

# Total Tax Contribution

PricewaterhouseCoopers LLP study of the UK Financial Services Sector for the City of London Corporation



# Total Tax Contribution

## PricewaterhouseCoopers LLP study of the UK Financial Services Sector for the City of London Corporation

15 December 2008

### 1 Purpose and outline of the study

- 1.1 At the request of the City of London Corporation ("City of London"), PricewaterhouseCoopers LLP ("PwC") have carried out a study of the Total Tax Contribution ("TTC") of the Financial Services ("FS") Sector in the UK. The purpose of the study is to show how the UK tax system impacts the sector and the size of the contribution it makes to the public finances in the UK.
- 1.2 The study followed the principles of the PwC Total Tax Contribution Framework. The framework looks beyond corporation tax and provides a methodology for measuring all the taxes that companies pay. The framework makes a distinction between taxes borne (those taxes which are a cost to the company) and taxes collected (where the company is the unpaid tax collector on behalf of the government). The study for the City of London covers both taxes borne and taxes collected.
- 1.3 The study was carried out using data provided by large FS companies on all their UK tax payments. It provides analysis of the TTC of these companies for the financial year to 31 March 2007, and extrapolates from this base to estimate the TTC of the FS sector as a whole. It looks at trends in the TTC across the financial years to 31 March 2006, 2007 and 2008 and comments on likely trends in the current year and going forward, given the impact of the financial crisis and the economic recession on this sector.
- 1.4 PwC has anonymised and aggregated that data provided by 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.

### 2 Key results

- 2.1 The FS sector makes a large contribution to the UK public finances. The study estimates the TTC of the FS sector in the Financial Year ("FY") to 31 March 2007 as £67.8bn or 13.9% of total government receipts for all taxes.
- 2.2 Tax payments by the FS sector will be heavily impacted by the financial crisis and by the economic recession. Figure 1 shows the possible impact of the recession using the following assumptions. Based on a fall in profit before interest and tax equivalent to a 20% reduction in FS revenues; Government CT receipts could be down by £8.4bn. In addition, job losses of 50,000 (5% of the total) will reduce the contribution in employment taxes by £1.3bn.

Figure 1 – Total Tax Contribution of the FS sector in the UK

FY 2007	Total Tax Contribution	Percentage of government receipts
<b>£'m</b>		
<b>Estimated contribution FY to 31 March 2007</b>	67,776	13.9%
<b>Estimated reduced contribution after impact of downturn</b>	58,048	11.9%

2.3 Corporation tax is the largest tax borne by FS companies. The sector as a whole provided 27.5% of total government CT receipts in the Financial Year to 31 March 2007. However, the sector bears and collects many other UK taxes. On average, for every £1 of CT, FS companies paid another £1.50 in other taxes borne, and £2.25 in taxes collected. Irrecoverable VAT and stamp duties are a heavier cost for FS than other sectors of British industry.

2.4 FS companies are major UK employers. It is estimated that the sector employs 1 million workers and contributed taxes relating to employment of £25.7 billion to the UK exchequer in 2007. This includes employers' and employees' NIC and income tax deducted under PAYE. On average, FS companies paid £26,551 in employment taxes for every employee, showing the importance of maintaining and creating jobs in the sector.

### 3 Total Tax Contribution of the FS sector

3.1 32 FS companies provided data on their UK tax payments for the FY to 31 March 2007<sup>1, 2</sup>. These companies had taxes borne of £9.8 billion and taxes collected of £9.7 billion, making a UK Total Tax Contribution of £19.5 billion or 4% of total government tax receipts for the year<sup>3</sup>.

3.2 These companies paid corporation tax of £5.3 billion, representing 12% of total government receipts for CT for the year. Government figures show total CT receipts for the FS sector for this year as £12.2 billion (27.5% of total government receipts)<sup>4</sup>. Extrapolating from this figure, and using the proportions of taxes borne and taxes collected to CT established in the study, suggests a TTC for the FS sector as a whole in the year to 31 March 2007 of £67.8bn, representing 13.9% of total government tax receipts. Extrapolation has been carried out on a conservative basis<sup>5</sup>. The FS sector therefore makes a large contribution to the UK public finances.

<sup>1</sup> Companies provided data on UK tax payments in their accounting year ended in the year to 31 March 2007.

<sup>2</sup> The 32 companies included 10 retail and commercial banks, 3 investment banks, 11 insurance companies, 4 real estate companies and 4 other FS companies.

<sup>3</sup> Government tax receipts are from the 2008 Budget Report and cover all taxes, including income tax, capital gains tax, inheritance tax, council tax and so on.

<sup>4</sup> National Statistics: T111 split Life Assurance £1,444m, Financial excluding Life Assurance £10,733m.

<sup>5</sup> The data provided by FS companies has been extrapolated to estimate the TTC of the FS sector as a whole. Extrapolation has been carried out separately for Life Assurance and FS (excluding Life Assurance) based on government figures for CT receipts. Extrapolation used the ratios of (i) CT to taxes borne, and (ii) CT to taxes collected established in the study.

Figure 2 – Total Tax Contribution FY to 31 March 2007

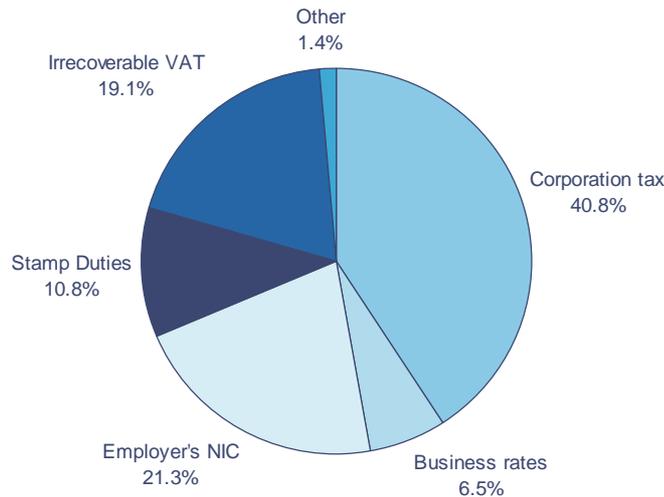
2007	FS companies in the study	Extrapolated to FS sector	Percentage of government receipts
<b>£'m</b>			
<b>Taxes borne CT</b>	5,313	12,177	2.5%
<b>Other</b>	4,468	20,641	4.3%
<b>Total</b>	9,781	32,818	6.8%
<b>Taxes collected</b>	9,666	34,958	7.2%
<b>TTC</b>	19,447	67,776	13.9%

3.3 The data provided for FS companies for 2007 shows Retail and commercial banks as the largest tax payers in the sector, followed by insurance companies. Of the TTC for companies in the study, of £19.5 billion, the retail and commercial banks represented 71.8% of the CT payments, 70.3% of taxes borne and 48% of taxes collected.

## 4 Taxes borne and collected

4.1 Figure 3 shows the profile of taxes borne for companies providing data for the study. CT is the largest tax borne by FS companies. However, it represents on average less than half of taxes borne (40.8%). For every £1 of CT borne by FS companies, therefore there is £1.50 in other taxes borne.

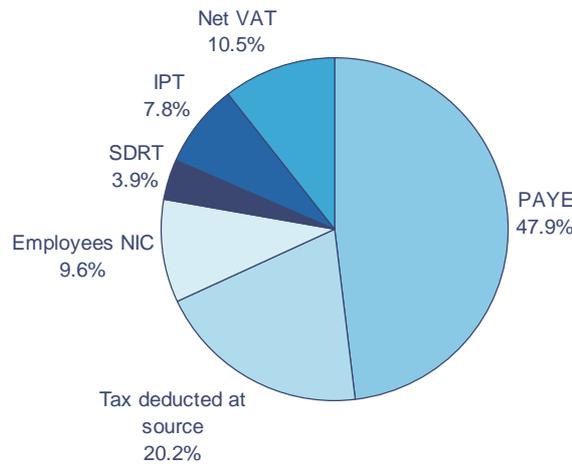
Figure 3 – Taxes borne in 2007 by FS companies providing data for the study (shown as a percentage)



Result shows the average position for a participant in the study.

- 4.2 Employers' NIC is the next biggest tax cost, at 21.3% of taxes borne, representing the role of the sector as large UK employers.
- 4.3 Irrecoverable VAT is a major cost for the FS sector representing 19.1% of taxes borne on average. This is effectively a sector tax for FS. Our TTC work with the Hundred Group each year shows that irrecoverable VAT is a higher percentage of taxes borne for FS than for any other industry sector<sup>6</sup>. Irrecoverable VAT is a major cost across the FS sector but particularly for retail and commercial banks and (non-Life) insurance companies.
- 4.4 Stamp Duties are also a higher cost for the FS sector, than for other sectors of British industry. On average, stamp duties are 10.8% of taxes borne for FS companies providing data in the study. The percentage was higher for investment banks, life assurance and real estate companies.
- 4.5 Figure 4 shows the profile of taxes collected for companies providing data for the study. These are the taxes where the company plays an administrative role in collecting taxes on behalf of the government. Overall, taxes collected for these FS companies were almost as large as taxes borne (ratio of taxes collected to taxes borne is 0.9). For every £1 of CT paid by these FS companies in 2007 there is another £2.25 in other taxes collected.

Figure 4 – Taxes collected in 2007 by FS companies providing data for the study (shown as a percentage)



Result shows the average position for a participant in the study

- 4.6 Employees' NIC and income tax deducted under PAYE are the largest taxes collected (9.6% and 47.9% respectively on average), again reflecting the role of the sector as large UK employers.
- 4.7 The FS sector also plays a role in collecting additional taxes on behalf of government. Tax deducted at source from interest (20.2% on average for all the FS companies providing data) is primarily an obligation for the retail banks. Insurance companies (excluding Life assurance) collect insurance premium tax (7.8% of taxes collected) and Investment banks collect stamp duty reserve tax (3.9% of taxes collected). Net VAT collected (output tax less input tax which can be offset) represents 10.5% of taxes collected on average.

<sup>6</sup> See PricewaterhouseCoopers LLP 2007 Total Tax Contribution Survey for the Hundred Group, February 2008. PwC carries out an annual survey for The Hundred Group of Finance Directors whose members mainly comprise the FTSE 100.

## 5 Employment taxes

- 5.1 The FS sector are large UK employers. The 30 FS companies providing employee numbers for 2007 employed nearly half a million workers in the UK (467,686). It is estimated that the sector as a whole employs around 1 million workers in the UK<sup>7</sup>. The retail banks are the largest employers in the sector.
- 5.2 The companies providing data for 2007 reported employment taxes borne and collected of £7.6bn<sup>8</sup>. On average, for each of their employees, FS companies paid an amount of £26,551 into the UK public finances in employment taxes alone. This is the multiplier effect in employment taxes for jobs created and maintained in the sector. The figure compares to a UK average national wage for that period of £24,000<sup>9</sup> and shows that the sector employs more skilled, higher paid workers.
- 5.3 The figure for employment taxes per employee rose in the subsequent year (from £26,551 on average to £34,076) despite a reduction in employee numbers overall (5.8%). As a result of the financial crisis and economic recession, job losses in the sector are now expected to be severe and this will heavily impact employment taxes paid.

Figure 5 – Employment taxes borne and collected by the FS sector in the UK

2007 £'m	FS companies in the study	Extrapolated to the FS sector
<b>Employment taxes borne:</b>		
Employers' NIC	1,741	7,614
PAYE settlements	56	N/A
<b>Total</b>	<b>1,797</b>	<b>7,614</b>
<b>Employment taxes collected:</b>		
Employees' NIC	1,133	3,188
Income tax under PAYE	4,635	14,934
<b>Total employment taxes borne &amp; collected:</b>	<b>7,565</b>	<b>25,736</b>

- 5.4 As shown in Figure 5, extrapolating from the figures provided and assuming that the FS sector employs 1 million workers in the UK suggests a total paid in 2007 for employment taxes borne and collected of £25.7 billion.<sup>10</sup> A 5% reduction in the workforce could reduce the figure by £1.3 billion, a 10% reduction by £2.7 billion, and so on<sup>11</sup>.

<sup>7</sup> Office for National Statistics, Labour force Survey, 2007

<sup>8</sup> Employment taxes borne includes Employers' National Insurance Contributions and PAYE settlements (where the company reaches an agreement with HM Revenue & Customs to pay the tax due on certain employee benefits). Employment taxes collected includes Employees' National Insurance Contributions and income tax, both deducted under Pay As You Earn.

<sup>9</sup> Office of National Statistics, 2008 Annual Survey of Hours and Earnings, median gross annual earnings for full-time employees 2007

<sup>10</sup> Extrapolation was carried out by applying the ratio of employer NICs as a percentage of taxes borne, the employee NICs and PAYE collected as a percentage of taxes collected to the extrapolated study results. The percentages were calculated using an average of different parts of the FS sector.

<sup>11</sup> Straight line percentage reduction.

## 6 Trends in tax payments

6.1 A number of the FS companies providing data for 2007 also provided data for their prior and subsequent years. We have therefore been able to look at the trends in their tax payments over a three year period between 2006 and 2008<sup>12</sup>. Figure 6 shows the trends in taxes borne and collected. It shows that the overall trends are driven by a fall in CT payments and stamp duties and increases in employment taxes and irrecoverable VAT.

Figure 6 – Trends in tax payments 2006 to 2008

Percentage trend over three year period 2006 to 2008	
<b>Taxes borne</b>	
Corporation tax	-0.9%
Stamp duties	-0.7%
Employment taxes	1.9%
Irrecoverable VAT	1.8%
Other taxes borne	1.5%
<b>Total</b>	<b>3.7%</b>
<b>Taxes collected</b>	
Employment taxes	13.2%
Other taxes collected	1.7%
<b>Total</b>	<b>15.0%</b>

Results show the trends as a percentage of the total for taxes borne and collected

- 6.2 CT payments fell in amount by 1.6% over the period. This is despite significantly higher payments by the Real Estate companies in 2008 on conversion to REIT status<sup>13</sup> and reflects both reducing profits (5.8% fall excluding REITS) and significant refunds (in respect of prior year overpayments) in both periods.
- 6.3 Government CT receipts from the FS sector are now expected to fall significantly as profitability is impacted by the financial crisis. This will likely result in significantly reduced CT payments in the current (year to 31 March 2009) and future years. In addition, losses which can be carried back to a prior year will also result in further CT refunds. We have attempted to estimate the possible impact based on data provided by FS companies in the study. A fall in PBIT (Profit Before Interest and Tax) equivalent to 10% of revenues could result in reducing CT revenues from the FS sector by £4.8 billion; a fall equivalent to 20% of revenues could result in a reduction by £8.4 billion<sup>14</sup>.

<sup>12</sup> These companies accounting years ending in the Financial Years to 31 March 2006, 31 March 2007 and 31 March 2008.

<sup>13</sup> Real Estate Investment Trust.

<sup>14</sup> Impact has been estimated based on individual estimations for the FS companies providing data for 2007. The overall percentage reduction for this group has been applied to the government figure for CT receipts from the FS sector as a whole.

## Appendix 1

### List of taxes borne and collected by FS companies

List of UK taxes	Tax Borne	Tax Collected
<b>Profits taxes</b>		
Corporation tax	✓	
Tax Deducted at Source		✓
<b>Property taxes</b>		
Business Rates	✓	
Stamp Duty Land Tax	✓	
Stamp Duty	✓	
Stamp Duty Reserve Tax	✓	✓
<b>People taxes</b>		
Income tax under PAYE		✓
PAYE Settlements	✓	
Employees National Insurance Contributions		✓
Employers National Insurance Contributions	✓	
<b>Product taxes</b>		
Net VAT		✓
Irrecoverable VAT	✓	
Customs Duties	✓	
Insurance Premium Tax	✓	✓
<b>Planet taxes</b>		
Landfill Tax	✓	
Air passenger Duty	✓	
Congestion Charge	✓	
Climate Change Levy	✓	

## Appendix 2

Data provided by 32 FS companies for their UK taxes borne and collected in their accounting year ended in the year to 31 March 2007

### Taxes Borne

£'000	2006/07 Taxes borne	% of Govt tax receipts <sup>(1)</sup>
<b>Profits taxes</b>		
Corporation tax	£5,313,232	12.0%
<b>Property taxes</b>		
Business rates	£503,254	2.4%
Stamp Duty Land Tax <sup>(2)</sup>	£129,486	1.3%
Stamp Duty Reserve Tax / Stamp Duty <sup>(2)</sup>	£198,680	5.2%
<b>People taxes</b>		
Employers NIC <sup>(3)</sup>	£1,741,542	3.5%
PAYE settlements	£56,292	0.0%
<b>Product taxes</b>		
Irrecoverable VAT	£1,807,827	2.3%
Customs Duties	£652	0.0%
Vehicle Excise Duty	£9,910	0.2%
Insurance Premium Tax	£5,730	0.2%
<b>Planet taxes</b>		
Landfill Tax	£1,685	0.2%
Air Passenger Duty	£8,027	0.8%
Congestion Charge	£37	-
Climate Change Levy	£4,878	0.7%
<b>TOTAL</b> <sup>(4)</sup>	£9,781,232	2.0%

### Taxes Collected

£'000	2006/07 Taxes collected	% of tax receipt
<b>Profits taxes</b>		
Taxes deducted at source	£2,346,674	5.3%
<b>Property taxes</b>		
Stamp Duty Reserve Tax	£362,373	9.5%
<b>People taxes</b>		
Employee NIC	£1,133,088	3.0%
PAYE	£4,634,662	3.2%
<b>Product taxes</b>		
Net VAT	£519,850	0.7%
Insurance Premium Tax	£669,532	29.1%
<b>TOTAL</b> <sup>(4)</sup>	£9,666,179	2.0%

<sup>(1)</sup> From 2008 Budget report relating to 31 March 2007 published by HM Treasury.

<sup>(2)</sup> The split between SDLT and SRTD/ Stamp duty is from the UK Statistics Authority ([www.statisticsauthority.gov.uk](http://www.statisticsauthority.gov.uk)).

<sup>(3)</sup> Employer/employee split from OECD statistics

<sup>(4)</sup> Total Government receipts include Capital gains tax, Inheritance tax, Excise duties, Council tax, employee national insurance contributions, other taxes and royalties.

This publication (Report) has been prepared as general information and incorporates aggregated data from various third party sources and respondents. PricewaterhouseCoopers LLP (PwC) has not independently verified, validated, or audited the data received from such third parties. PwC makes no representations or warranties with respect to the accuracy of the information contained in this Report, and in no event will PwC, its related partnerships or entities, or the partners, agents or employees thereof be liable to the user (subject to any agreement with the user to the contrary) or to any third party (including any of the user's clients) for any inaccuracy of information contained in this Report (including any errors or omissions in its content, regardless of the cause of such inaccuracy, error or omission), for any usage of, decision made or action taken in reliance on the Report, or for any consequential, special or similar damages even if advised of the possibility of such damages. This Report is not intended to give legal, tax, accounting or other professional advice. No user should act on the basis of any matter contained in this Report without considering and, if necessary, taking appropriate professional advice on their individual requirements.

© 2009 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.