11th Edition

The total tax contribution of UK financial services in 2018

CITY OF LONDON

pwc

Key messages

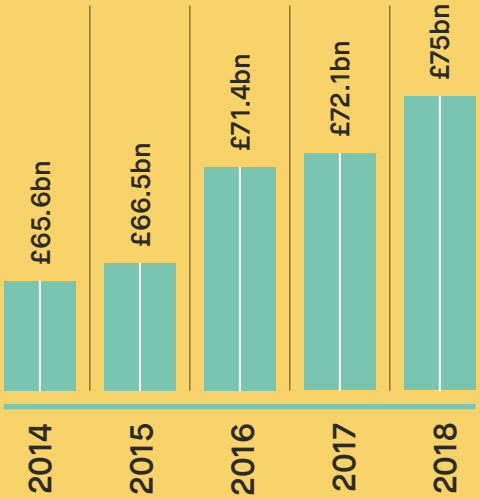
The key findings from the eleventh study on the total tax contribution of the UK's financial services (FS) sector, for the year to 31 March 2018, are as follows:

01

£75bn

Estimated total tax contribution of the FS sector in 2018.

This is £2.9bn higher than the 2017 total, and the highest contribution recorded in the TTC studies since 2007.



The 2018 total comprises £33.5bn of taxes borne and £41.5bn of taxes collected.

02

£32.9bn

Total employment taxes of the FS sector.

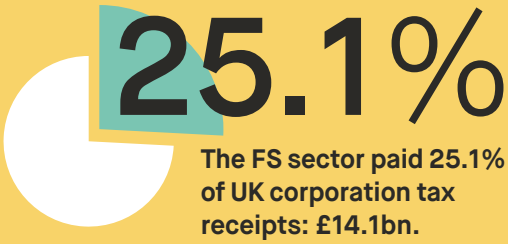
1.1m

people were employed by the FS sector,

3.4%

of the UK workforce.

03



25.1%

The FS sector paid 25.1% of UK corporation tax receipts: £14.1bn.

It contributed

11.5%

of all UK employment taxes

and

10.9%

of total tax receipts in the UK.

This compares to gross value added (GVA) of the FS sector of

6.6%

of the UK economy.

04

Taxes borne increased by

8.2%

Taxes collected increased by

0.9%

05

UK receipts from banks are more dependent on the country in which employees and business operations are located.

Moving operations abroad might have a significant impact on tax paid in the UK...

...Insurers, by contrast, pay a

higher proportion

of taxes based on the location of their customers.

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Catherine McGuinness

Chair of Policy
and Resources
City of London Corporation

Welcome to the eleventh edition of the Total Tax Contribution for the UK financial services (FS) sector. This year, the FS sector has made its highest tax contribution to UK public finances in the eleven years that we have been publishing this study. In the year to March 2018, the sector contributed an estimated £75.0bn to the Exchequer - 10.9% of all UK tax receipts.

Produced by PwC, this annual report looks at the contribution from all UK taxes borne and collected by FS companies and how the contribution has changed over time as a result of legislative changes and economic conditions.

For the second consecutive year, this increasing contribution has been driven by higher corporation tax receipts. As a result of a number of legislative measures, the introduction of the bank surcharge in 2016, and increasing profitability, the sector now contributes over a quarter of total UK corporation tax receipts (25.1%).

In 2017 the FS sector supported 1.1 million jobs, 3.4% of all UK employment. At a time of continued uncertainty around the UK's future trading relationships post Brexit, it is worth noting the large contribution, in tax and gross value added, made by this group of highly skilled individuals. The contribution to the Exchequer in the form of employment taxes alone is estimated at £32.9bn, 11.5% of all government receipts from employment taxes.

The UK has long been recognised as a leading international financial centre but there are challenges ahead, with uncertainty caused by technological disruption, Brexit, and access to global talent amongst others. It is too early to assess the impact of this uncertainty, but this series of reports highlights the significant contribution made by the sector to the public finances and we hope that enriching the public narrative with robust data can help to build trust and inform constructive debate. We thank the participating companies for continuing to support the survey.

Catherine McGuinness

Executive Summary

01

Estimated contribution of the financial services sector in the UK

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- The TTC of the FS sector is £75.0bn, the highest level since the survey began.
- This comprises both taxes borne, taxes that are a direct cost to the company, of £33.5bn, and taxes collected[1] of £41.5bn.
- The contribution is 10.9% of total UK government tax receipts.

02

Profile of taxes paid by survey participants

page 12

- Employment in the FS sector generates the largest amounts of tax.
- Corporation tax, including the bank surcharge, is the second largest tax borne.
- Irrecoverable VAT, a significant tax for FS firms, is the third largest tax borne.

03

Comparing the different tax profiles for banks and insurers

page 14

- Over half of the taxes collected by insurers is from customers. IPT is 35.5% of taxes collected and tax deducted at source, largely PAYE collected from annuities, is 29.6%.
- 85.4% of taxes collected by banks are from employees.
- The contribution in taxes from banks is more dependent on employment taxes, which are reliant on the country in which employees and business operations are located.

04

Employment taxes

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- Estimated employment taxes are £32.9bn for the FS sector, which is 11.5% of government tax receipts from employment.
- Employment taxes are not dependent on profit, and are therefore a more stable source of revenue to tax authorities.
- Employment taxes per employee amounted to £32,736 and the average wage per employee was £73,174.

1 For a full definition of tax borne and collected, refer to appendix 1.

05

Corporation tax

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- The government's figures show that corporation tax (including the bank surcharge) paid by the FS sector increased from £11.6bn to £14.1bn between 2017 and 2018.
- This was a result of increased profitability, tighter loss relief legislation and a full year of the bank surcharge.
- The FS sector paid 25.1% of UK corporation tax receipts in 2018.

06

Trends in Total Tax Contribution over the last 11 years

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- The tax contribution of the study participants increased by 4.3% compared to 2017 as a result of an increase in taxes borne of 8.2% and taxes collected of 0.9%.
- Taxes borne increased as a result of an increase in corporation tax payments across the sector.
- Corporation tax (including surcharge) is 29.2% of taxes borne. In 2007, this was 40.8%, reflecting the changing profile of the tax burden on the sector to taxes which are less dependent on profit.

07

Putting Total Tax Contribution data in the context of turnover, profits and GVA

page 28

- The Total Tax Rate - the measure of taxes borne compared to profitability - is 38.9%, an increase from 36.3% in 2017.
- The Total Tax Contribution of the FS sector is equivalent to 22.7% of turnover.
- The GVA for the FS sector is 6.6% of UK GVA which compares to disproportionally large tax receipts for the FS sector of 10.9% of total UK tax receipts.
- 44.5% of value distributed by FS companies is paid to the government in taxes.

01. Estimated contribution of the financial services sector in the UK

— 01

The TTC of the FS sector is £75.0bn, the highest level since the survey began.

— 02

The contribution is 10.9% of total UK government tax receipts.

— 03

It includes both taxes borne, taxes that are a direct cost to the company, of £33.5bn and taxes collected[2] of £41.5bn.

The UK provides an environment for a strong financial services ecosystem."

Tim McCann - Schroders

Background to the study

The eleventh Total Tax Contribution (TTC) study of the UK financial services (FS) sector has been carried out using data provided by 47 FS companies. These companies employed 38.0% of the UK FS sector workforce and include UK based banks, foreign based banks, insurers, asset managers, real estate companies[3] and other FS sector companies. For further details on the purpose and outline of the study, see Appendix 1.

Total Tax Contribution for 2018

From the details of the tax payments provided by the 47 companies participating in the 2018 study, we estimate that the FS sector in the UK made a TTC of around £75.0bn in the year to 31 March 2018. This represents 10.9% of all government receipts for all taxes.[4] Figure 1 sets out the components of tax from the study companies, and extrapolated to the sector as a whole.[5]

Figure 2 shows the TTC of the FS sector, as estimated in the eleven studies, both as absolute amounts and as a percentage of government tax receipts. This year, the TTC is £75.0bn, an increase of 4.0% compared with 2017, and the highest level since the survey began. For the second consecutive year, the increase was mainly driven by an increase in taxes borne due to corporation tax and the bank surcharge.

The TTC represents a slightly lower share of total government receipts (10.9%) compared to last year (11.0%). There was a 4.4% increase in total government receipts in 2017-18 largely driven by increases in national insurance contributions (NIC), income tax deducted under PAYE, corporation tax and VAT.

The NIC increase reflects growth in total UK employment (which has also driven growth in income tax receipts) along with the move away from public sector service companies and tighter salary sacrifice restrictions.

The increase in corporation tax at an economy level reflects sustained levels of stronger profitability, the impact of loss-relief restriction (restricted to 25% for banks and 50% for all other sectors) and compensation relief restriction, along with a rising number in new firms.

Figure 1: Total Tax Contribution of the FS sector in the UK financial year to 31 March 2018

	FS companies in the study	Extrapolated to the FS sector	Government receipts
	£ billions	£ billions	%
Taxes borne			
Corporation tax	4.2	12.3	
Bank Surcharge	0.9	1.8	
Bank Levy	2.6	2.8	
Other	8.9	16.6	
Total Taxes borne	16.6	33.5	**4.9%**
Total Taxes collected	17.0	41.5	**6.0%**
Total Tax Contribution	33.6	75.0	**10.9%**

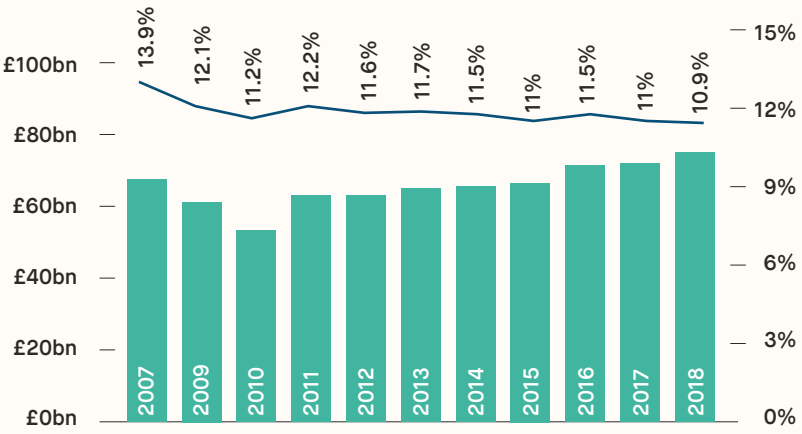
2 For a full definition of tax borne and collected, refer to appendix 1.

3 Acting as asset managers of real estate assets.

4 Government receipts are from: Office for Budget Responsibility (OBR) 'Economic and fiscal outlook', alongside Budget 2018, Table 2.8 Current receipts (on a cash basis).

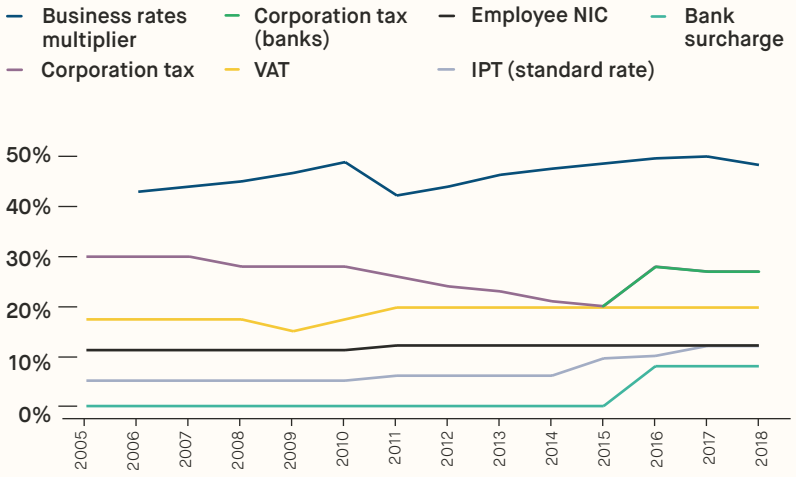
5 Extrapolation is based on government figures for corporation tax, bank surcharge and bank levy receipts from the sector as shown in HMRC T11.1 and HMRC "PAYE and Corporate Tax receipts from the banking sector: 2018", as well on the trend data for the companies participating in the study. Extrapolation uses the ratios of (1) CT, surcharge and bank levy to taxes borne, and (2) CT, surcharge and bank levy to taxes collected for different FS sub-sectors, as established in the study. The extrapolation totals for taxes borne, taxes collected and TTC are estimates, while the extrapolation totals for corporation tax, bank levy and the bank surcharge are from HMRC published data.

Figure 2: Total Tax Contribution of the FS sector in the UK
Comparison of the eleven study results



Source: Extrapolated totals in each survey

Figure 3: Overview of changes to rates of taxation



Looking at previous years, the trend in overall contribution and the profile of taxes has been influenced by both economic factors and legislative changes (including the introduction of new taxes and changes to the rates of existing taxes). These are outlined in more detail below.

Economic factors: Looking at the tax contribution across the eleven-year period, the impact of the financial crisis is evident in the fall in TTC from 2007 to 2010. This is partly driven by a fall in profits leading to lower corporation tax payments over this period, but also reflects other factors such as lower activity resulting in lower irrecoverable VAT receipts, and some job losses in the sector reducing employment taxes in the 2010 study. As the economy returned to growth, the TTC also increased.

Change in rate: the trend in TTC can be partly attributed to changes in tax rates for four key taxes over the period. The rate of corporation tax has fallen incrementally from 30% in 2007 to 19% in 2018; the rate of VAT increased from 17.5% in 2009 to 20% in 2011; employer NIC rates increased from 12.8% to 13.8% in 2011; and the standard rate of insurance premium tax (IPT) increased from 10% in October 2016 to 12% in June 2017. These changes affect both the total tax take, and the profile of taxes contributed by the FS sector. The rate changes are shown graphically in figure 3.

Introduction of new legislation: Three taxes introduced over the last ten years have specifically affected banks. The one-off bank payroll tax was introduced in 2010, and the bank levy was introduced in 2011. The latter contributed to the increase in the TTC between 2011 and 2016. The bank surcharge of 8% borne by banks and introduced in 2016 has been a major factor contributing to the increase in TTC in both 2017 and 2018. The apprenticeship levy[6] was introduced in the year 2017 at 0.5% of the pay bill.

Wider economic contribution

The total capital expenditure of the 40 companies who provided data for this was £4.1bn. The research and development expenditure was £780m but this data is from a smaller subset (18 companies). Looking at the last seven years cumulatively, companies in the survey population have made capital investments totalling £32.4bn and invested £3.1bn in research and development.

6 See employment section for further details.

02. Profile of taxes paid by survey participants

— 01

Employment in the FS sector generates the largest amounts of tax.

— 02

Corporation tax, including the bank surcharge, is the second largest tax borne.

— 03

Irrecoverable VAT, a significant tax for FS firms, is the third largest tax borne.

This section looks at the profile of taxes borne, taxes collected, and total tax contribution in more detail.

Profile of taxes borne

Taxes borne are taxes which FS companies contribute directly to the public finances. These taxes are a direct cost and have an impact on the financial results of these companies. Aside from corporation tax and the bank surcharge, many are "above the line" taxes that are deductible in calculating profit before tax. This means they are not separately disclosed in financial statements. Figure 4 shows the profile of taxes borne by companies in the study.

For every £1 of corporation tax paid there is another £2.21 paid in other taxes borne. Employers NIC (including PSA and apprenticeship levy) is 30.6% of the total, the largest tax borne, closely followed by corporation tax including surcharge (29.2%). Irrecoverable VAT is the third largest tax borne (21.7%).

The companies in the study are large employers, together employing 402,553 staff – which is reflected in the fact that employers NIC account for a high proportion of taxes borne.

Profile of taxes collected

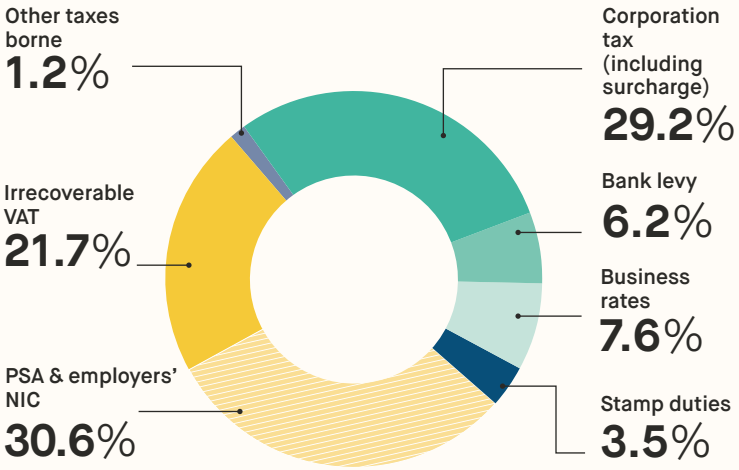
Taxes collected are those taxes which companies are responsible for administering and paying to the government. They are collected from employees as well as customers. As such, these taxes arise from the jobs FS companies create and the services they provide to customers. Taxes collected are part of FS companies' indirect contribution to tax revenues. Figure 5 shows the profile of the taxes collected by the companies in the study.

The importance of employment to the sector's contribution is evident as employees' income tax deducted under PAYE and NIC is the largest element of taxes collected. Together they represent on average 64.6% of the total.

"VAT has become such a significant cost to the industry that it influences business strategy. The difference in the economic position of employing people to do things in-house and outsourcing to suppliers is really quite stark."

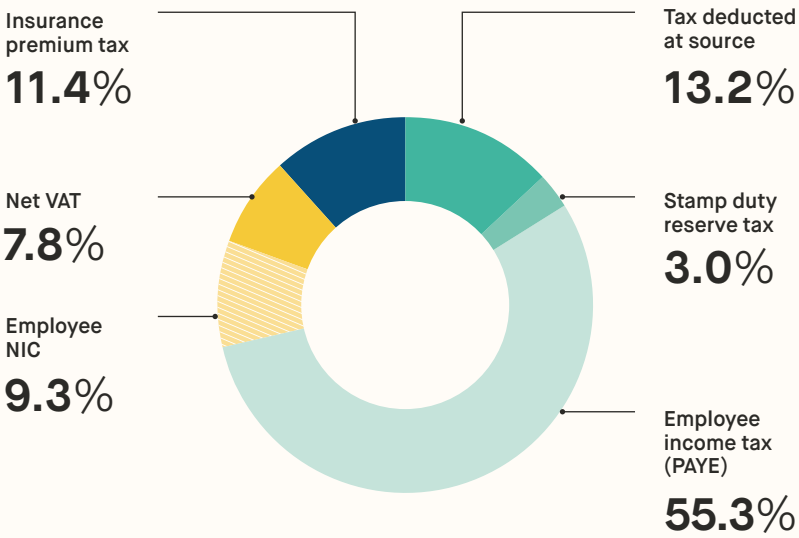
Richard Craine – Barclays plc

Figure 4: Taxes borne by FS companies in 2018



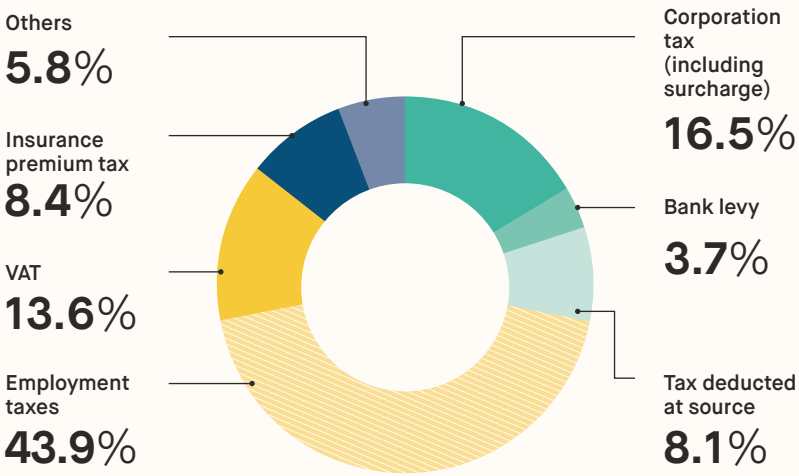
Source: survey participants. Chart shows average result.

Figure 5: Taxes collected by FS companies in 2018



Source: survey participants. Chart shows average result.

Figure 6: Total Tax Contribution of FS companies



Source: survey participants. Chart shows average result.

Tax is deducted at source by the FS sector; this includes tax deducted from interest paid to companies, and from annuities paid by life insurers. It also includes tax withheld on property income distributions made by real estate companies. Real estate companies which are structured as real estate investment trusts are exempt from UK corporation tax on the profits of their qualifying property, but are required to distribute a minimum of 90% of their qualifying profits to shareholders as dividends (known as property income distributions).

Further taxes collected by the FS sector include insurance premium tax, which is collected by insurance companies on insurance policies sold (excluding life insurance policies). Foreign based banks administer stamp duty reserve tax, which is paid on shares traded electronically.

Total Tax Contribution profile

Figure 6 combines taxes borne and taxes collected to show the average TTC profile for companies in the study. This methodology gives equal weight to each company included and the profile for individual subsectors may differ.

Employment by the sector generates the largest amounts of tax paid into the public finances. NIC (employer and employee) and employee income tax under PAYE together account for 43.9% of the total. Corporation tax (including the bank surcharge) is the second largest tax of the TTC, followed by VAT (both net VAT collected and irrecoverable VAT) which is the third largest tax. The TTC profile demonstrates the significance of taxes other than corporation tax.

03. Comparing the different tax profiles for banks and insurers

— 01

Over half of the taxes collected by insurers is from customers. IPT is 35.5% of taxes collected and tax deducted at source, largely PAYE collected from annuities, is 29.6%.

— 02

85.4% of taxes collected by banks are from employees.

— 03

The contribution in taxes from banks is more dependent on employment taxes, which are reliant on the country in which employees and business operations are located.

Overview of the companies that participated

The companies that participated in the 2018 survey represent a significant part of the FS sector in the UK - Figure 7 shows the sub-sectors represented[7]. Forty-seven FS companies provided data on their UK tax payments for the 2018 study, together employing 38.0% of employees in the sector.

Figure 7: Survey participants by sector

Asset managers/investment services	6	12.9%
Insurance	8	17%
Foreign based Banks	11	23.4%
Real estate	4	8.5%
UK based Banks	9	19.1%
Other financial services	4	8.5%
Life insurance	5	10.6%
Total	**47**	

This section looks in more detail at the two largest sub-sectors: banks (including UK based and foreign based banks), and insurers (including life and general insurance). The number of companies in each sub-sector included in this study broadly reflects the split between sub-sectors in the sector as a whole. ONS data[8] shows that banks employ approximately 40% of FS sector employees, and life, non-life and insurance agents and brokers account for 29%, while other financial sub-sectors account for the remaining 31%.

Taxes borne and collected for banks and insurance companies

Figure 8 shows the profile of both taxes borne and collected for banks and insurers.

Employment taxes account for a significant amount of both taxes borne and collected for the banking

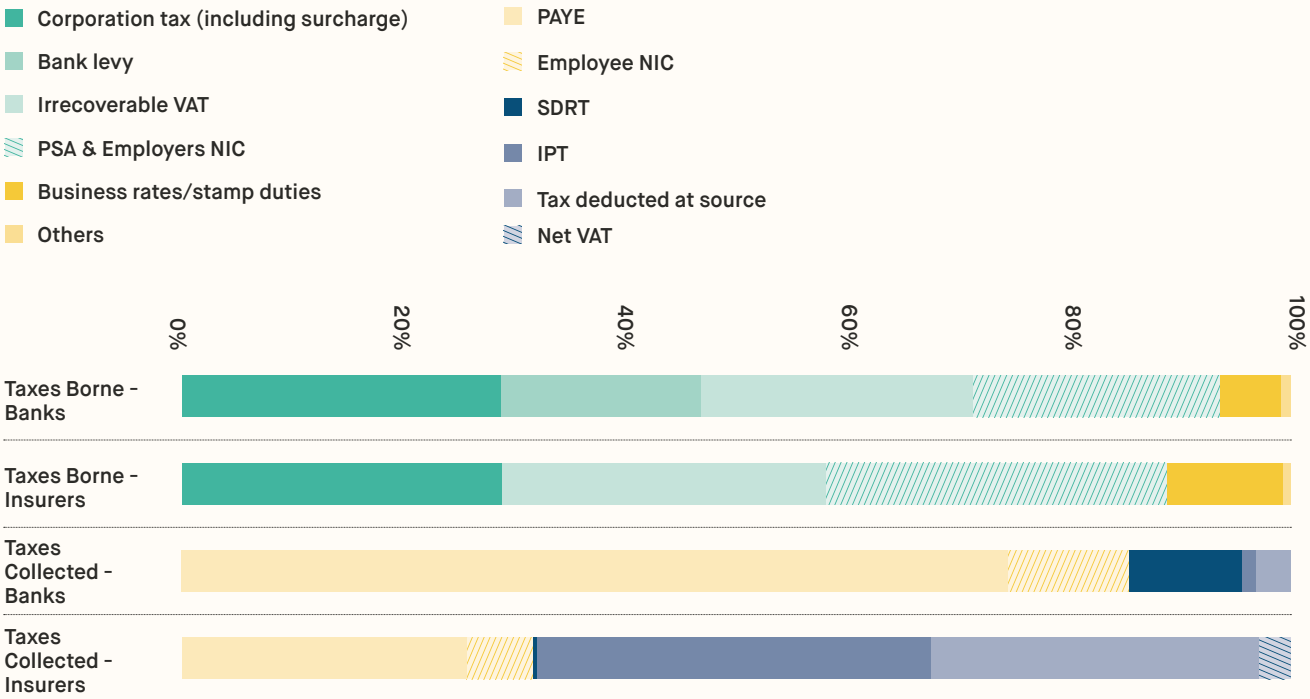
> **"Factors affecting where we locate our businesses are regulation, we need the right regulatory environment, and then where both our customers are, and also where the people with the right skills for the job are located."**
>
> Grace Stevens - Legal & General

7 In general UK based banks are retail banks and foreign banks are investment banks.

8 Office for National Statistics, 'Table 2 - GB and UK level employment (thousands) by 2, 3 and 5 digit SIC 2007 (full-time/part-time and public/private sector split)'.

> **VAT is significant for a number of reasons. It is significant in the absolute sense and also because it is above the line, rather than below the line. Some are interested in our effective tax rate of tax, but there are more people who are interested in our profit before tax."**
>
> Tim McCann - Schroders

Figure 8: Taxes borne and collected profiles for banks and insurers in 2018



Source: TTC for the banking sector (banks)[9] and (insurers) study participants - chart shows the average result for insurers in the study.

9 www.ukfinance.org.uk/2017-total-tax-contribution-of-the-uk-banking-sector.

sector, as a result of the number of people employed and the proportion of highly-paid individuals.

Employment taxes are the largest tax borne by insurance companies in the study, followed by irrecoverable VAT and corporation tax.

Insurance premium tax is the largest component of tax collected for the insurance companies. Tax deducted at source is also a large component of taxes collected. This is due to PAYE deducted by insurance companies who administer pension funds on behalf of other companies.

Figure 9 shows the profile of taxes borne and collected for the two sub-sectors. Taxes borne account for 56.8% of the TTC of banks and 33.5% of the TTC of insurers.

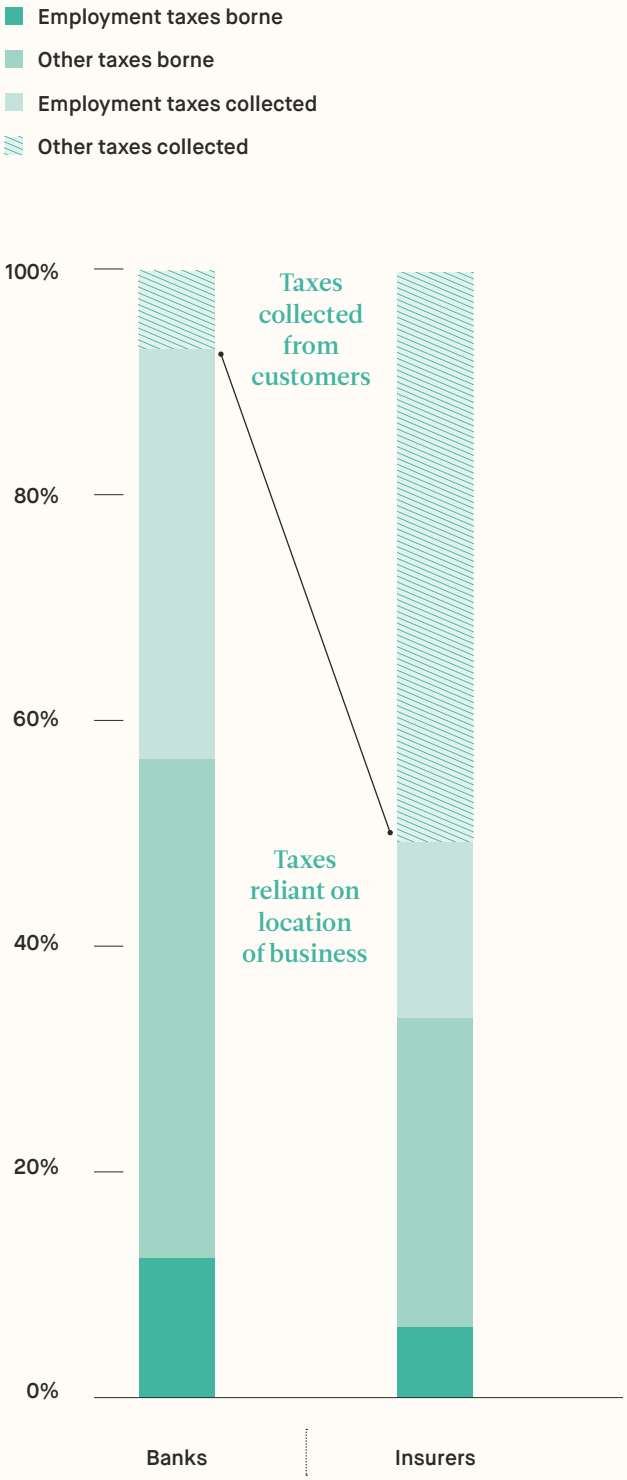
Location plays a very different role for the two major sub-sectors of the FS sector, banks and insurers, as shown in figure 9.

The TTC from banks is more dependent on employment taxes borne and collected, which are reliant on the country in which employees and business operations are located.

By contrast, the TTC of insurance companies is more dependent on customer-related taxes, such as insurance premium tax. Therefore, the location of customers is a significant factor driving the level of tax contribution.

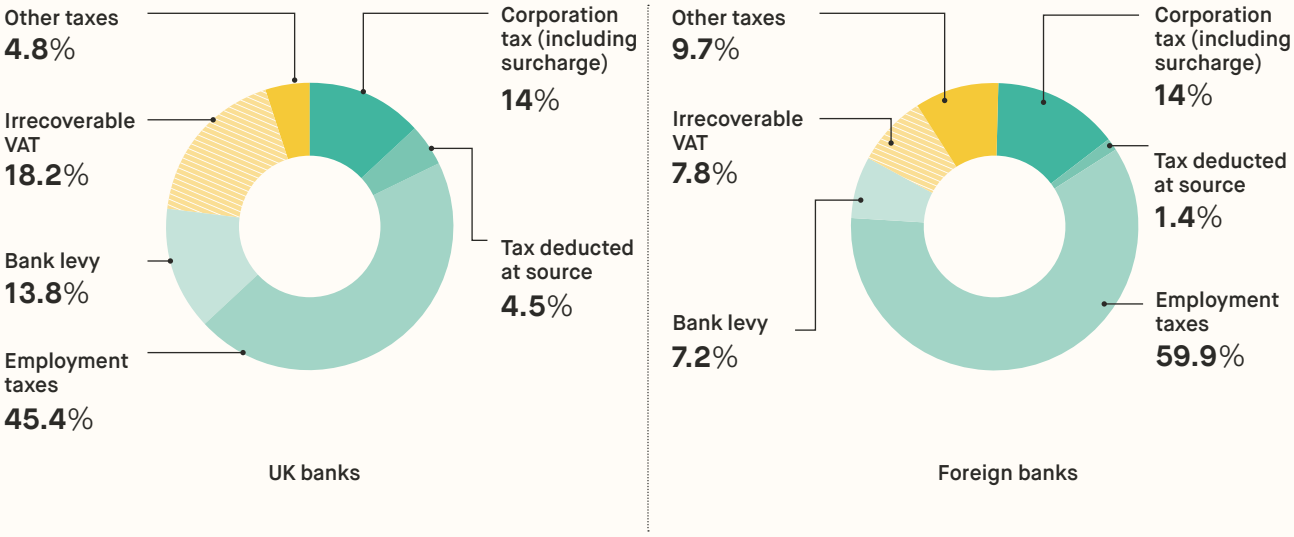
The different TTC profiles of banks and insurers suggest that proportionally more tax is at risk from banks relocating activities as part of Brexit contingency planning compared to insurance companies. Due to uncertainty around both the transition deal and the final deal between the EU and the UK, many FS companies are committed to implementing their contingency

Figure 9: Taxes borne and collected as a percentage of Total Tax Contribution for banks and insurance companies in the study



Source: survey participants. Chart shows average result.

Figure 10: TTC Profile for Foreign and UK based banks in 2017



Source: 2017 Total Tax Contribution study for the UK banking sector[8]

plans by March 2019. This will include jobs moving from the UK to locations within the EU to limit the impact of any disruption to the trading relationship between the UK and the EU.

UK and Foreign based banks

Data on the banking sector is available from a separate TTC study, commissioned by UK Finance and produced by PwC[10]. The study estimated that the contribution of the banking sector to the public finances in 2017 was £35.4bn, comprising £17.3bn from foreign banks and £18.1bn from UK banks. Foreign banks in the study paid 53.5% of the employment taxes, despite employing fewer people as they tend to pay higher salaries.

The results highlighted the different TTC profiles for UK based and foreign based banks. Figure 10 shows that employment taxes are more significant for foreign based banks, with corporation tax (including the bank surcharge) the second largest tax. For the UK banks, VAT was the second largest tax payment, followed by corporation tax. Higher average salaries are a significant factor driving the employment tax contribution of foreign based banks, whereas higher employee numbers drive the employment tax contribution of UK based banks.

Bank levy is more significant for UK based banks because it is charged on the worldwide balance sheets of UK based banks, but only to the UK balance sheet of foreign based banks. The legislation is due to change in 2021, when the scope for UK based banks will be limited to the UK balance sheet.

10 www.ukfinance.org.uk/2017-total-tax-contribution-of-the-uk-banking-sector.

04. Employment taxes

— 01

Estimated employment taxes are £32.9bn for the FS sector, which is 11.5% of government tax receipts from employment.

— 02

Employment taxes are not dependent on profit, and are therefore a more stable source of revenue to tax authorities.

— 03

Employment taxes per employee amounted to £32,736 and average wages per employee were £73,174.

Extrapolation of the employment taxes paid by the FS sector

Employment and job creation are important ways in which the FS sector contributes to the UK economy. Employment taxes account for the largest share of taxes borne and collected by FS companies. These taxes provide a more stable source of revenue for the government than corporation tax receipts, which can be volatile and depend on profitability and the economic cycle.

Government figures show that the sector employs 1.1million employees, a small reduction compared to last year. This is 3.4% of the total UK workforce (both private and public sector together)[11]. Using our study data, we estimate that employment in the FS sector generates total employment taxes of around £32.9bn[12], equivalent to 11.5% of government tax receipts from employment.[13]

ONS data also shows an increase in average wage in the sector from 2016 to 2017 of 2.6%.[14] This has a positive effect on employment tax receipts.

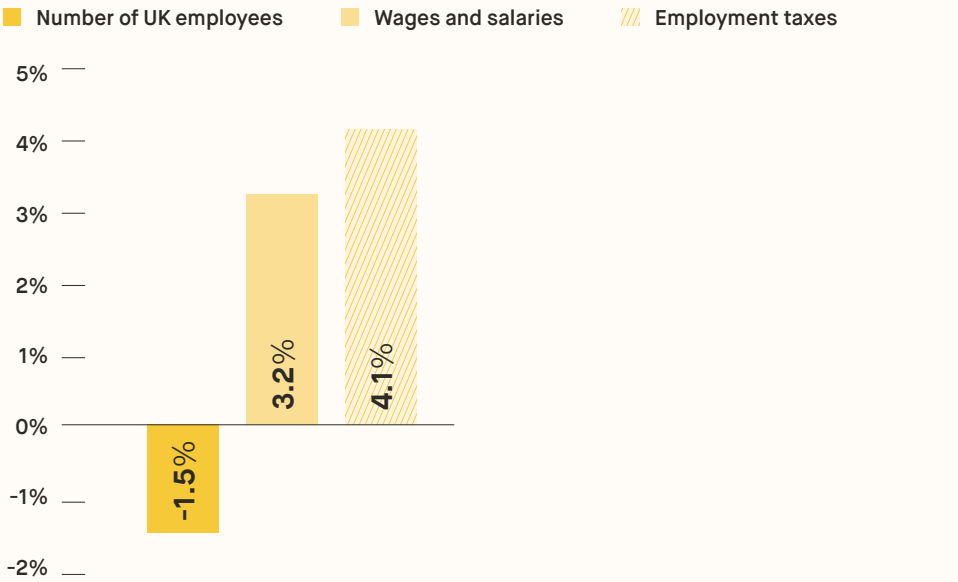
Wages and taxes per employee

The FS sector employs skilled, well-paid staff. Census data [15] shows that the percentage of the FS sector workforce with a degree level qualification or above was 48%, compared to 35% for the England and Wales workforce as a whole.

Across all employees in the study the average wage[16] was £73,174. The fact that some parts of the FS sector pay higher wages than others influences this average, for example, Foreign banks tend to pay higher salaries than UK-based banks. For the majority of the sample - companies that together employed 73% of total employees – the average wage was lower, at less than £54,400. The UK national average for the period was £29,588.[17]

For 2018, employment taxes per employee amounted to £32,736 on average,[18] including taxes borne and collected.

Figure 11: Trend in the number of UK employees, wages and salaries, and employment taxes, 2017 – 2018



11 Office for National Statistics, 'Labour market statistics', October 2017.

12 Extrapolation has been carried out using average employers NIC per employee, employees NIC and PAYE per employee for the employees in different parts of the study, together with trends in employment taxes per employee. Extrapolation is an estimate only.

13 Calculation of the proportion of government receipts is the extrapolated employment taxes as a percentage of government receipts for income tax under PAYE (excluding self-assessment) and all NIC receipts.

14 Office for National Statistics, Average earnings by sector EARN01

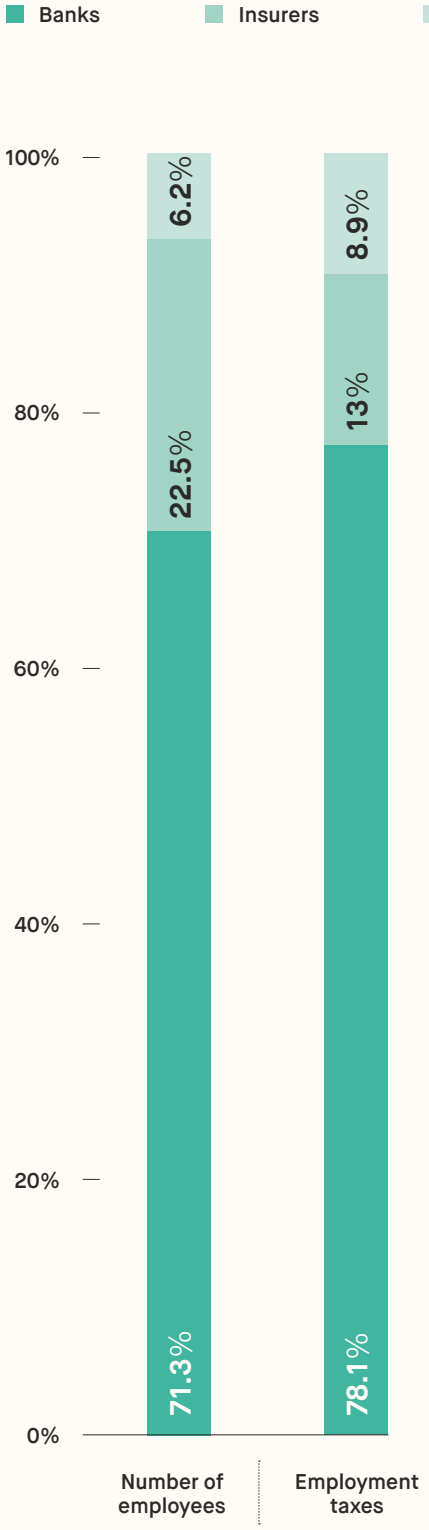
15 Census, 2011, https://www.nomisweb.co.uk/census/2011/wp6503ew.

16 The average wage was calculated by taking the total wages and salaries for the survey population and dividing it by the total number of employees within that population. Participants were asked to give a figure for total UK wages and salaries paid, including bonuses.

17 Office for National Statistics – Annual Survey of Hours and Earnings: 2018.

18 The average employment tax per employee was calculated by taking the total employment taxes for the survey population and dividing it by the total number of employees in the population.

Figure 12: Employment in the study split by sub-sector



Source: survey participants. Chart shows average result.

> **I would say that in the future, we will increasingly utilise the power of technology to create new roles."**
>
> Saibh Young - Lloyds Banking Group

Trend in employment taxes

For the FS sector as a whole, there was a decrease in employment of 1.0% compared to the previous year. Figure 11 shows that for the companies in the study, on a like-for-like basis, the total number of employees fell by 1.5%, while wages and salaries increased by 3.2% and employment taxes increased by 4.1%.

The increase in employment taxes has exceeded the increase in wages and salaries. This is due, in part, to tighter benefit in kind restrictions on salary sacrifice schemes, along with the introduction of the apprenticeship levy.

The apprenticeship levy is a levy on UK employers with annual pay bills in excess of £3m, at 0.5% of the annual pay bill. The revenue from the apprenticeship levy is intended to fund new apprenticeships, and the amounts claimed by participants to pay for apprenticeship training is also captured by the TTC framework. The levy came into effect from 6 April 2017 and 38 companies paid total apprentice levy of £93.9million in the year. Ten companies reported using £15million of the levy to fund apprenticeships.

Employment in the banking sector

Of the study participants, the banks are the largest employers (as a result of UK retail banking activity). They employ 71.3% of study employees and generate the largest proportion of employment taxes – 78.1% of the total employment taxes.

05. Corporation tax

— 01

The government's figures show that corporation tax (including the bank surcharge) paid by the FS sector increased from £11.6bn to £14.1bn between 2017 and 2018.

— 02

This was a result of increased profitability, tighter loss relief legislation and a full year of the bank surcharge.

— 03

The FS sector paid 25.1% of UK corporation tax receipts in 2018.

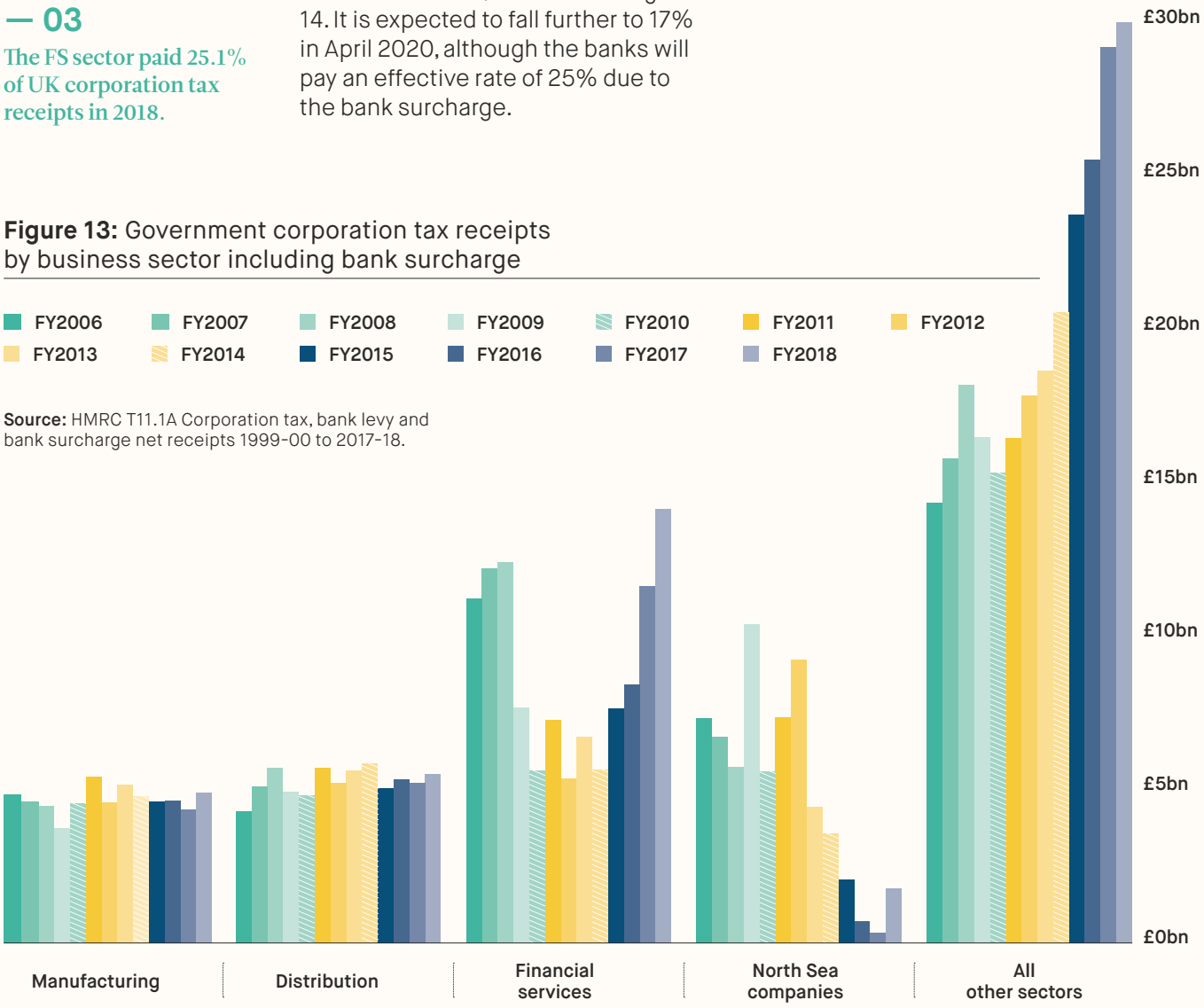
Government figures demonstrate the importance of the FS sector for corporation tax receipts. The increase in corporation tax receipts from the FS sector in 2017/18 exceeded the increases in other business sectors, as Figure 13 shows.

The trend in corporation tax

Over the eleven years of the study, government receipts from corporation tax have been heavily affected by the financial crisis, as well as by the reduction in corporation tax rate. Across this period, the corporation tax rate has decreased from 30% to 19%, as shown in Figure 14. It is expected to fall further to 17% in April 2020, although the banks will pay an effective rate of 25% due to the bank surcharge.

Figure 14 shows a cyclical pattern of corporation tax receipts from the FS sector alongside the changing rates of corporation tax from 2001 (tax year to March 2001). From 2017 to 2018, corporation tax payments increased, driven by the banking sector and the insurers.

Figure 13: Government corporation tax receipts by business sector including bank surcharge



Source: HMRC T11.1A Corporation tax, bank levy and bank surcharge net receipts 1999-00 to 2017-18.

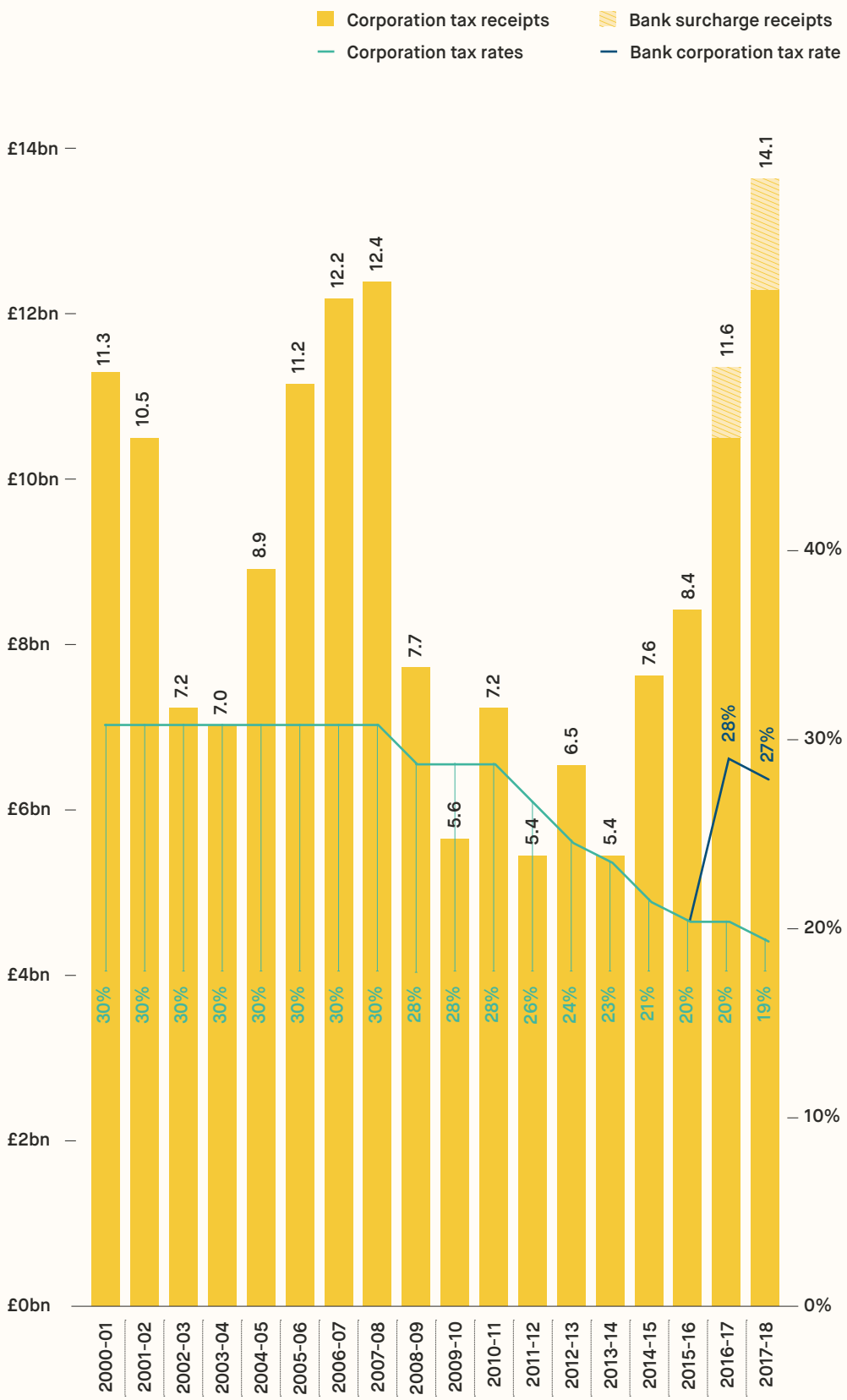
“The UK is a centre of excellence in asset management, so if you are hiring and recruiting fund managers and the people to support those fund managers, there are only certain locations where you are going to find the right skills to do that.”

Tim McCann - Schroders

“In the US, the corporate income tax rate is lower than it was and is now meaningfully lower than other jurisdictions.”

Richard Craine – Barclays plc

Figure 14: Government corporation tax receipts from the financial services sector (including bank surcharge)



Source: HMRC T11.1A Corporation tax, bank levy and bank surcharge net receipts 1999-00 to 2017-18.

06. Trends in Total Tax Contribution

— 01

The tax contribution of the study participants increased by 4.3% compared to 2017 as a result of an increase in taxes borne of 8.2% and taxes collected of 0.9%.

— 02

Taxes borne increased as a result of an increase in corporation tax payments across the sector.

— 03

Corporation tax (including surcharge) is 29.2% of taxes borne. In 2007, this was 40.8%, reflecting the changing profile of the tax burden on the sector to taxes which are less dependent on profit.

This is the eleventh annual survey we have carried out for the City of London Corporation. From the financial crisis in 2008 to the vote to leave the EU in 2016, there have been a number of significant events over this period and notable changes to tax legislation.

Trends between 2017 and 2018

At a sector level, the TTC is £75.0bn in 2018, an increase of 4.0% compared with 2017. To understand the changes in tax contribution at the level of individual taxes, we compare the 40 companies who provided data for both the 2017 and 2018 studies.

Taxes borne:
Taxes borne: Figure 15 shows how individual taxes contributed to the increase in total taxes borne of 8.2%.

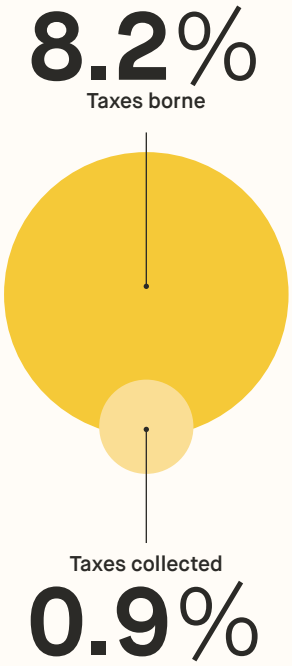
Corporation tax, including the bank surcharge, was the main driver of the increase (accounting for 5.4 percentage points of the 8.2% total increase in taxes borne), reflecting three key policy changes which increased corporation tax take:

- The bank surcharge (on corporation tax), introduced in January 2016, is applied to the taxable profits of banks at a rate of 8%. This means banks pay corporation tax at 27% instead of 19%.
- Legislation to restrict the deductibility of compensation payments.
- The amount of taxable profit that could be offset by a bank's brought forward losses was restricted to 25% in 2016 (a change from 50% in 2015).

The reduction in the bank levy, paid by 13 banks in the study, decreased total taxes borne by 0.1 percentage points. The rate of the bank levy fell from 0.085% in 2017 to 0.080% in

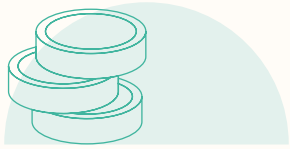
Figure 15: Trends in taxes borne and collected 2017/18

	% increase/decrease
Taxes borne	
Corporation tax	3.3%
Bank surcharge	2.1%
Bank levy	-0.1%
Employers' NIC	1.1%
Irrecoverable VAT	1.0%
Other taxes borne	0.8%
Total increase in taxes borne	**8.2%**
Taxes collected	
Employee income tax (PAYE)	2.0%
Employee NIC	0.2%
Net VAT	-0.3%
Tax deducted at source	-2.5%
Insurance premium tax	1.5%
Total increase in taxes collected	**0.9%**



25.3%

The insurers in the study contributed 25.3% of the TTC.



66.8%

of the TTC was contributed by the banking sector.

Figure 16: Trends in TTC by sub-sector 2017/2018
Components of the increase/decrease in taxes borne and collected

	Banks	Insurers	Other	Totals
Taxes borne	5.0%	3.0%	0.2%	8.2%
Taxes collected	-0.8%	1.2%	0.5%	0.9%

2018 for long term chargeable equity and liabilities, from 0.0170% in 2017 to 0.160% in 2018 for short term chargeable equity and liabilities. For further detail on the bank levy, see Appendix 2.

Government data shows that corporation tax for the FS sector increased from £11.6bn to £14.1bn between 2017 and 2018. The bank levy paid decreased from £3.0bn to £2.8bn between 2017 and 2018, reflecting the rate changes.

Taxes collected:
Figure 15 shows an increase in total taxes collected of 0.9%.

The increase was driven by income tax deducted under PAYE and insurance premium tax (IPT), partially offset by a decrease in tax deducted at source. The increase in IPT reflects the change in rate from 10% to 12% in June 2017.

Tax deducted at source has decreased due to a change in legislation in 2017. Banks are no longer required to deduct at source from account interest (on savings above the personal allowance). It is now the responsibility of the customer to account for this tax liability rather than the banks.

Trends in taxes borne and collected by sector

The banking sector is a significant driver of the trend in taxes borne, in part because of the size of the sector - the banks in the study contributed 66.8% of the TTC (and represent 42% of the companies participating in the survey). The increase in taxes borne by the banks was largely driven by corporation tax, due to increased profitability, a full year of bank surcharge and tighter loss relief restriction see figure 16.

The insurers in the study contributed 25.3% of the TTC. The increase in taxes collected by the insurance companies is mainly driven by IPT as a result of the rate increase from 10% to 12%, and an increase in tax deducted at source through PAYE from insurance companies administering pension funds.

Figure 17: Trends in taxes borne and collected 2007/2018

Components of the overall % increase/decrease by tax	
Taxes borne	
Corporation tax	-21.4%
Bank Surcharge	6.5%
Bank levy	26.9%
Employers NIC	4.7%
Irrecoverable VAT	14.6%
Other taxes borne	0.5%
Total increase	**31.8%**
Taxes collected	
Employee income tax (PAYE)	12.4%
Employee NIC	-1.7%
Net VAT	-1.1%
Tax deducted at source	-11.5%
Other taxes collected	4.0%
Total increase	**2.1%**

Source: participants providing data in both 2007 and 2018.

Trends between 2007 and 2018

18 companies from the 2018 study also participated in the first study in 2007, so we can look at the trends across eleven years for this group, shown in Figure 17.[19]

The rate of corporation tax has fallen over this period, from 30% in 2007 to 19% in 2018. However, total taxes borne by these 18 FS companies have increased by 31.8%, reflecting the introduction of the bank levy and the bank surcharge, increases in the rate of employers' NIC and VAT, and restrictions relating to the deductibility of compensation payments and losses.

The bank levy was introduced in 2011, and is applied to a bank's equity and liabilities, rather than to profits. The rate applied to short term equity and liabilities is higher than that applied to long term equity and liabilities, to encourage banks to adopt less risky funding structures.

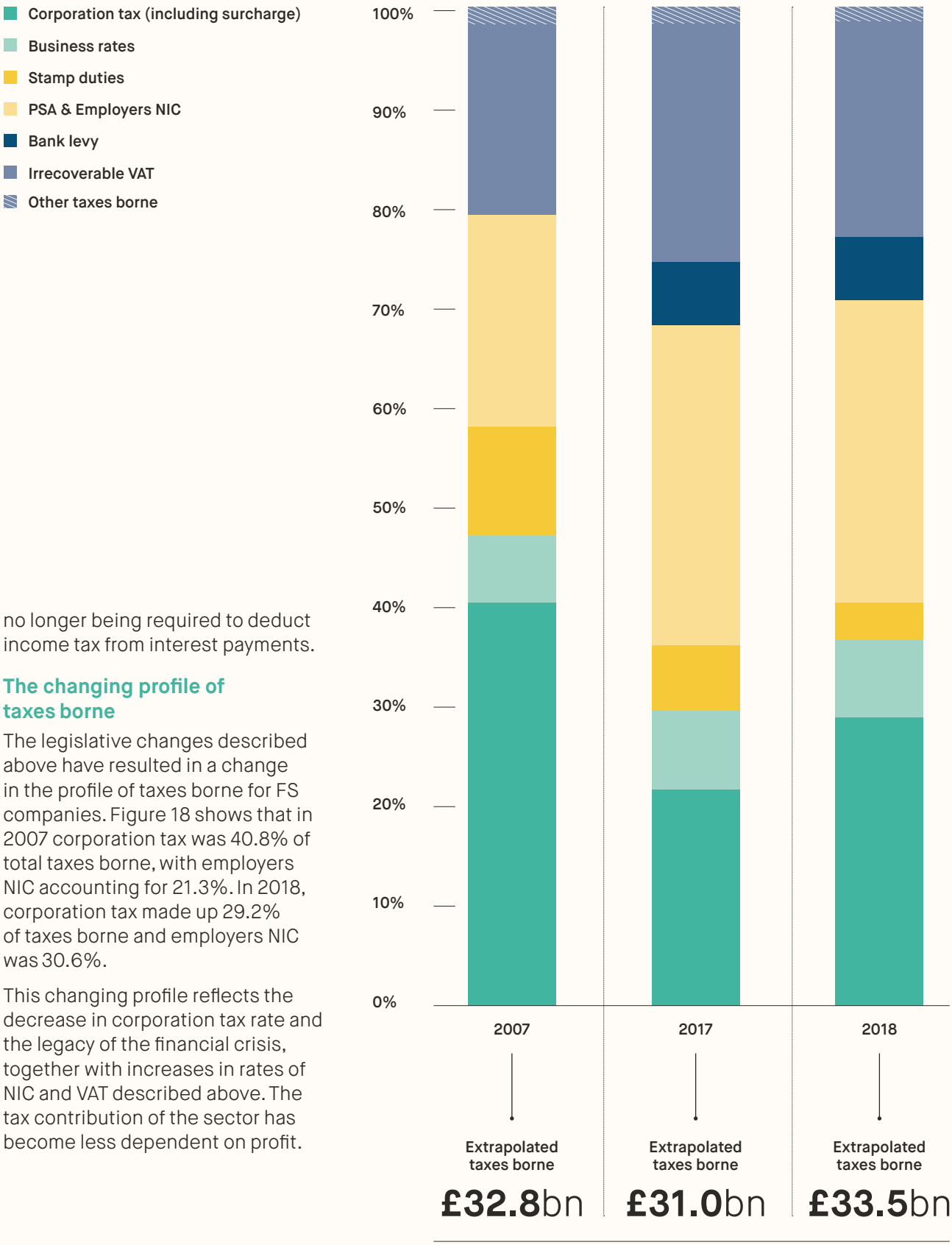
In 2011, the statutory rate of employers' NIC increased by one percentage point, from 12.8% to 13.8%, which has been offset in part by increases in the starting threshold on which employers NIC is due.

The increase in the rate of VAT to 20% in 2011 has contributed towards the increase in irrecoverable VAT, as have other factors, such as changes in the EU VAT system in 2010, alongside legislative and case law changes in the FS sector.

Taxes collected have increased by 2.1% since 2007, driven by employee income tax collected which has increased by 12.4% over this period. In 2007, the top rate of income tax was 40%. In 2010/11, an additional rate of income tax was introduced on earnings over £150,000 at a rate of 50%. In 2013/14, this additional rate was reduced to 45%. This large increase is offset by a decrease in tax deducted at source, due to banks

19 For the companies participating in both the 2007 and 2018 studies, trends in the tax payments have been calculated on a like-for-like basis. Figures are included only where the same companies provided data for the same taxes in both years.

Figure 18: The changing profile of the tax system from 2007 to 2018: Taxes borne



no longer being required to deduct income tax from interest payments.

The changing profile of taxes borne

The legislative changes described above have resulted in a change in the profile of taxes borne for FS companies. Figure 18 shows that in 2007 corporation tax was 40.8% of total taxes borne, with employers NIC accounting for 21.3%. In 2018, corporation tax made up 29.2% of taxes borne and employers NIC was 30.6%.

This changing profile reflects the decrease in corporation tax rate and the legacy of the financial crisis, together with increases in rates of NIC and VAT described above. The tax contribution of the sector has become less dependent on profit.

Trends in other business taxes borne

Figure 19 is another way of showing this changing profile of taxes borne. Ten companies have participated in the survey every year since 2007, and Figure 19 shows the trend in employers NIC, irrecoverable VAT and the bank levy for those companies (taking 2007 as the base year at 100%).

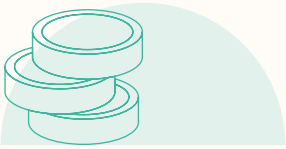
Irrecoverable VAT:
VAT is a tax on the sale of most goods and services, however, the supply of many financial services are exempt for VAT purposes. There is often limited recognition of the significance of this tax for the FS sector.

When a business supplies goods and services to its customers it generally charges VAT, and this offsets any VAT it has incurred on purchases used to run the business (input VAT). Where the supplies of a company are VAT exempt, VAT is not charged to customers. This is the case for many FS activities and therefore FS companies cannot recover their input VAT, leading to irrecoverable VAT.

Irrecoverable VAT has increased by 90.6% over the eleven years of the survey, highlighting the shift from corporation tax to other business taxes.

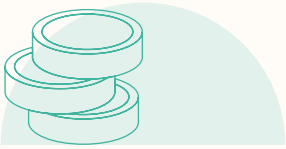
Alongside a rise in VAT rate, operational changes have also contributed to this increase. More investment in information technology and infrastructure, a drive towards outsourcing administrative business functions, and a move towards employing more contractors following the financial crisis, have all increased the external cost base.

Hence the amount of input VAT FS companies pay has also risen and since they cannot recover this, the level of irrecoverable VAT has also increased.



90.6%

Irrecoverable VAT has increased by 90.6% over the eleven years of the survey.



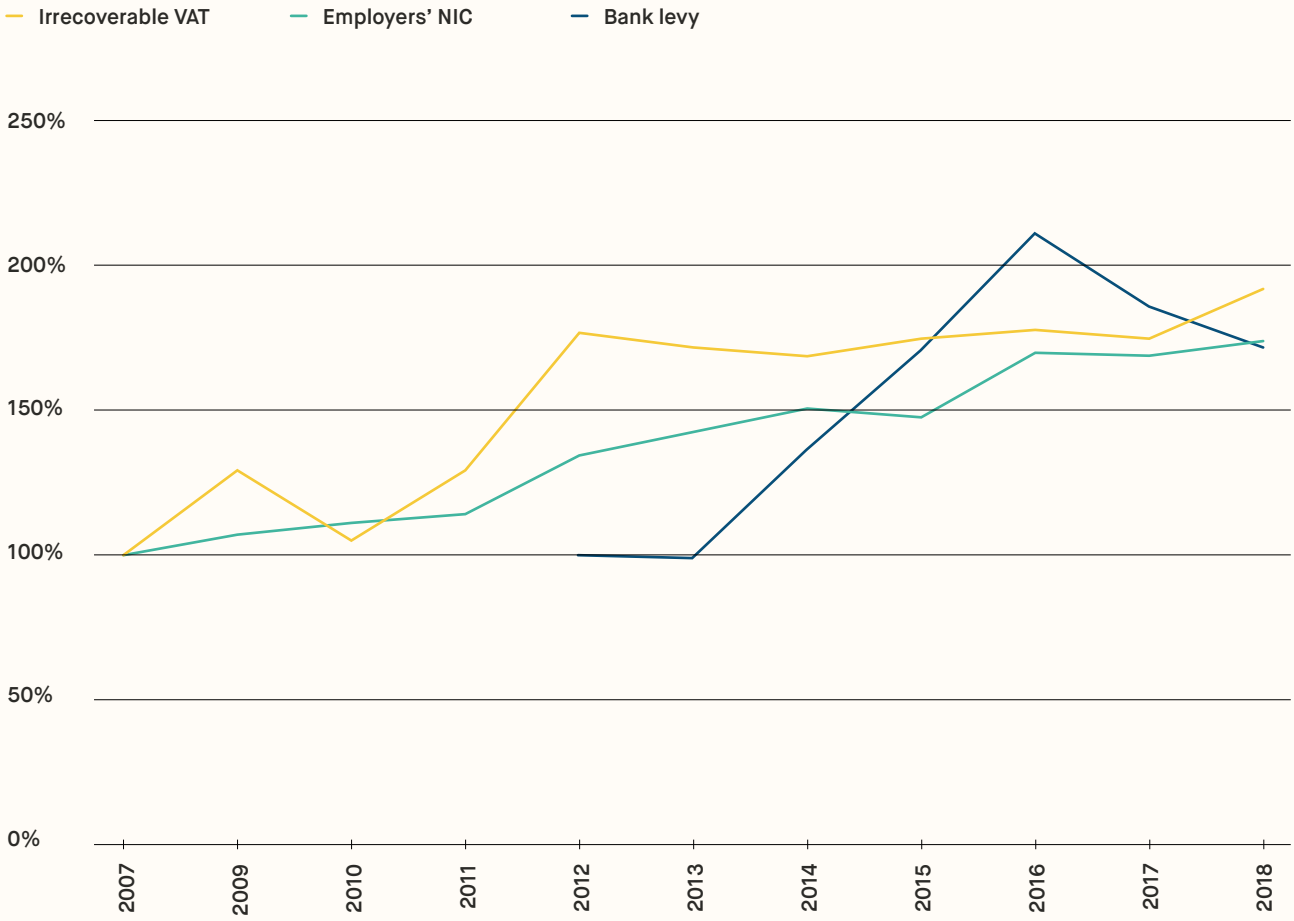
73.2%

Since 2007, the amount of NIC paid by employers has increased by 73.2%.

Employers NIC:
is paid by employers at a rate of 13.8% on wages paid to employees above a lower threshold limit (£156 per week in 2016/17). Since 2007, the amount of NIC paid by employers has increased by 73.2%, a reflection of the increase in rate referred to above and annual changes to the threshold limits over the period. The increase in employers NIC paid is also a reflection of employment and wages paid in the FS sector.

Bank levy:
was introduced in January 2011, designed to encourage banks and building societies to adopt less risky funding profiles. It is charged as a percentage of total chargeable equity and liabilities, with a higher rate applying to short term (and therefore higher risk) equity and liabilities than to long term equity and liabilities. Between its introduction in 2011 and 2018, the bank levy received by the government increased by 71.5%. There was a decrease in the bank levy in 2018 driven by a reduction in rates.

Figure 19: Trend in other taxes borne payments for FS companies



07. Putting Total Tax Contribution data in context

— 01

The Total Tax Rate – the measure of taxes borne compared to profit – is 38.9%, an increase from 36.3% in 2017.

— 02

The TTC of the study participants is equivalent to 22.7% of turnover.

— 03

While the GVA for the FS sector is worth only 6.6% of UK GVA, the tax receipts for the FS sector are 10.9% of total UK tax receipts.

— 04

44.5% of value distributed by FS companies is paid to the government in taxes.

"The pace of change, and the level of uncertainty that brings, is a constant challenge to tax departments. Often global initiatives are implemented differently, so you need to review on a territory by territory basis."

Grace Stevens-
Legal & General

Total tax rate

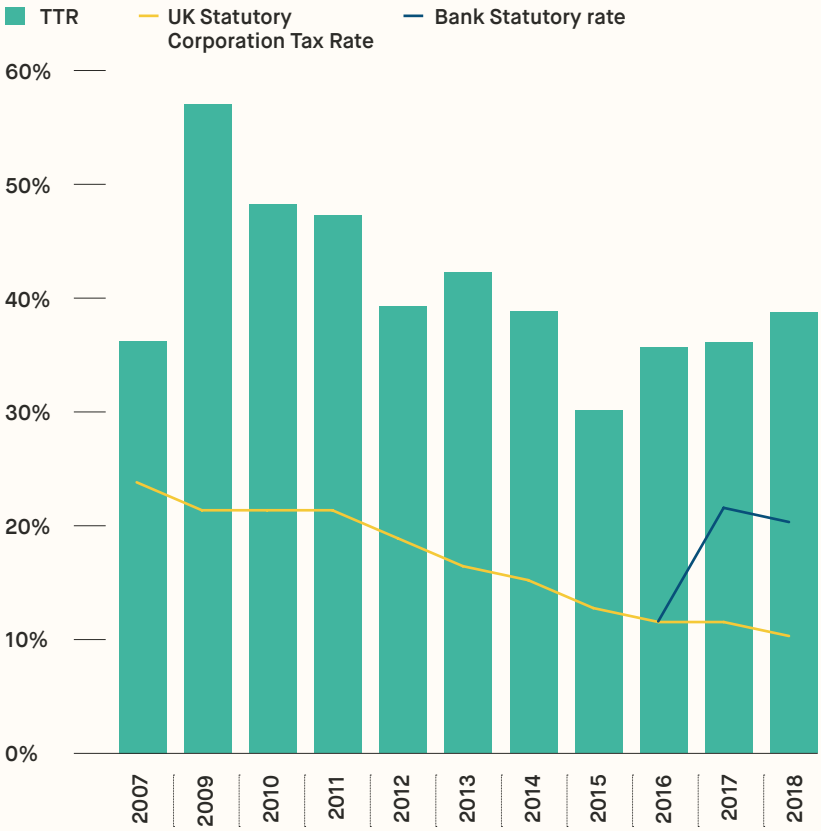
The total tax rate (TTR) [20] is a measure of the cost of taxes borne in relation to profit. It is calculated by taking total taxes borne (corporation tax plus all other taxes borne) as a percentage of profit before total taxes borne. As such, the TTR reflects the taxes that companies pay in addition to corporation tax.

The average TTR for FS companies in the 2018 study was 38.9%.[21] The increase compared to 2017 is due to the increase in taxes borne, driven by the increase in corporation tax. The TTR of 36.3% in 2017 compares to the TTR of the 100 group for the same year (broadly the FTSE 100) of 39.7%.[22] Figure 20 shows the average TTR - for FS companies in each of the eleven studies, together with the statutory rate of corporation tax.

The TTR has fluctuated over the eleven years of the study. In the 2009 study, the average TTR rose sharply above the rate in the first study (in 2007). This was due to profits falling markedly between the two years, as a result of the financial crisis. In this period, corporation tax payments fell in line with declining profit, while payments of the other taxes borne remained more stable, increasing the TTR as a result.

In the years following the financial crisis, as the economy recovered, profits increased causing the TTR to decrease. In addition, losses brought forward offset the

Figure 20: Total Tax Rates for FS companies



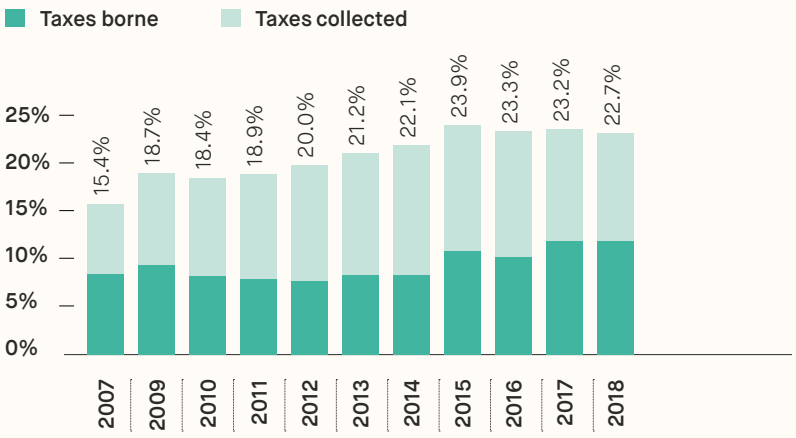
Source: survey participants. Chart shows average result.

20 See Appendix 1 for details of TTR calculation.

21 The average Total Tax Rate was 38.9%, the median was 33.9%, and trimmed mean was 35.3%.

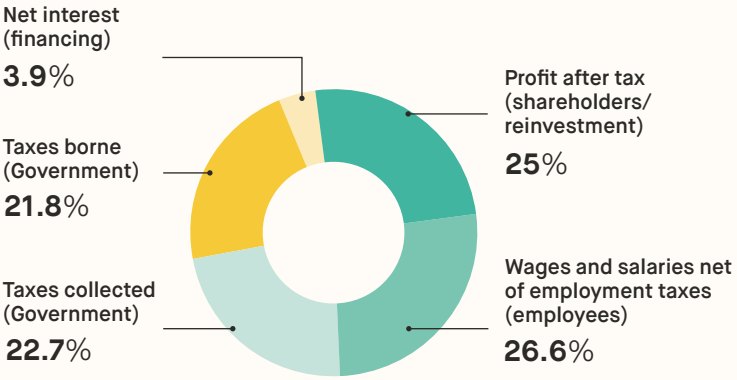
22 https://www.pwc.co.uk/tax/assets/pdf/100-group-total-tax-contribution-2017.pdf.

Figure 21: Total Tax Contribution as a percentage of turnover for FS companies



Source: survey participants. Chart shows average result.

Figure 22: Taxes borne and collected as a percentage of value distributed



Source: survey participants. Chart shows average result.

corporation tax due on these profits, depressing the TTR even further, as can be seen in 2015.

In both 2017 and 2018, the TTR has increased due to the increases in taxes borne, described above.

Total Tax Contribution compared to turnover

While TTR looks at taxes borne compared to profitability, we are able to compare both taxes borne and collected to the size of the business of each study participant. Turnover is used as an indication of the size of the business.

On average, the TTC for 2018 was equivalent to 22.7% [23] of turnover, comprising 10.4% taxes borne and 12.3% taxes collected (see Figure 21).

The changing profile of TTC as a percentage of turnover since 2007 is a function of increasing taxes but in later years, a greater increase in turnover. In 2007, the first year of the study, TTC as a percentage of turnover was 15.4%. In 2009, it rose to 18.7% as turnover fell during the financial crisis. This in turn reflects the impact of non-profit related taxes. From 2010, TTC was increasing relative to turnover, reaching a peak of 23.9% in 2015 and decreasing again slightly in the following years. In 2018, TTC as a percentage of turnover decreased by 0.5 percentage points, as turnover increased relative to TTC for the companies that participated in the survey (Figure 21).

Gross Value Added

Another way to put the TTC into an economic context is by comparing the tax contribution made by the FS sector to the Gross Value Added (GVA) of the sector. [24] In 2017 the GVA for the FS sector represented 6.6% of UK GVA. This compares to tax receipts for the FS sector amounting to 10.9% of total government tax receipts in the same year.

Taxes borne and collected as a percentage of value distributed

Lastly, the TTC can be put in the context of value created and distributed by companies. Value is distributed to the government in taxes borne and collected, to employees in wages and salaries, and is retained in the business for reinvestment or distributed to shareholders. Figure 22 shows how the value generated by the FS sector is distributed across the economy, putting the TTC into context. Taxes borne and collected represent 44.5% of the total, followed by wages and salaries representing 26.6% and profit after tax at 25.0%.

23 The average TTC to turnover was 22.7%, the median was 22.7%, and trimmed mean was 22.6%.

24 An industry's contribution made to economic output is typically measured by calculating the Gross Value Added (GVA), which is a measure of the value of goods and services produced by a sector and calculated by deducting intermediate consumption from output.

Looking Forward

This series of TTC reports demonstrates how developments in tax policy and economic events have impacted the tax contribution of financial services companies in the UK over the last eleven years. Looking forward, legislative changes, technological innovation and Brexit are all expected to have some impact on the TTC of the sector.

The main expected legislative change is to the rate of corporation tax, which is due to be reduced to 17% in 2020 (although the banks will continue to pay an additional 8% surcharge).

Technological innovation will drive productivity growth within financial services, but is also likely to have a transformative effect on operating models and on employment. It's too early to predict whether the net impact will be to increase or decrease overall FS employment, but growth in automation and robotics is likely to have an impact on the profile of jobs in these companies, and may also impact the employment tax contribution as a result.

With the UK set to leave the EU on 29 March 2019, and the terms of the withdrawal agreement and future relationship yet to be agreed, it is difficult to predict the direction of travel and the potential impact on business taxation. However, FS companies in the UK have developed contingency plans to allow them to continue serving customers within the EU from 30 March 2019. This includes adapting operating models and company structures, as well as relocating operations to locations within the EU. This has the potential to impact the future contribution from taxes.

Appendices

The following appendices detail the purpose, outline, and methodology of the study, UK taxes borne and collected by FS companies, and the data provided on total taxes borne and collected by the 47 FS companies taking part in the study.

Appendix 1- Purpose and outline of the study

Estimating the size of the FS sector's tax contribution

This is the eleventh study we have carried out for the City of London Corporation. It looks at the TTC of the FS sector in the UK for the year to 31 March 2018. The purpose of all eleven studies is to estimate the size of the contribution that the FS sector makes to tax revenues in the UK, how this has changed over time, and how it has been affected by the economic climate and changes in government policy.

The Total Tax Contribution methodology

The studies look at all the different taxes that companies pay and administer, including corporation tax, employment taxes, VAT, and other taxes, some of which are sub-sector specific. The study reports on both the taxes that are borne by these companies, as well as the taxes they administer and collect on behalf of the government.

The distinction between taxes borne and taxes collected

The TTC methodology makes a distinction between taxes borne and taxes collected.

Taxes borne are all the taxes levied on a company, which are a cost to the business and will affect its financial results. They include corporation tax, employers' NIC, irrecoverable VAT, and business rates. Taxes borne are a company's direct contribution to tax revenues. **Taxes collected** include employee income tax and NIC administered through the payroll, and the insurance premium tax charged to customers. These are the taxes of employees and customers respectively, but are collected from them by companies and paid over to the government. Taxes collected are generated by a company's business activity and are part of its indirect contribution to tax revenues. Appendix 3 lists these in full.

Total Tax Rate – example calculation

An example of the Total Tax Rate calculation is illustrated as follows.

Assumptions:

- Profit before total taxes borne £40
- Book-to-tax adjustments (£10)
- Statutory corporate income tax rate 25%

For every £1 of corporate income tax paid, there is another £1 of other business taxes paid.

ITEMS	£	REFERENCE
Profit before total taxes borne	40	(A)
Other business taxes borne	6	(B)
Profit before income tax	34	(C) = (A)-(B)
Book-to-tax adjustments	(10)	(D)
Taxable profit	24	(E) =(C)+(D)
Statuory corporate income tax rate	25%	(F)
Corporate income tax	6	(G) = (E)*(F)
Total taxes borne	12	(H) = (B)+(G)
Total Taxes Rate	30%	(I) = (H)/(A)

How we collected the data
This eleventh study has been carried out using data provided by of 47 FS companies on all their UK tax payments. These companies employed 38.0% of the UK FS sector workforce and include UK based banks, foreign banks, insurers, asset managers, real estate companies and other FS sector companies. The results are a measure of their cash taxes paid, covering both taxes borne and taxes collected. The results provide information which would not otherwise be in the public domain, since this is not information companies are required to disclose in their financial reports. PwC has anonymised and aggregated the data provided by the FS companies to produce the study results. PwC has not verified, validated, or audited the data and cannot therefore give any undertaking as to the accuracy of the study results. Where we refer to data published by the government and HMRC, this is clearly indicated.

A note on the time period covered
This eleventh study looks at tax payments by FS companies in their accounting period ended in the tax year to 31 March 2018; for the majority (68%), this is the calendar year to 31 December 2017. The first study we carried out looked at tax payments by FS companies in their accounting year ended in the tax year to 31 March 2007. The eleven studies therefore measure years from before, during and after the financial crisis and the impact of these events on UK tax payments by the sector can be seen in the results. All eleven studies use the same methodology and we are therefore able to compare the results.

Putting the Total Tax Contribution report in context of the current debate on tax transparency
September 2016 saw the requirement come into force for large companies to publish a tax strategy as it relates to UK taxation. While some FS companies are focusing on the mandatory requirement, others see it as an element of the broader transparency agenda, of which TTC is a part. In a second move towards greater transparency, some large companies were required to file their "country-by-country" disclosures with tax authorities by the end of 2017. While a number of FS companies make "country-by-country" disclosures under Article 89 of the Capital Requirements Directive IV, this is a further move towards increasing scrutiny of companies' tax affairs. Total tax contribution disclosures are helpful in raising the visibility of other business taxes paid in addition to corporation tax, as well as demonstrating the total tax contribution of the sector to the UK public finances.

Appendix 2 - Recent UK tax changes

This eleventh study shows the impact of recent legislative changes in the UK tax system and broader economy. The following changes might be expected

to have a significant impact on the TTC of the FS sector in the UK:

- On 23 June 2016, the UK voted to leave the EU. There is still uncertainty over the impact this will have on the FS sector.
- From 1 January 2016, the government introduced an 8% surcharge tax on the taxable profits of banks with certain reliefs added back (any group relief for the period from non-banking companies and any relief arising before 1 January 2016).
- The 10% starting rate on savings was abolished from April 2015 and replaced by 0%. In addition, the requirement for banks to deduct tax at source was removed from April 2016.
- The bank levy was introduced in 2011 and was intended to raise £2.5bn a year from banks operating in the UK. Following the introduction of the bank surcharge, there will be a gradual reduction in the bank levy. The rate for long term chargeable equity and liabilities was 0.105% from April 2015 to December 2015, from January 2016, the rate decreased to 0.090% and from January 2017 to 0.085%. In 2018 the rate further decreased to 0.080%. The rate for short term chargeable equity and liabilities was 0.210% from April 2015 to December 2015, from January 2016, the rate reduced to 0.18%, from January 2017 to 0.170% and further reduced to 0.160% in 2018.
- In the Autumn Statement 2014 it was announced that the amount of taxable profit that could be offset by banks' historic carried-forward losses would be restricted to 50% from April 2015. In 2016, this was further restricted to 25%.
- Legislation was introduced to restrict the deductibility of compensation expenditures arising on or after 8 July 2015 covering all compensation costs.
- Personal allowance threshold for income tax increased from £11,000 to £11,500 in 2017/18. The higher rate threshold increased from £32,001 to £33,500 in 2017/18.
- The standard rate of insurance premium tax (IPT) increased in June 2017 from 10% to 12%. The increase in the rates is due to generate £855m by 2022.
- From April 2015, pension freedom reforms removed the need to buy an annuity, allowing pensioners to make drawdowns of their pensions and savings. While 25% is a tax-free lump sum, insurers deduct PAYE on drawdowns in excess of these amounts.
- The rate of corporation tax fell to 19% in 2017/18 and it will fall to 17% in 2020.
- The apprenticeship levy was introduced in April 2017 at 0.5% of total employer's wage bill.

Appendix 3 - List of UK taxes borne and collected by financial service companies.

	Tax borne	Tax collected
Profits taxes		
Corporation tax	✓	
Bank Surcharge	✓	
Tax deducted at source[25]		✓
Property taxes		
Bank levy	✓	
Business rates	✓	
Stamp duty land tax	✓	
Stamp duty	✓	
Stamp duty reserve tax	✓	✓
People taxes		
Income tax under PAYE		✓
PSA (tax on benefits)	✓	
Employee's national insurance contributions		✓
Employers' national insurance contributions	✓	
Apprenticeship levy (net of use)	✓	
Product taxes		
Net VAT		✓
Irrecoverable VAT	✓	
Custom duties	✓	
Insurance premium tax	✓	✓
Air passenger duty	✓	
Fuel duty	✓	
Vehicle excise duty	✓	
Planet taxes		
Landfill tax	✓	
EU ETS borne	✓	
Carbon reduction commitment	✓	
Congestion charge	✓	
Climate change levy	✓	

25 Tax deducted at source from, for example, interest, royalties, subcontractors, PAYE on annuities, withholding tax on Property Income Dividends and others.

Appendix 4 - Data provided by 47 financial services companies taking part in the study.

Taxes borne and collected in their accounting year ended in the year to 31 March 2018.

Taxes borne		£Millions
Profit taxes	Corporation tax	4,245.9
	Bank Surcharge	919.2
Property taxes	Bank levy	2,593.3
	Business rates	664.4
	Stamp duty land tax	144.5
	Stamp duty/stamp duty reserve tax	348.4
People taxes	PSA (tax on benefits)	58.3
	Employers' NIC	3,413.0
	Apprenticeship levy net of use	78.9
Product taxes	Irrecoverable VAT	3,961.6
	Insurance premium tax	8.5
	Air passenger duty	7.8
	Fuel duty	4.4
	Vehicle excise duty	33.2
	Customs duty	78.8
Planet taxes	Landfill tax	1.0
	Carbon reduction commitment	11.8
	Climate change levy	7.5
Total taxes borne		**16,580.5**

Taxes collected		
Profit taxes	Tax deducted at source	3,084.9
Property taxes	Stamp duty reserve tax	940.7
People taxes	Income tax under PAYE	9,021.4
	Employee's NIC	1,436.1
Product taxes	Net VAT	526.8
	Insurance premium tax	2,027.0
Total taxes collected		**17,036.9**

Total tax contribution	**33,617.4**

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