered somewhat in 2010-11 there was a further fall in 2011-12 to £1.3 billion. The main rate of corporation tax was reduced from 30% in 2005-06 to 28% in 2008-09, and then to 26% in 2011-12.

The proportion of total Corporation Tax paid by the banking sector varies more widely than for PAYE. At its highest point, in 2005-06, receipts from the banking sector accounted for 20.2 percent of UK Corporation Tax. This proportion fell after 2006-07 and in 2011-12 banking sector receipts were 4.1 percent of total Corporation Tax.

A number of factors affected profits of the banking sector in 2011-12, leading to a fall in Corporation Tax receipts specifically in this sector. Important factors included the sovereign debt crisis in Europe. Banks' profits were also affected by the making of provisions for payments to compensate customers for the mis-selling of Payment Protection Insurance (PPI).

The UK Corporation Tax system allows trading losses to be carried backwards (normally by a maximum of one year) and forwards to be offset against trading profits in other periods. When a company ceases to trade any trading losses of the final period can be carried back against profits of the previous three years.

Corporation Tax receipts shown in Table 1 are total receipts net of repayments. Loss carry back will in some circumstances result in a repayment of tax paid in relation to profits of an earlier period. Deterioration in economic conditions can have a disproportionate impact on net Corporation Tax receipts as the effect of repayments of tax paid in earlier periods is felt in current net receipts. The use of losses also affects how quickly CT receipts recover after periods of economic downturn.

Bank Payroll Tax

The Bank Payroll Tax was a temporary tax on awards of discretionary bonuses to banking employees, which applied from 9 December 2009 until 5 April 2010. The gross receipts figure is shown in Table 1. Any behavioural effect of Bank Payroll Tax on receipts of other taxes is not taken into account in this figure.

Bank Levy

Receipts of the Bank Levy for 2011-12 were £1.6 billion, as shown in Table 1. This is the first year for which Bank Levy payments have been due. Bank levy payments are made by quarterly instalments and the receipts shown for 2011-12 do not represent a full year of instalments. Payment of tax does not become due immediately that liabilities arise and typically receipts in 2011-12 will comprise three out of four instalments for the first year of the Bank Levy.

General Comments

Corporation Tax liabilities fall to companies (and other bodies subject to Corporation Tax) to pay from their own resources, as do liabilities of the Bank Levy. However sums paid through PAYE include both the Income Tax and National Insurance that employers deduct from employees' earnings and pensions and then pay over to HMRC on employees' behalf, and the separate National Insurance contributions for which employers themselves are directly liable. In the case of PAYE, about three quarters of receipts are paid on behalf of employees rather than by banks themselves.

Considering PAYE and Corporation Tax combined, the overall proportion of banking sector receipts paid on behalf of employees varies from year to year between a half and two thirds. The changing proportion of Corporation Tax and PAYE within the overall total is the main driver of this variation.

HMRC produces statistics showing tax receipts from the economy as a whole, as well as publications on receipts from specific taxes and duties. These are available on the HMRC website at the following link:

http://www.hmrc.gov.uk/thelibrary/national-statistics.htm

Please see the background information in Section 4 for links to publications relevant to particular taxes.

Section 4: Definitions and background information

This section explains how the banking sector has been defined for these statistics, the main taxes affecting the sector and their treatment in this publication.

What is the banking sector?

Banks carry out many different activities such as accepting deposits, paying interest, making loans, acting as intermediaries in financial transactions and providing other financial services. However, translating these characteristics into a list of organisations for the purpose of producing statistics is not straightforward.

The Financial Services Authority (FSA) publishes a list of regulated firms which businesses and the public would tend to think of as banks[1]. However, the FSA note that this list should only be used as a guide, and they cannot guarantee its accuracy or completeness.

For this statistical publication we have used a definition of the banking sector based upon those organisations within the scope of HMRC's Code of Practice on Taxation for Banks, whose main business is banking-type activity as set out in the Code.

The exercise to compile the statistics has involved working with experts across HMRC, including in the Large Business Service and Local Compliance Large and Complex group. They deal with the tax affairs of banks and other financial institutions and advised on which organisations fall within the scope of the Code (whether or not they formally adopt it since it is a voluntary code). For practical reasons the banks included in the analysis are the same for years 2005-06 to 2010-11. For the latest year of analysis (2011-12) the population has been updated to include new banks which fall within the population definition. Banks ceasing to exist during the period covered are included within the scope of the analysis. Earlier years' figures have not been revised for any subsequent changes in the population.

HMRC's Code of Practice on Taxation for Banks

The Government introduced the Code of Practice on Taxation for Banks on 9 December 2009. For further details see the following link:

http://www.hmrc.gov.uk/thelibrary/bank-code-practice.htm

The Code of Practice on Taxation for Banks is intended for all banks operating in the UK, and for any organisations undertaking banking activities in the UK. In addition to banks, the Code therefore applies to the following:

[1] http://www.fsa.gov.uk/Pages/Library/Other_publications/Banks/index.shtml

A) Groups that undertake banking-type activities, including:

- Firms listed as banks by the Financial Services Authority;
- UK subsidiaries of overseas banking groups;
- UK branches of overseas banking companies;
- Securities houses; and
- Building societies as defined by s119 Building Societies Act 1986.

B) Banks owned by, and banking-type activities of, predominantly non-banking groups, including:

- Insurance groups;
- Retailers; and
- Motor manufacturers.

For these predominantly non-banking groups, the Code of Practice on Taxation for Banks only applies to the banking activities of the group (whether carried out by the bank or other members of the group).

Level of analysis

The statistics in this publication are compiled at the company level (for singleton companies) and the group level where there are subsidiaries and a parent company. This is to ensure consistency of coverage between PAYE and Corporation Tax.

A group can be viewed as a collection of parent and subsidiary companies that function as a single economic unit through a common source of control. There are approximately 300 banking groups and singleton companies in the population. The larger banks are generally groups whereas the smaller banks and building societies tend to be singleton companies. HMRC uses a formal definition of a group. This has been used in compiling these statistics; further details can be found on HMRC's website:

http://www.hmrc.gov.uk/cgmanual/CG45100.htm

Only those groups whose main business can be described as banking-type activity, as set out at A) above, are included in the statistics. This means that:

- Banks that are part of predominantly non-banking groups are not included, despite being covered by the Code of Practice on Taxation for Banks, at B) above; and
- PAYE and Corporation Tax arising from non-banking activities carried out within banking groups will be included. An example of this is insurance activities carried out by banking groups.

PAYE schemes within a group do not necessarily identify separate areas of business within that group. This means that, when the business of a group includes banking activity alongside other activities, the tax relating to the banking activity cannot necessarily be isolated.

Similarly, within Corporation Tax, a company group could consist of some companies that are involved in banking activity and others that are not. The structure of the data means that it is not feasible to separate out a company group's tax receipts between banking and non-banking activity.

HMRC also publishes figures on Corporation Tax receipts paid by broadly-defined business sectors, including the financial sector as a whole (excluding life assurance). These can be obtained from the HMRC National Statistics website. In contrast to the figures presented in this bulletin, the sector breakdowns in those statistics are based on HMRC's summary trade classification. Companies are allocated to trade classification categories by HMRC staff, based on the trade descriptions and other company information that companies provide. This method is not suitable for the precise identification of the banking sector provided by the method used for the statistics in this bulletin.

What is Pay-As-You-Earn?

PAYE is the method used by HMRC to collect Income Tax and National Insurance contributions (NICs) on wages and occupational pensions. Tax and NICs paid on the proceeds from sales of shares received by some employees under 'unapproved share schemes' are also collected through PAYE. Employers deduct tax and NICs from wages, occupational pensions and share disposals before paying the net amount to employees. They then add their own employer National Insurance contribution and remit the whole amount to HMRC the following month.

When an employer registers with HMRC to operate PAYE they will be assigned a PAYE scheme reference number. The PAYE scheme is the smallest unit for which PAYE receipts can be determined. Employers may operate multiple PAYE schemes and most large banks do so.

Income Tax

Income Tax is a tax on an individual's income over the course of a tax year (6th April to the 5th April the following year). It is the UK Government's largest single source of tax revenue.

PAYE accounts for by far the largest share of total Income Tax receipts (around 85 percent of the gross total in 2010-11). However substantial further amounts are collected in other ways, notably through the Self Assessment (SA) system which has regard to income from all sources, not just earnings and pensions. None of these further amounts are reflected in these statistics.

Income Tax receipts are published monthly in HMRC Tax Receipts National Statistics at the following link:

http://www.hmrc.gov.uk/statistics/receipts.htm

More detailed annual receipts information is published in the Income Tax Receipts National Statistics publication at the following link:

http://www.hmrc.gov.uk/statistics/receipts.htm

National Insurance contributions

NICs are paid on earnings to build up entitlement to certain state benefits, including the state pension. Class 1 contributions are paid by both employees and employers. The employee and employer contributions are often referred to as the 'primary' and 'secondary' contributions respectively.

Class 1 contributions collected through the PAYE system account for by far the largest share of total NIC receipts. However further amounts are collected in other ways, notably Class 4 contributions paid on profits from self employment which are collected through the SA system alongside SA Income Tax. None of these further amounts are reflected in these statistics.

Total NICs receipts (but not Class 1 specifically) are published monthly in HMRC Tax Receipts National Statistics.

http://www.hmrc.gov.uk/statistics/receipts.htm

What is Corporation Tax?

Corporation Tax is a direct tax charged on the profits made by companies, public corporations and unincorporated associations such as industrial and provident societies, clubs and trade associations. The tax is charged on the profits made in each accounting period (this is normally the period over which the company draws up its accounts). The rates of taxation are set for the financial year April to March. Where an accounting period straddles 31 March the profits are apportioned between the two financial years on a time basis.

Taxable profits for Corporation Tax include:

- Profits from taxable income such as trading profits or investment profits (except dividend income which is taxed differently); and
- Capital gains – known as ‘chargeable gains’ for Corporation Tax purposes.

Deductions against gross/taxable profits include:

- Losses;
- Management expenses;
- Capital allowances; and
- Group relief.

Losses may, very broadly speaking and subject to conditions, be relieved within a company and in three main ways - set off against i) profits of the same accounting period, ii) profits of future accounting periods, and iii) profit of the previous accounting period.

Tax is charged on profits after such deductions. Further deductions can then be made to reduce this ‘initial’ tax liability. These deductions include:

- Double taxation relief for foreign tax; and
- Income tax deducted at source from interest received.

Companies based in the UK have to pay Corporation Tax on all their taxable profits, wherever in the World those profits come from. For companies meeting specific criteria it is possible to elect for profits of overseas (non-UK) branches to be exempt from UK Corporation Tax, and pay tax of the local territory only. Companies not based in the UK, but with branches operating in the UK, have to pay Corporation Tax on taxable profits arising from their UK activities.

Taxable profits for Corporation Tax purposes often differ from the pre-tax profits in the company accounts. This is partly because the Corporation Tax regime has a system of capital allowances, which apply instead of depreciation charges for items such as plant and machinery. There are also other allowances, deductions and reliefs which can be applied when calculating the company’s taxable profits. Particularly significant is group relief, whereby a company belonging to a group can surrender their losses to offset the profits of the same accounting period of another group member.

Recent changes in Corporation Tax rates are outlined below:

- From 1 April 2008 the main rate reduced from 30 percent to 28 percent. The small companies’ rate increased from 20 percent to 21 percent.
- From 1 April 2011 the main rate was reduced to 26 percent and the small profits rate (formerly small companies’ rate) was reduced to 20 percent.
- From 1 April 2012 the main rate was reduced to 24 percent

For further statistics on Corporation Tax and associated background information see the Corporation Tax statistical bulletin available at the following link:

http://www.hmrc.gov.uk/statistics/ct-receipts/corporation-tax-statistics.pdf

This bulletin includes figures on both tax receipts (like those presented in this document, based on the period in which the tax is paid) and tax accruals (related to the periods in which economic activity underlying the liability occurred).

What is Bank Payroll Tax?

The Bank Payroll Tax was announced at the 2009 Pre Budget Report on 9 December 2009. It applied to retail and investment banks (including building societies) and to banking groups.

The Bank Payroll Tax was a temporary tax set at 50 percent on awards of discretionary bonuses over £25,000 to, or in respect of, banking employees, in the period from its announcement on 9 December 2009 until 5 April 2010. It was paid by banks, building societies and UK resident investment or financial trading companies, in banking or building society groups.

Bank Payroll Tax liabilities arose on bonuses awarded in the 2009-10 financial year. The Bank Payroll Tax did not pass into law until 8 April 2010, in financial year 2010-11. Only after this point could HMRC collect Bank Payroll Tax and a payment due date of 31 August 2010 was set.

In line with guidance from the Office for National Statistics (ONS), the yield from the Bank Payroll Tax is allocated only after it has passed into legislation. Therefore, the revenue from the Bank Payroll Tax is scored in financial year 2010-11.

Cash receipts from the Bank Payroll Tax are published as National Statistics in 'HMRC Tax and NIC Receipts' on the HMRC website, at the following link:

http://www.hmrc.gov.uk/statistics/receipts.htm

As shown in the main table at this link, the majority of the £3.4 billion of Bank Payroll Tax receipts were paid in August 2010.

The £3.4 billion is a gross receipts figure. To the extent that the Bank Payroll Tax discouraged the paying of bank bonuses (or reduced their size) there would have been an effect on other tax receipts, in particular lower Income Tax and NIC receipts from smaller bonuses. In other words, the behavioural effects from introducing the Bank Payroll Tax were expected to reduce Income Tax and NIC receipts relative to not introducing the tax.

The counterfactual (no Bank Payroll Tax) baseline against which to make such an assessment is not directly observable. However, HMRC estimated that the net yield from the Bank Payroll Tax was £2.3 billion. The net yield takes account of direct behavioural effects of a measure on the tax base itself (in this case the tax base for the Bank Payroll Tax) or closely associated receipts (in this case receipts from Income Tax and national insurance contributions).

The PAYE and Corporation Tax receipts shown in Table 1 will reflect any impacts of the Bank Payroll Tax on these receipts. However, these effects cannot be separately identified.

What is the Bank Levy?

The Bank Levy is a tax based on banks' balance sheet chargeable equity and liabilities, with effect from 1 January 2011.

The Bank Levy applies to:

- 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.

The Bank Levy is based on the total chargeable equity and liabilities as reported in the relevant bank balance sheet, at the end of the 'chargeable period'. There is no charge on the first £20 billion of chargeable equity and liabilities, which in practice means that only the banks with a large operating presence in the UK will pay any Bank Levy.

All companies subject to the Bank Levy are deemed to be 'large companies' for payment purposes and therefore all liabilities are paid by quarterly instalments under the same provisions as Corporation Tax.

The rates at which the Bank Levy is charged are as below:

- 01 January 2011 – 28 February 2011:
  0.05% for short term chargeable liabilities and 0.025% for long term chargeable equity and liabilities
- 01 March 2011 – 30 April 2011:
  0.1% for short term chargeable liabilities and 0.05% for long term chargeable equity and liabilities
- 01 May 2011 – 31 December 2011:
  0.075% for short term chargeable liabilities and 0.0375% for long term chargeable equity and liabilities
- 01 January 2012 – 31 December 2012:
  0.088% for short term chargeable liabilities and 0.044% for long term chargeable equity and liabilities
- From 01 January 2013 onwards:
  0.105% for short term chargeable liabilities and 0.0525% for long term chargeable equity and liabilities

Following National Accounts protocol, the initial yield from the Bank Levy is allocated only after it has passed into legislation. The Bank Levy passed into law on 19 July 2011 and therefore the first receipts are reported in the 2011-12 financial year. The cash receipts for 2011-12 do not represent a complete year of Bank Levy liabilities, as payment does not become due immediately that liabilities arise[2].

Companies subject to the Bank Levy are deemed to be 'large companies' for payment purposes and as such payment is made by quarterly instalments. The receipts figure shown for 2011-12 is composed of less than a full year of instalments.

Other Taxes

There are a number of other taxes that impact on the banking sector, including VAT and Insurance Premium Tax. These are discussed in more detail below.

Value Added Tax (VAT)

[2] The Office for Budget Responsibility publishes projections for the cash Bank Levy receipts in the supplementary fiscal tables to its Economic and fiscal outlook publication available here http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2012/ (Table 2.8)

VAT is charged on most supplies of goods and services that VAT-registered businesses provide in the UK. When such businesses buy goods or services (inputs) for use in their business activities they can generally reclaim the VAT they have been charged.

Some goods and services are exempt from VAT. This means VAT is not charged on such exempt supplies to customers and the supplier cannot recover the VAT incurred on inputs purchased to produce the exempt supplies.

Most services supplied by banks are exempt and as a result banks cannot recover all the VAT incurred on their inputs. This irrecoverable VAT represents a significant addition to the banks' tax cost base.

HMRC does not have an administrative source of data on the irrecoverable VAT burden facing banks (or any other organisations whose supplies are exempt from VAT) because this information is not required for calculating VAT liabilities and therefore not collected through the VAT returns. It therefore has to be estimated using survey and other external data.

A tentative estimate of £3.5bn has been made the amount of VAT irrecovered by businesses in the banking sector in 2010-11. The estimate refers to businesses whose main activity is assigned by HMRC a Standard Industrial Classification of Economic Activities[3] 2007 (SIC 2007) code 64 (*Financial service activities, except insurance and pension funding*).

The net VAT payments by banks to HMRC (VAT charged on their taxable outputs less VAT claimed for VAT costs on inputs for use in producing the taxable outputs) are small relative to the size of the sector because of the VAT exemption.

The net VAT payments declared on VAT Returns broken down by sector are published by HMRC annually at the following link:

https://www.uktradeinfo.com/Statistics/Pages/TaxAndDutybulletins.aspx

Insurance Premium Tax

Insurance Premium Tax is a tax on general insurance premiums. There are two rates:

- a standard rate of 6 percent
- a higher rate of 20 percent for travel insurance and some insurance for vehicles and domestic/electrical appliances

[3] More detailed information on SIC 2007 can be found here http://www.ons.gov.uk/ons/guide-method/classifications/current-standard-classifications/standard-industrial-classification/index.html

Most long-term insurance is exempted from the tax, as is reinsurance, insurance for commercial ships and aircraft and insurance for commercial goods in international transit. Premiums for risks located outside the UK are also exempt, but they may be liable to similar taxes imposed by other countries.

Total cash receipts from Insurance Premium Tax are published as National Statistics in the 'Insurance Premium Tax (IPT)' Bulletin on the HMRC UK Trade Info website, at the following link:

https://www.uktradeinfo.com/Statistics/Pages/TaxAndDutybulletins.aspx

Sectoral information on Insurance Premium Tax is not collected by HMRC. This is because HMRC does not need this information in order to administer the tax, and as such do not require insurers to provide this information on the return they make.

An estimate has been made of the amount of Insurance Premium Tax which is paid by the banking sector using information provided by HMRC banking sector teams. The population used to derive this estimate is not directly comparable with that used for these statistics. Companies without a UK establishment can be liable to IPT where the risks being insured are located in the UK, so the IPT population will include non-UK resident companies outside the scope of this publication.

HMRC estimates that net cash IPT receipts of the banking sector are £0.3bn in 2010-11 and £0.3bn in 2011-12. These figures include tax paid at both the standard and higher rates.

Other taxes

There are a number of other taxes that may impact on the banking sector which are not included in this publication. These include environmental taxes such as the Climate Change Levy and Landfill Tax, excise duties on products such as fuel and alcohol, stamp duties and business rates (the latter is not administered by HMRC). A sectoral breakdown of these tax receipts is not available.

Presentation of the statistics

PAYE, Bank Payroll Tax, Corporation Tax and Bank Levy receipts are presented on a National Accounts basis. The National Accounts aim to recognise tax as the liability accrues, irrespective of when the tax is received by the Exchequer. However, some taxes are accounted for when the Exchequer actually receives the tax, reflecting the difficulty in determining the period to which the tax liability relates. One such tax is Corporation Tax.

Corporation Tax receipts in this publication cover the months April to the following March which is consistent with an annual National Accounts basis.

For PAYE, receipts in a given month mainly relate to liabilities accrued in the previous month. To a close approximation receipts in the months May to April equate to liabilities accrued in the immediately preceding tax year, and therefore to the National Accounts (i.e. liabilities) measure of PAYE receipts.

PAYE Income Tax and NICs receipts relating to bonus payments are mainly received by HMRC in the months January to April (reflecting bonuses paid to employees in the months December to March). Bonus payments in the banking sector are relatively large, and substantially boost PAYE receipts in the months affected. The treatment of PAYE receipts in these statistics means that all of the bonus related amounts for a given year appear within the same year’s receipts total.

Rounding

All figures in this publication have been independently rounded to the nearest £0.1 billion. This means that the individual tax components as shown in the table may not sum to the total as shown.

Appendix: Data sources

Pay-As-You-Earn

The data for PAYE receipts comes from cash amounts (known as ‘postings’) recorded on HMRC’s BROCS ("Business Review of the Collection Service") administrative system reflecting all transactions between employers and HMRC.

The main purpose of BROCS is to:

- Maintain accounting records;
- Issue reminders for late payment and collate information about debts for PAYE, Class 1 and 1A NICs, surcharges and related interest; and
- Enable the total amounts remitted to HMRC under each PAYE scheme over the course of the year to be reconciled with the total which the employer indicates on their (P35) end of year return that they believe they have remitted.

PAYE figures as provided in the banking sector receipts statistics are recorded on a financial year **accruals** basis approximated by receipts in the months from May to April and consistent with the National Accounts. Other PAYE receipts figures published by HMRC (for example in the HMRC receipts table and also National Statistics table 2.8) are on a financial year **cash** basis (reflecting receipts over the period April to March). When making comparisons between the figures in this document and PAYE receipts information published elsewhere it is important to note this difference in coverage.

The statistics are subject to the definition of the banking sector used, as explained in the main body of this document.

Corporation tax

The data for Corporation Tax receipts comes from cash amounts (known as ‘postings’) recorded on HMRC’s COTAX administrative system.

COTAX is the Company Tax computer system introduced in November 1999 to handle the CTSA (Corporation Tax Self Assessment) legislation enacted on 1 July 1999, and the previous CT Pay and File legislation.

The dataset used for analysis contains 100 percent of the postings information. Therefore, as complete data is used, sampling error is not an issue.

As explained in the main body of this document, these statistics have applied the definition of the banking sector at a group level where there are subsidiaries and parent companies. It follows that:

1. A company group classified as being in the banking sector may contain companies within its group structure that are not involved in banking activity; and

2. A company group that is classified as NOT being in the banking sector may contain companies within its group structure that are involved in banking activity.

Because of the way Corporation Tax receipts data is recorded on the COTAX system, it is not feasible to split the total receipts from a company group between those from companies in the banking sector, and those that are not in the banking sector. Therefore, the Corporation Tax receipts figures include all company group totals under scenario 1 but exclude all company group totals under scenario 2.

Bank Levy

The Bank Levy is returned to HMRC as part of the supplementary pages to the CT600 company tax return. Liabilities and receipts are recorded on HMRC's COTAX administrative system alongside those for Corporation Tax. All companies subject to the Bank Levy are deemed to be 'large companies' for payment purposes and therefore all liabilities are paid as quarterly instalments under the same provisions as Corporation Tax.

Bank Payroll Tax

The data for Bank Payroll Tax receipts comes from HMRC's SAFE accounting system.