Pay As You Earn and Corporation Tax receipts from the banking sector

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An Official Statistics release

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About these statistics

This is a new Official Statistics publication produced by HM Revenue & Customs (HMRC). It provides statistics on PAYE (Pay As You Earn) Income Tax and National Insurance contributions and Corporation Tax receipts from the banking sector.

Official Statistics are produced to high professional standards set out in the Code of Practice for Official Statistics (2009). They undergo regular Quality Assurance reviews and also seek to engage users in their refinement and development to ensure they meet customers' needs.

http://www.statisticsauthority.gov.uk/assessment/code-of-practice/code-of-practice-for-official-statistics.pdf

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Section 1: Introduction

What does this publication tell me?

This publication provides outturn statistics for Pay As You Earn (PAYE) Income Tax and National Insurance contributions (PAYE) and Corporation Tax receipts from the banking sector in the UK. This is the first time HM Revenue & Customs (HMRC) has published these statistics. Not all tax receipts from the banking sector are included in these statistics, in particular irrecoverable VAT, bank payroll tax and the bank levy. The reasons for this are discussed in section 4 of this publication.

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 Corporation Tax contribution of the banking sector, including its employees.

What does the receipts table show?

This presents annual figures for 2005-06 to 2010-11 on PAYE and Corporation Tax receipts from the banking sector, and the combined total of the two. The period covered by these statistics (2005-06 to 2010-11) 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.

User engagement

HMRC is committed to providing impartial quality statistics that meet our users' needs. We encourage our users to engage with us so that we can improve our Official Statistics and identify gaps in the statistics that we produce.

If you have an interest in these statistics, which are being published for the first time, and would like to be contacted by us about future publications and developments to the statistics, then please register as a user at the following link:

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 presents PAYE and Corporation Tax receipts from the banking sector in the UK (including from UK branches of foreign banks). Section 3 provides a commentary on the figures. 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 and Corporation Tax receipts from the banking sector (£ billions)

Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
PAYE	13.6	15.9	16.7	14.0	15.2	17.5
Corporation Tax	7.0	7.3	6.6	3.9	2.1	3.5
Total receipts	20.6	23.2	23.3	17.9	17.3	21.0

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 16 for further detail.

4. Figures are independently rounded to the nearest £0.1 billion. This means that the PAYE and Corporation Tax components as shown may not sum to the total as shown.

5. Cash receipts from the (temporary) bank payroll tax are not included in this table. See page 13 for details of these receipts.

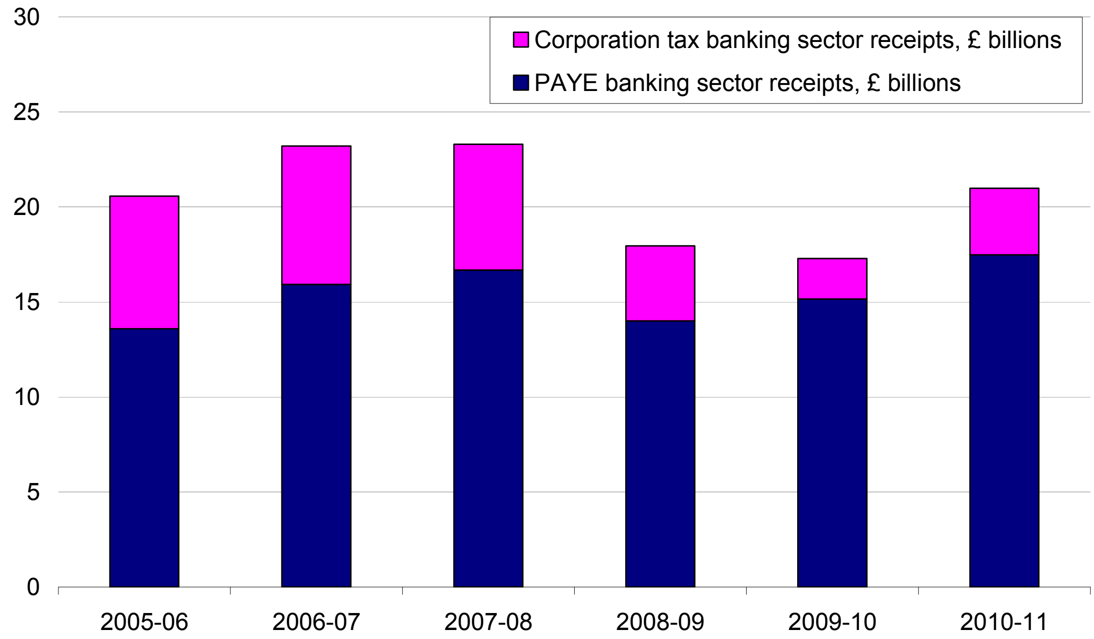
Section 3: Statistical commentary

Table 1 and Chart 1 show PAYE and Corporation Tax receipts from the banking sector for the years 2005-06 to 2010-11. The overall total of PAYE and Corporation Tax has fluctuated over this period. Receipts increased strongly (by 13 per cent) between 2005-06 and 2006-07, and rose very slightly again (by less than 1 per cent) between 2006-07 and 2007-08.

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

Between 2009-10 and 2010-11 PAYE and Corporation Tax receipts from the sector rose by 21 per cent to £21.0 billion, or around 10 per cent below their 2007-08 peak.

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 fell in only one year (in 2008-09, by 16 per cent). There was then a recovery and by 2010-11 cash receipts had surpassed their previous peak in 2007-08.

Corporation Tax receipts from the banking sector reached £7.3 billion in 2006-07 but then fell year-on-year in each of 2007-08, 2008-09 and 2009-10. In all, between 2006-07 and 2009-10 there was a reduction of 71 per cent. Corporation Tax receipts recovered somewhat in 2010-11 to £3.5 billion, or 48 per cent of their 2006-07 peak.

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. It also discusses taxes not included in the statistics along with the reasons for their exclusion.

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 all years covered by the current bulletin. Banks ceasing to exist during the period covered are included within the scope of the analysis. Future publications will include any new banks that fall within the definition.

<u>HMRC's Code of Practice on Taxation for Banks</u>

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

http://irscot.inrev.gov.uk/budget10/pbr/00notices/docs/0040_tech_note.pdf

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:

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[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 per cent 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/income-tax-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:

- Trading losses;
- Management expenses;
- Capital allowances; and
- Group relief.

Tax is charged on profits after such deductions. Then, further deductions can 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. 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 companies belonging to a group can surrender their trading losses to offset against the profits of another group member.

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/corporate-tax/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).

Other taxes

There are a number of other taxes that are paid by the banking sector, including the (temporary) bank payroll tax, bank levy and VAT. These are discussed in more detail below.

<u>Bank payroll tax</u>

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 per cent 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 £3.5 billion of bank payroll tax receipts were paid in August 2010.

The £3.5 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 impact 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.

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.

Further details on the bank levy, including tax rates and a 'Tax Information and Impact Note', which gives details of the expected yield, can be found on the HMRC and HM Treasury websites at the following links:

http://www.hmrc.gov.uk/drafts/bank-levy.htm

http://hm-treasury.gov.uk/fin_bank_levy.htm

As with the bank payroll tax, the 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 will be reported in the 2011-12 financial year. As the bank levy is a permanent tax on the banking sector, it will be included in future statistical releases covering 2011-12 and subsequent years.

The bank levy is based on banks' periods of account and is estimated to raise £2.5 billion for the year to 31 December 2011. Allowing for the time lag between the accrual of the tax and the payment, the Office for Budget Responsibility forecast receipts from the bank levy of £1.9 billion in 2011-12 and over £2.5 billion each year from 2012-13.

Value added tax (VAT)

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 for use in their business (inputs) they can generally reclaim the VAT they have paid.

Some goods and services are exempt from VAT. This includes most financial services supplied by banks. Exemption means that VAT is not charged on outputs (supplies to customers). This means that net VAT payments by banks to HMRC (VAT charged on outputs less VAT paid on inputs) are small relative to the size of the sector. However, exemption also means that banks cannot recover all the VAT incurred on inputs (goods and services that they purchase). This irrecoverable VAT represents a significant addition to the banks' cost base, and the banks contribute a significant amount of tax revenue through this irrecoverable VAT

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 ONS and other survey data. These estimates are not currently robust enough to be included in this publication.

HMRC is undertaking work to refine and improve estimates of irrecoverable VAT on the finance/banking sectors and these will be published in future bulletins if it is possible to develop robust figures.

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, insurance premium tax, 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 and Corporation Tax receipts from the banking sector are presented on a National Accounts basis. The National Accounts aims 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

The figures for PAYE and Corporation Tax have been independently rounded to the nearest £0.1 billion. This means that the PAYE and Corporation Tax components as shown 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 per cent 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.