

SPECIAL INTEREST PAPER



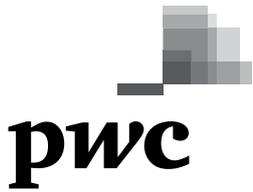
Report prepared for the City of London Corporation
by PwC
Published December 2012

Fifth Edition

The Total Tax Contribution of UK Financial Services

City of London Economic Development
PO Box 270, Guildhall, London, EC2P 2EJ
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Executive summary

The key findings from this fifth study show that, for the financial services (FS) sector in the UK in the year to 31 March 2012:

- The sector paid an estimated amount of total taxes, (including both taxes borne and taxes collected), in the region of £63.0bn, or 11.6% of total UK government tax receipts. This is the same level as our estimate of the contribution of the UK financial services sector in 2011 (£63.0bn).
- 1.1m people (3.8% of the UK workforce) were employed by the FS sector.
- Estimated employment taxes in the region of £27.7bn, 11.8% of government receipts from employment, were generated by the sector.
- With changes in the VAT and national insurance legislation in the year, payments of irrecoverable VAT and employers' national insurance contributions have increased and are now the largest taxes borne, accounting for 24.1% (2011: 20.1%) and 35.2% (2011: 28.8%) respectively of total taxes borne.
- Corporation tax is the third largest tax borne (21.9% of total taxes borne) and has decreased compared to last year (2011: 27.0% of total taxes borne) as a result of a fall in the tax rate and lower profitability.
- The sector paid increased amounts of personal income tax, VAT and social security contributions compared to the prior year which helped to maintain the overall level of total tax contributions. These increases were due in part to rises in the rates of VAT and national insurance contributions as well as changes in the thresholds for personal income tax and national insurance contributions.
- £1.6bn was paid by the FS sector in respect of the new bank levy. Due to the timing of the introduction of the bank levy, this only includes three of four quarterly bank levy payments and the full impact will not be seen until the 2012/2013 tax year.
- The study reflects a changing tax system over the five studies. In 2012, corporation tax represents 21.9% of taxes borne (2007: 40.8%), employers' NI represents 35.2% (2007: 21.3%) and irrecoverable VAT 24.1% (2007: 19.1%). The profile of taxes borne has moved from corporation tax to other taxes borne.
- Over the period since 2007, taxes borne, driven by corporation tax, have shown more volatility than taxes collected.
- At a sub sector level, the banks are the largest payers in the financial services sector and are also the largest employers.

Purpose and outline of the study

Estimating the size of the FS sector's tax contribution

This is the fifth study we have carried out for the City of London Corporation. It looks at the Total Tax Contribution (TTC) of the financial services sector in the UK for the year to 31 March 2012. The purpose of this study, and of the four previous studies, is to show the size of the contribution that the financial services sector makes in tax revenues in the UK, and how this has changed over time and been affected by the economic climate.

The Total Tax Contribution methodology

The studies use the PwC Total Tax Contribution (TTC) methodology, which looks at all the different taxes that companies pay and administer, including corporation tax, employment taxes, VAT, and other taxes. The study reports on the total taxes that are borne by these companies, and also on the total of 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 its cost and will affect its results when paid. They include corporation tax, employers' national insurance contributions (NIC), 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 the company and paid over to government. Taxes collected are generated by the company's business activity and are part of its indirect contribution to tax revenues.

How we collected the data

The studies have been carried out using data provided by FS companies on all their UK tax payments. 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 the 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. We also refer to data published by the Government and HMRC and this is clearly indicated in this report.

A note on the time period covered

This fifth study looks at tax payments by FS companies in their accounting period ended in the tax year to 31 March 2012; for the majority (79%), this is the calendar year to 31 December 2011. 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 five studies therefore measure years covering 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 five studies use the same methodology and we are therefore able to compare the results.

Significant recent UK tax changes

This fifth study shows the impact of rate increases in UK taxes during the year. The changes that have occurred to the UK tax system and which might be expected to have a significant impact on the total tax contribution of the FS sector in the UK are:

- The first payments of the bank levy were due in the year to 31 March 2012. The payments were due in quarterly instalments and, owing to the timing of the introduction of the scheme, only three quarterly payments are included in the Government figures for the 2011/2012 tax year. For the data submitted by the banks in the survey, only two payments are likely to have been made in the period covered by their 2011 accounts. The amount of the bank levy included in this report therefore does not represent a full year of payments.
- Bank payroll tax was a one-off tax which applied to bonuses awarded from 9 December 2009 to 5 April 2010. Bank payroll tax therefore only appears in the 2011 study and not in the 2012 study.
- The main rate of UK corporation tax was reduced from 28% to 26% from 1 April 2011.
- The rate of VAT increased from 15% to 17.5% on 1 January 2010, and again to 20% on 4 January 2011.
- The rates for NIC have each risen by one percentage point as shown:

	2011	2012
Employers' NIC	12.8%	13.8%
Employees' NIC main rate (applies to income between the primary threshold and upper earnings limit)	11%	12%
Employees' NIC upper rate (applies to income above the upper earnings limit)	1%	2%

- In addition, the upper and primary thresholds for NIC changed as follows:

	2011	2012
Primary threshold	£110 per week	£139 per week
Upper earnings limit	£844 per week	£817 per week

- The threshold above which the 40% rate of income tax applies was lowered from £37,400 to £35,000 while the personal allowance was increased from £6,475 to £7,475.

Estimated contribution of the FS sector in the UK

Total Tax Contribution for 2012

From the details of the tax payments provided by the companies participating in our 2012 study, we estimate that the FS sector in the UK made a Total Tax contribution of around £63.0bn in the year to 31 March 2012.

The 39 (2011:43) companies taking part in the study reported total taxes borne of £9.9bn (2011:£10.7bn), and total taxes collected of £13.1bn (2011: £12.2bn). As shown in Figure 1, extrapolating from these figures we have estimated total taxes borne for the financial services sector as a whole of £23.8bn (2011: £27.6bn), and taxes collected of £39.2bn (2011: £35.4bn). Adding taxes borne and taxes collected together gives an estimated Total Tax Contribution for the sector of £63.0bn (2011: £63.0bn), and this represents 11.6% (2011: 12.1%) of all government receipts for all taxes.^{1,2}

The totals for corporation tax, bank levy and bank payroll tax for the whole FS sector are not extrapolated from survey data, but are taken from published government figures.

**Figure 1 Total Tax Contribution of the financial services sector in the UK
Financial year to 31 March 2012**

£billions	FS companies in	Extrapolated	% of government
	the study	to the FS sector	receipts
	2012	2012	2012
Taxes borne			
Corporation tax	1.68	5.4 ^(a)	12.8% ^(c)
Bank levy	0.94	1.6 ^(b)	100% ^(d)
Other	7.30	16.8	
Total	9.92	23.8	4.4%
Taxes collected	13.08	39.2	7.2%
TTC	23.00	63.0	11.6%

^{(a)(b)} Actual figures for the FS sector from government statistics

^{(c)(d)} Percentage of receipts for corporation tax and bank levy

Trends in Total Tax Contribution

Figure 2 shows the Total Tax Contribution of the FS sector, as estimated in the five studies, both as absolute amounts and as a percentage of government tax receipts.

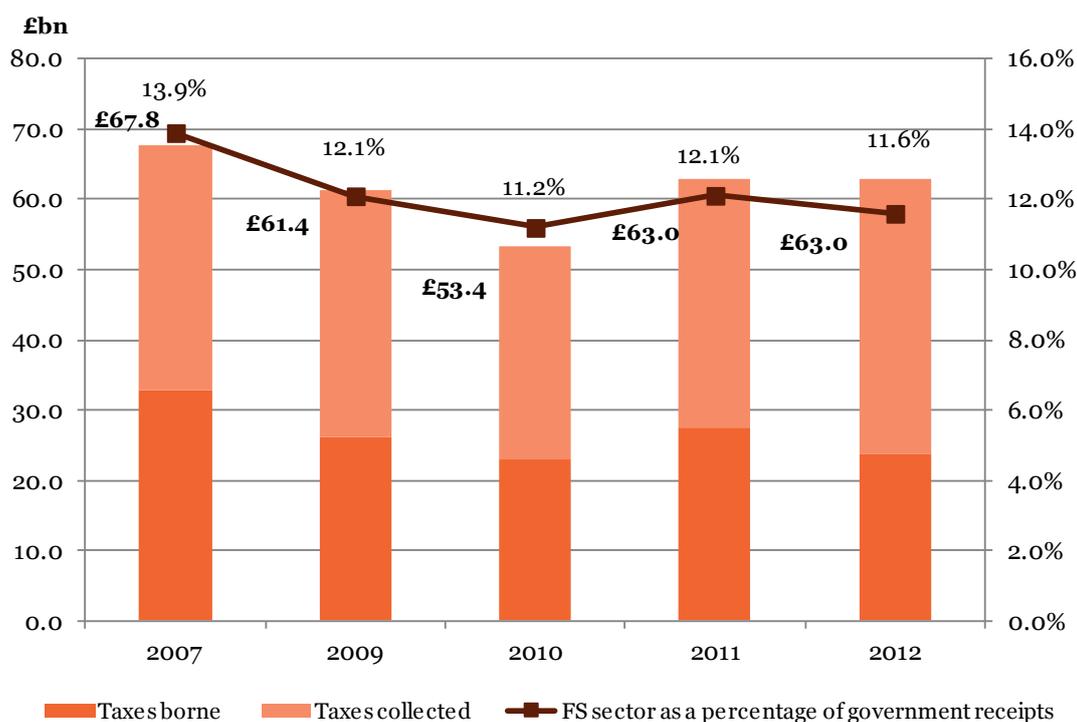
Having increased between the 2010 and 2011 studies, the Total Tax Contribution remained stable in 2012. The estimated Total Tax Contribution fell by 9.4% between 2007 and 2009, driven mainly by lower corporation tax payments. The Total Tax

¹ Government receipts from Office for Budget Responsibility, 'Economic and Fiscal Outlook', December 2012. Covers all taxes, including income tax, capital gains tax, inheritance tax, council tax, etc.

² Extrapolation is based on government figures for corporation tax receipts from the sector as shown in HMRC T11.1. Extrapolation uses the ratios of (1) CT to taxes borne; and (2) CT to taxes collected for different parts of the sector, as established in the study. Extrapolation is an estimate only, apart from corporation tax, bank levy and bank payroll tax, where actual figures are included.

Contribution then fell a further 13.0% between 2009 and 2010, again driven by lower corporation tax; but also reflecting other factors, such as job losses in the sector and the temporary cut in the VAT rate to 15%. In 2011, the estimated Total Tax Contribution rose by 18.0% compared to 2010. Higher payments of corporation tax, the introduction of the bank payroll tax, and increases in the standard rate of VAT all contributed to the increase seen.

Figure 2 Total Tax Contribution of the financial services sector in the UK Comparison of the five study results



Monetary figures refer to amounts of taxes borne and collected together.

The overall amount of the estimated Total Tax Contribution has remained stable between 2011 and 2012, although there has been an increase in the estimated taxes collected and a decrease in estimated taxes borne. The drivers of these trends are discussed more fully later in this report, but in summary, the fall in taxes borne between the 2011 and 2012 studies is due largely to the drop in corporation tax payments, partly explained by the reduction in the corporation tax rate from 28% to 26% and the end of bank payroll tax. The newly introduced bank levy on the other hand, increased the level of taxes borne as did increases in other taxes borne (irrecoverable VAT and employers' NIC).

Wider economic contribution

This year we asked companies for the first time to provide information on their wider economic contribution in the form of capital investments and research and development expenditure.

Eighteen companies provided data on their capital expenditure in the period under review. In total these companies spent £4.7bn representing 3.9% of the total UK capital expenditure in the period.

Sixteen companies provided data on research and development expenditure. The figure of £96m for these companies represents 0.6% of annual UK research and development spending.

Trends in tax payments

Trends between 2011 and 2012

The extrapolation for the FS sector is performed at the level of taxes borne, taxes collected and those taxes for which details of taxes paid are available from the Government for the FS sector as a whole.

In order to understand the changes in the separate taxes that make up the taxes borne and the taxes collected, and the impact that these might have on the FS sector as a whole, we can compare data for the 35 (2011: 29) FS companies that participated in both the 2011 and the 2012 studies.

Taxes borne

As shown in Figure 3, total taxes borne decreased by 4.4% overall (2011: 69.6% increase) for the companies in both the 2011 and 2012 studies. Figure 3 shows how particular taxes contributed to this trend. Corporation tax is discussed in a later section of this report and accounted for five percentage points of the 4.4% overall decrease. The one-off bank payroll tax, which banks were liable to pay only in the 2011 study period, resulted in a decrease in taxes borne of twenty percentage points. These decreases were however partially countered by payments of the newly introduced bank levy and by increases in irrecoverable VAT and employers' NIC which were due in part to increases in the rates of these taxes.

Taxes collected

Total taxes collected increased by 5.9% overall (2011: 7.0%) between 2011 and 2012 for the companies in both studies. Figure 3 also shows how particular taxes contributed to this. Employee income tax deducted under PAYE accounted for most of the increase (5.0% points out of 5.9%), but there were smaller increases in employee NIC and other taxes which were partially offset by a decrease in net VAT paid. Employment taxes are also discussed further in a later section of this report. An increase of 2.3%³ in average wages for employees in the study is a factor in increasing employee taxes, as were the changes in rates, thresholds and allowances.⁴

³ The average is based on the increase in the average salary for all employees taking into account only those companies that took part in the both the 2011 and 2012 surveys.

⁴ From 2011/2012, the lower limit of the 40% personal income tax band was reduced from £37,400 to £35,000. NIC rates increased by one percentage point. The upper earnings limit for NIC was lowered and the primary threshold was raised.

Figure 3 Trends in taxes borne and collected 2011/2012

	% increase/decrease
Taxes borne	
Corporation tax	-5.0%
Bank levy	9.4%
Bank payroll tax	-20.0%
Employers' NIC	3.7%
Irrecoverable VAT	7.3%
Other taxes borne	0.2%
Total decrease	-4.4%
Taxes collected	
Employee income tax	5.0%
Employees' NIC	1.0%
Net VAT	-1.5%
Tax deducted at source	0.5%
Other taxes collected	0.9%
Total increase	5.9%

Trends between 2007 and 2012

Seventeen (2011: 17) companies from the 2012 study also participated in the first study in 2007, so we can look at the trends for this smaller group over those six years, spanning before and after the financial crisis⁵.

Figure 4 shows the trends in taxes borne and collected for the smaller group since the first study was carried out in 2007. Total taxes borne overall for the 17 FS companies in both studies are still 15.3 % lower than in 2007; and this is entirely due to lower corporation tax payments. Taxes collected are 5.8% higher than in 2007 with the increase being due to changes in PAYE.

Figure 4 Trends in taxes borne and collected 2007/2012

	% increase/decrease
Taxes borne	
Corporation tax	-43.3%
Bank levy	9.3%
Employers NIC	5.7%
Irrecoverable VAT	13.0%
Other taxes borne	0.0%
Total decrease	-15.3%
Taxes collected	
Employee income tax	8.9%
Employee NIC	-1.0%
Net VAT	0.9%
Tax deducted at source	-2.9%
Other taxes collected	-0.1%
Total increase	5.8%

⁵ For the companies participating in both the 2011 and 2012 studies, and in both the 2007 and 2012 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.

Over the six years from 2007 to 2012, the shape of the tax system has changed for FS companies as shown by the decrease in corporation tax and the increase in irrecoverable VAT. In 2007 corporation tax was 40.8% of total taxes borne, with irrecoverable VAT accounting for 19.1%. In 2012, corporation tax is 21.9% of taxes borne and irrecoverable VAT is 24.1%.

Figure 5 Trend in taxes borne and collected for companies that have participated in all years of the study

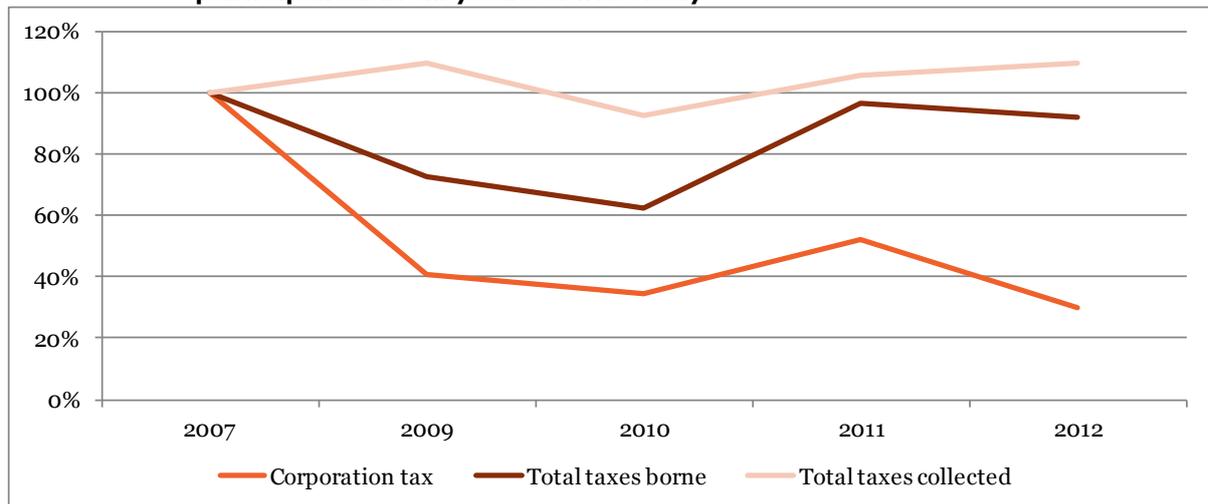


Figure 5 above shows the trend since 2007 in the total amount of corporation tax, taxes borne and taxes collected paid by the 12 companies that have participated in all years of the study, taking 2007 as the base year. The impact of the financial crisis in the 2009 and 2010 studies can be seen.

For this small group of companies, there has been a substantial fall in corporation tax which has driven the trend in taxes borne. The decrease in taxes borne is however less marked than the trend in corporation tax as other taxes borne have increased in the period.

Overall there has been a gradual increase in taxes collected over the six years.

Profile of taxes paid by survey participants

As well as looking at the amounts of each tax borne or collected by the study participants, we have also considered the relative proportions of the different taxes.

Profile of taxes borne

Figure 6 shows the profile of taxes borne for companies providing data for the study. All of these taxes are a direct cost to these companies and have an impact on their financial results. Aside from corporation tax, many are "above the line" taxes that are deductible in calculating profit before tax, and will not be separately disclosed in financial statements. Total taxes borne are the direct tax contributions of financial services companies to the public finances.

Figure 6 shows that corporation tax is just over a fifth (21.9%, 2011: 27.0%) of the tax cost on average. Compared to the previous year, there has been a marked reduction in the amount of corporation tax both in absolute terms and in terms of the percentage of taxes borne. For every £1 of corporation tax paid there is another £3.57 (2011: £2.70) paid in other taxes borne.

Figure 6 Taxes borne by financial services companies

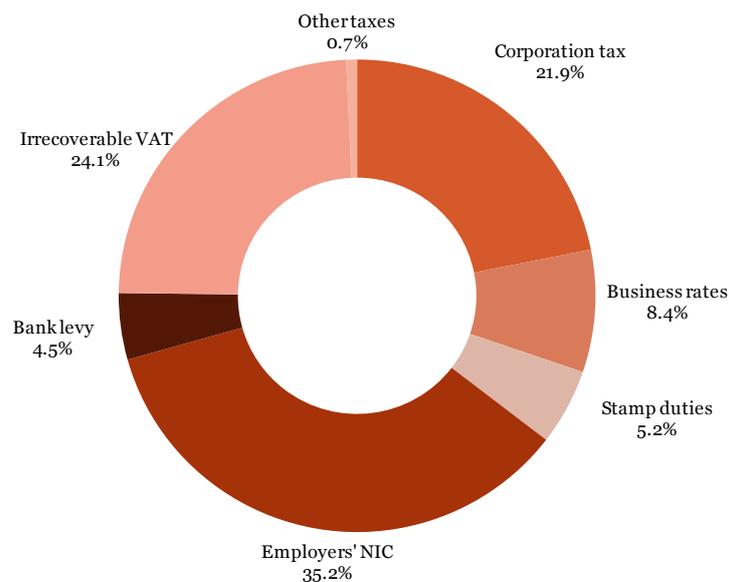


Chart shows the average result for companies in the study.

Employer's NIC is the largest tax borne, at 35.2% (2011: 28.8%) of taxes borne on average. The companies in the study are large employers, together employing 497,491 (2011: 474,530) staff. Payment of the bank levy in the 2012 study period represents 4.5% of taxes borne on average.

Irrecoverable VAT is another large tax cost for the financial services sector at 24.1% (2011: 20.1%) of total taxes borne on average. We have extrapolated from the

figures provided in the study to estimate irrecoverable VAT for the financial services sector as a whole as being in the region of £6.0bn to £7.0bn.⁶

Profile of taxes collected

Figure 7 shows the profile of the taxes collected by the companies in the study. These are the taxes collected from employees and customers and are not a direct cost to the companies themselves, other than the cost of administration. The companies are responsible for administering these taxes and paying the amounts collected over to the Government, and we are therefore able to measure the cash contribution to the public finances. Taxes collected arise from the jobs created and the services provided to customers by FS companies and are part of their indirect contribution to tax revenues.

Taxes collected are 1.32 (2011: 1.14) times the size of taxes borne, and for every £1 of corporation tax paid by financial services companies there is another £7.79 (2011: £4.23) in taxes collected.

Figure 7 Taxes collected by financial services companies

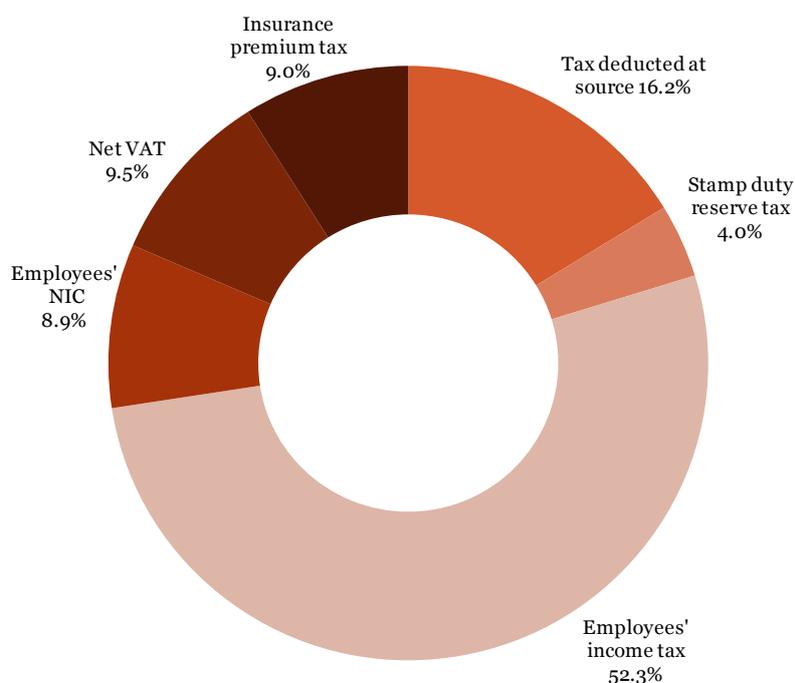


Chart shows the average result for companies in the study.

Employees' income tax and NIC deducted under PAYE are the largest taxes collected, and together represent 61.2% (2011: 59.8%) of the total on average.

The financial services sector also administers and collects VAT and several other taxes on behalf of government. Tax deducted at source is 16.2% (2011: 19.2%) of the total on average, and includes tax deducted from interest paid to customers by the retail banks, and from annuities by life insurers. Insurance companies (non-life

⁶ Extrapolation uses the ratio of irrecoverable VAT to taxes borne (excluding bank payroll tax and corporation tax), averaged across the different parts of the sector. Extrapolation is an estimate only.

insurers) administer insurance premium tax, and investment banks administer stamp duty reserve tax.

Total Tax Contribution profile

Figure 8 combines taxes borne and taxes collected to show the average Total Tax Contribution profile for companies in the study.

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 are 48.3% (2011: 42.2%) of the total.

Corporation tax is less than a tenth (9.5%, 2011: 14.8%) of the Total Tax Contribution; and there are many other important taxes both borne and collected by FS companies.

Figure 8 Total Tax Contribution of financial services companies

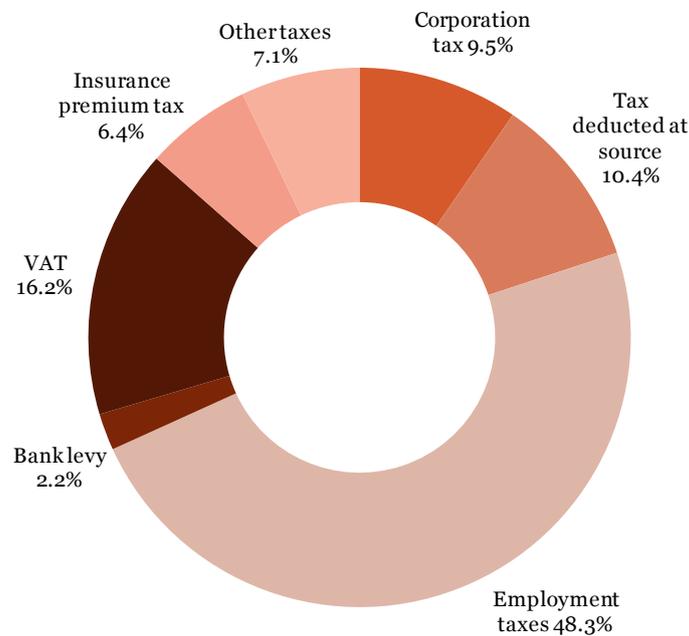


Chart shows the average result for companies in the study.

Employment taxes

Extrapolation of the employment taxes paid by the FS sector

Employment is an important way in which the financial services sector contributes to the UK economy. Government figures show that the sector employs over 1.1 million employees, which is 3.8% (2011: 3.9%) of the total UK workforce (both private and public sector together).⁷ Using the data provided for this study, we estimate that employment in the financial services sector generates total employment taxes of £27.7bn (2011: £29.2bn) (see Figure 9).⁸ We estimate this to be 11.8% (2011 12.6%) of government tax receipts from employment.⁹

Figure 9 shows the employment taxes for the FS companies taking part in the study, totalling £11.3bn. This includes the employer NIC totalling £3.0bn, and employee NIC and income tax deducted under PAYE totalling £8.3bn. Extrapolating from these figures, we estimate total employment taxes borne by the sector of £6.3bn (and total employment taxes collected of £21.4bn. Employment taxes are the largest taxes borne and collected by FS companies; and these taxes arising from the employment generated by the sector are a major contribution to the public finances.

Figure 9 Employment taxes borne and collected by the financial services sector in the UK

£billions	FS companies in	Extrapolated
	the study	to the FS sector
	2012	2012
Employment taxes borne		
Employer NIC	3.0 ^(a)	6.3
Total	3.0	6.3
Employment taxes collected		
Employee PAYE and NIC ^(b)	8.3	21.4
Total employment taxes	11.3	27.7

^(a) Includes benefit tax (PAYE agreements) of £40.0m

The one-off bank payroll tax that was charged on bonuses awarded between 9 December 2009 and 5 April 2010 was paid by the banks in the 2011 study period and totalled £3.4bn for the FS sector as a whole. The bank payroll tax was not levied in the period covered by the 2012 study.

⁷ Office for National Statistics, 'Labour market statistics', September 2012, employment table EMP02

⁸ Extrapolation has been carried out by multiplying the average employers' NIC, employees' NIC and PAYE for the employees in the study to the total number of employees in the FS sector. Extrapolation is an estimate only.

⁹ Calculation is extrapolated employment taxes as a percentage of government receipts for income tax under PAYE, all NIC receipts.

Wages and taxes per employee

The financial services sector employs skilled, well-paid, employees. Across all employees in the study, the average wage¹⁰ was £51,700, an increase of 2.3% (taking only those people employed by companies that participated in the study in both years). The UK national average for the period was £24,093 (2011: £23,381).¹¹ Official figures for wages and salaries in the FS sector and PwC analysis indicate that the average wage in 2011 was £45,000 to £55,000.¹² Companies which employed 77.1% of the employees paid an average wage per employee between £25,000 and £55,000.

Employment taxes for each employee are £22,971 on average,¹³ taking amounts borne and collected together. These are an indicator of the direct benefit to the Exchequer for each job created or maintained in the sector. For companies which employed 67.2% of employees, the average employment taxes per employee are between £10,000 and £30,000.

Trends in employment and employment taxes

Employee numbers for the FS sector have fallen by 1% since the last study. Figure 10 shows the average trends between 2011 and 2012 for the companies in both studies. Employee numbers fell 1.0% (2011: 2.2%), but employment taxes increased 13.3%, ignoring bank payroll tax. This is partly due to an increase in salaries of 2.3%, but is also due to tax increases. The NIC rates were increased in 2011/2012 and the thresholds were changed.¹⁴ For personal income tax, the upper limit of the 20% rate band was lowered.¹⁵

¹⁰ 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. The median average per company is £50,281. The range of figures for average wage per company is £19,985 to £331,433, and the mean average per company is £84,375.

¹¹ Office for National Statistics - average weekly earnings

¹² Financial services sectors wages and salary and compensation figures published by Eurostat.

¹³ The average employment taxes 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. The median average per company is £26,882. The range of figures per company is £5,177 to £156,191, and the mean average per company is £42,715.

¹⁴ The National Insurance Contribution rates were all increased by one percentage point to 12%, 2% and 13.8% for employees' rate, employees' upper rate and employers' contributions respectively. The primary threshold was raised and the upper earnings limit lowered for 2011/12.

¹⁵ For 2011/2012, the threshold at which the 40% personal income tax rate applies was reduced from £37,400 to £35,000, which does not entirely offset the effect of increasing the basic allowance from £6,475 to £7,475. In addition, the personal allowance is clawed back from the highest earners.

Figure 10 Trends in employment and employment taxes – 2011/2012

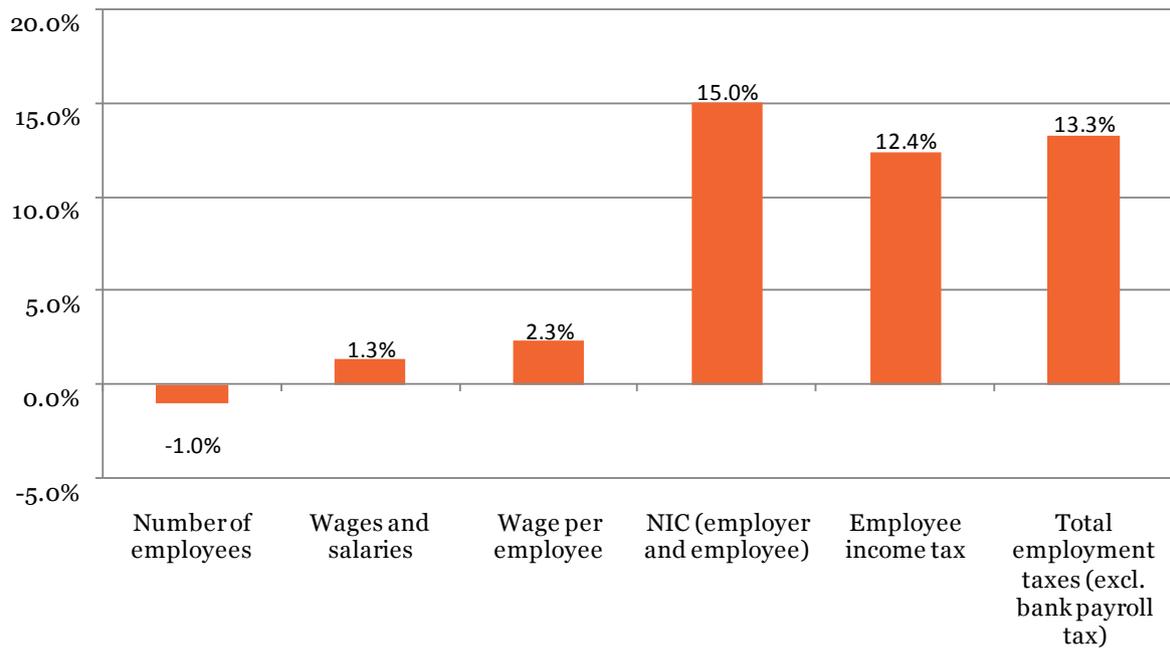


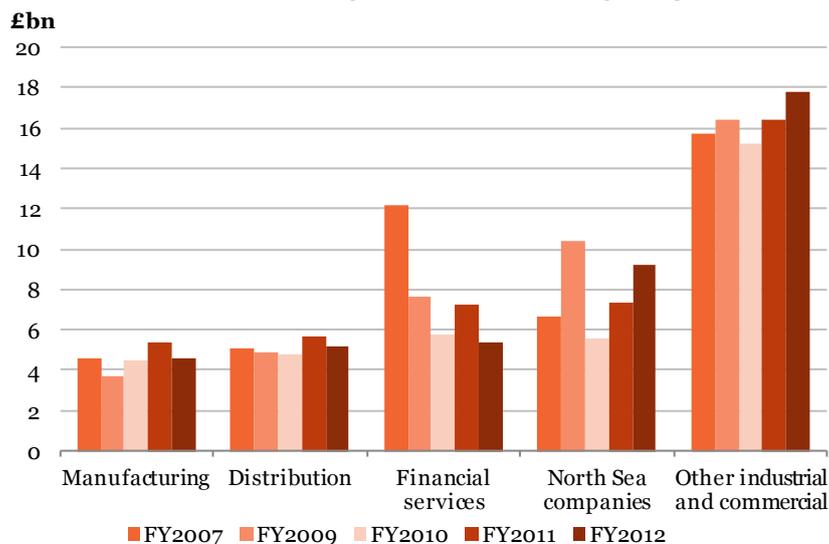
Chart shows the average trend for employees in the study.

Corporation tax

The FS sector is the second biggest payer of corporation tax

Government figures show the importance of the financial services sector for corporation tax receipts although the total has declined since 2011. Figure 11 shows that in 2012, the corporation tax payments of the financial services sector, fell behind those of the North Sea companies for the first time since 2009, due in part to a rise in oil prices. In 2012, financial services paid 12.8% (2011: 17.2%) of total corporation tax receipts, and North Sea companies 21.9% (2011: 17.4%).¹⁶

Figure 11 Government corporation tax receipts by business sector



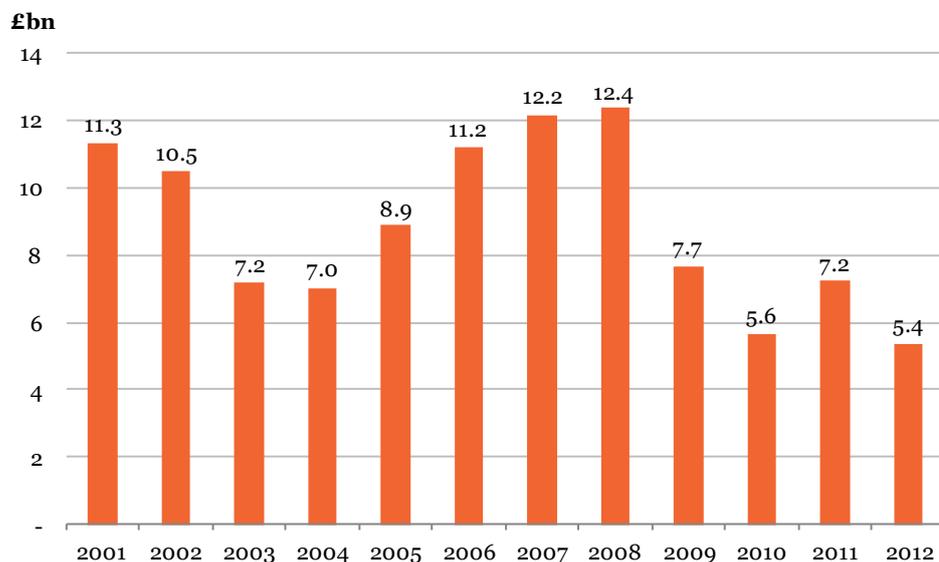
The trend in corporation tax and the impact of the bank levy

Government receipts from corporation tax have been heavily affected by the financial crisis and the economic recession, as well as the reduction in the main corporation tax rate from 30% in 2007/2008 to 28% in 2008/2009 and 26% in 2011/2012. The total from all business sectors in 2012 is 4.9% below that in 2007. Figure 12 shows the pattern of corporation tax receipts from the financial services sector for all years from 2001 (tax year to March 2001). It shows a cyclical pattern, with payments previously dropping to the current levels in 2003 and 2004. Corporation tax from the financial services sector has fallen 26.1% between 2011 and 2012.

For the FS companies in our studies, corporation tax payments have declined by a similar amount on average. For the companies in both studies, corporation tax payments declined by 32.8% between 2011 and 2012. For the companies which took part in the first study, corporation tax payments in 2012 are on average nearly 60% below those in 2007.

¹⁶ HMRC National Statistics, 'Corporation Tax' - Table T11.1

Figure 12 Government corporation tax receipts from the financial services sector



Trends in corporation tax and profit before tax

Corporation tax is linked to profitability. Figure 13 compares these trends with the average trend in profit before tax, for the same companies. Between 2010 and 2011 there was a steep increase in both profits and corporation tax as the economy started to recover and the amount of tax losses available to companies decreased. In the last year, profits have fallen back affected by the sovereign wealth crisis in Europe and the provisions related to payment protection insurance. Corporation tax payments have fallen by a similar amount to profits, though there is a timing effect to be considered; half of the tax payments relating to profits accrued in 2011 will be paid in 2012.

Figure 13 Trend in corporation tax payments and profit before tax for financial services companies

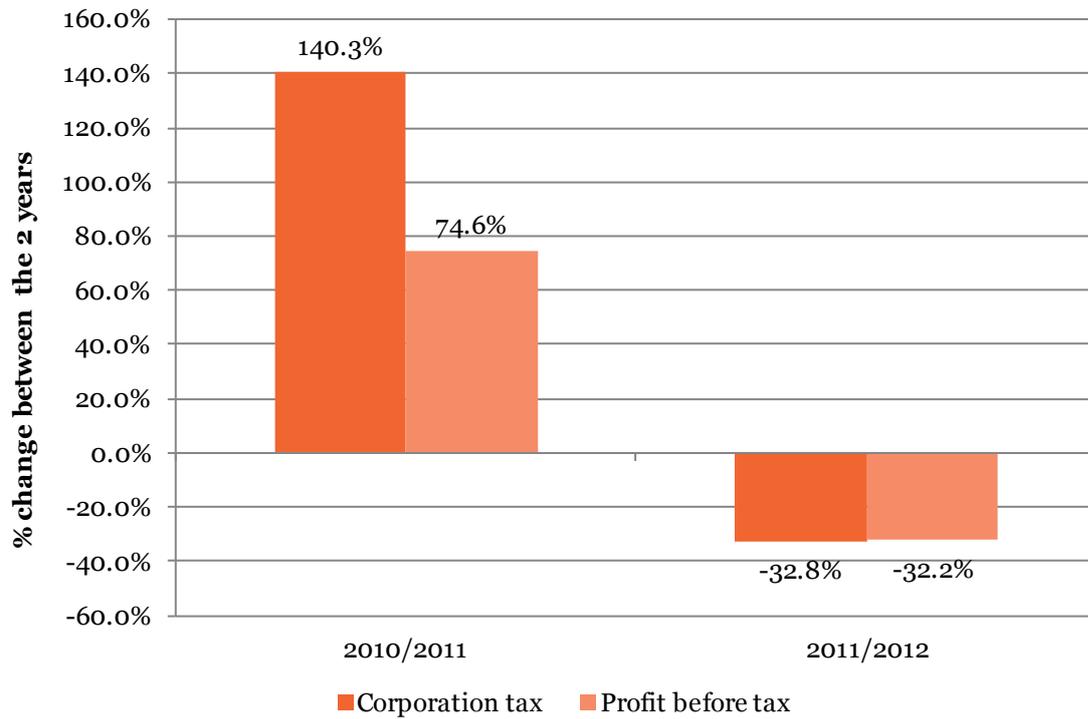


Chart shows the average trend for companies in the study.

Total Tax Rates

The average Total Tax Rate for FS companies in the 2011 study is 39.5%¹⁷ (2011: 47.5%). This is 8.0 percentage points lower than the Total Tax Rate in the 2011 study, but 3.1 percentage points higher than in 2007, before the financial crisis.

The Total Tax Rate is a measure of the cost of taxes in relation to profitability and calculates the total taxes borne as a percentage of profits before all those taxes borne. Only taxes borne are included in the Total Tax Rate calculation; taxes collected are not included.

Figure 14 shows the average Total Tax Rate in each of the five studies. In the 2009 study, the average rate rose sharply above the rate in the first (2007) study, carried out before the financial crisis. This was due to falling profits between the two years. In this period corporation tax payments fell with declining profit, but payments of the other taxes borne, which are not so directly linked to profits, and remained more stable, and the Total Tax Rate rose as a result.

As profits have recovered in the two years since the 2009 study, Total Tax Rates have reduced, but are still above the 2007 levels. The fall between 2011 and 2012 reflects both falling profits and falling taxes borne.

Figure 14 Total Tax Rates for financial services companies
Comparison of the five study results

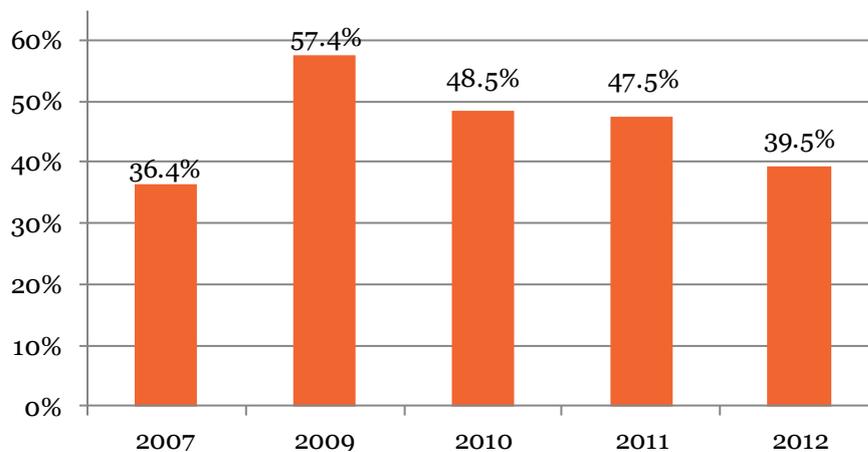


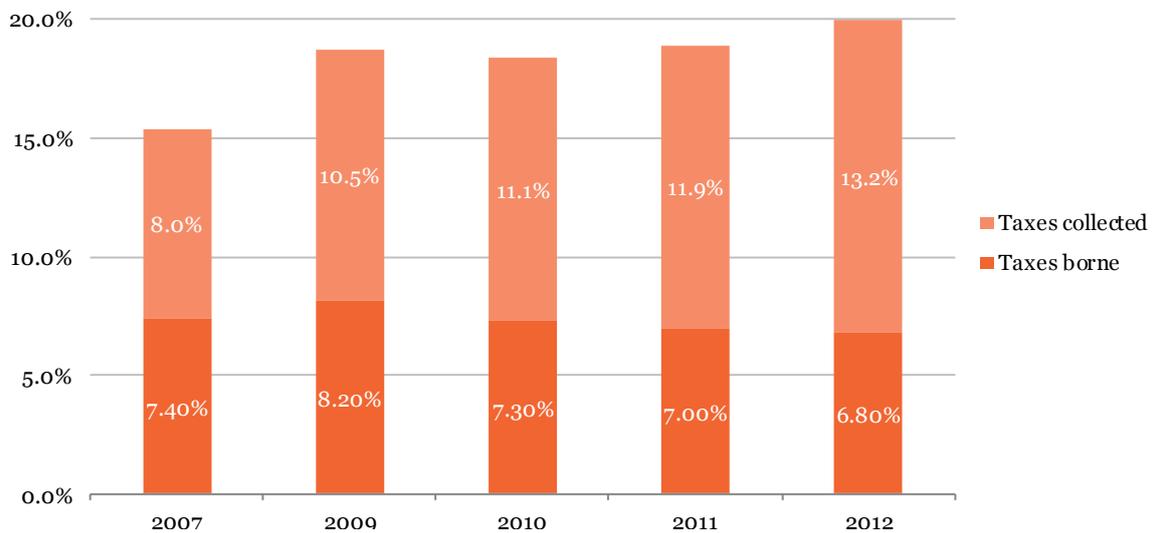
Chart shows the average results for companies in each study.

¹⁷ The average Total Tax Rate was 39.5%, the median average 30.4%, and the range 2.4% to 110.2%. This excludes two companies with rates exceeding 200%. (2011: The average Total Tax Rate was 47.5%, the median average 31.1%, and the range 1.5% to 184.0%. This excludes three companies with rates exceeding 200%.)

Taxes paid, when measured against the revenues (turnover) of FS companies rather than their profits, are a more stable percentage. Here we include both taxes borne and collected, as an indication of the size of the Total Tax Contribution of these companies in relation to the size of their business.

On average, the Total Tax Contribution was equivalent in size to 20.0% (2011: 18.9%) of revenues in 2012, with a split of 6.8% taxes borne and 13.2% taxes collected¹⁸ (2011: 7.0% taxes borne and 11.9% taxes collected). Figure 15 shows the comparison with previous studies. These figures are broadly consistent with the decrease in turnover, decrease in taxes borne and increase in taxes collected that we have seen in the survey population.

**Figure 15 Total Tax Contribution as a percentage of revenues for financial services companies
Comparison of the five study results**



¹⁸ The average TTC to revenues is 20.0%, the median average 16.8%, and the range 0.8% to 44.3%. This excludes one company with a rate exceeding 100%. (2011: The average TTC to revenues is 18.9%, the median average 15.3%, and the range 0.7% to 50.2%. This excludes one company with a rate exceeding 100%).

Results for different parts of the sector

Overview of the companies that participated

The companies that participated in the 2012 survey represent a significant part of the financial services sector in the UK. In total, 39 FS companies provided data on their UK tax payments for the 2012 study (2011: 43) and together they employed 44.5% (2011: 42%) of the total employees in the sector.

The breakdown of these by sector is shown below:

Figure 16 Survey participants by sector

Retail and commercial banks	7	18%
Investment banks	6	15%
Insurance companies	14	36%
Asset managers	3	8%
Real estate companies	4	10%
Other FS companies	5	13%
Total	39	100%

The participants included both UK listed (65%), foreign listed (27%), and privately owned/mutual companies (8%).

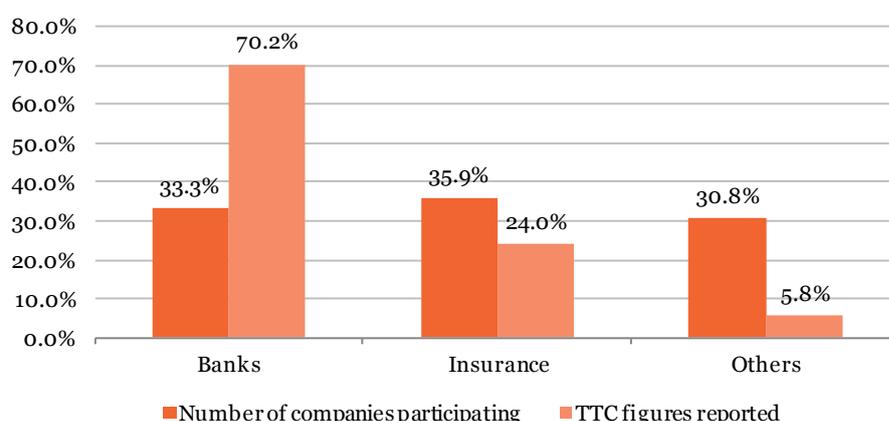
Given the range of sectors, this section provides some results separately for three sub-sectors – banks (includes retail and investment banks), insurers (life and general insurance), and all other financial services.

The banking sector accounts for the greatest share of TTC

Figure 17 shows an analysis of the Total Tax Contribution figures (taxes borne and collected together) for the 39 companies taking part in the 2012 study split into banking, insurance and other sectors.

The banks are the largest taxpayers in the sector, with 70.2% (2011: 69.4%) of the Total Tax Contribution figures, 50.9% (2011: 43.3%) coming from UK based banks and 19.3% (2011: 26.1%) from foreign banks.

Figure 17 Analysis of study data by financial services sub-sector – number of companies in the study and Total Tax Contribution figures.

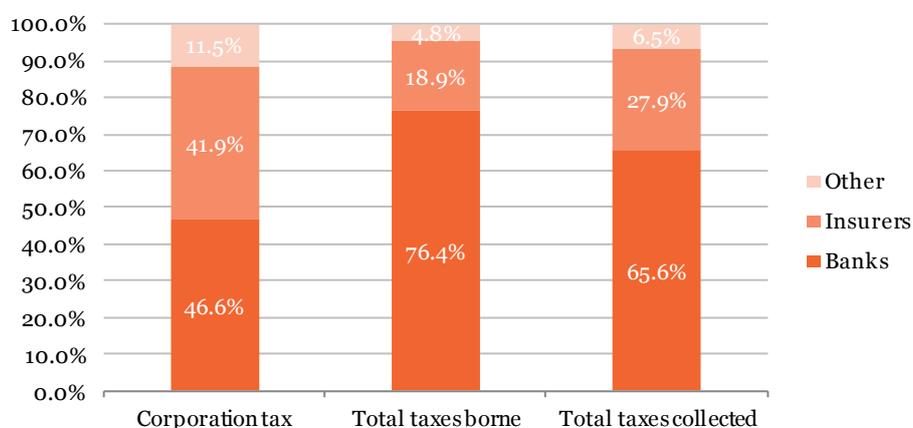


Taxes borne and taxes collected by sector

Figure 18 breaks down the Total Tax Contribution figures to show an analysis by sector for corporation tax, total taxes borne (including corporation tax), and taxes collected. The insurance companies pay a greater proportion of taxes collected than they do of taxes borne. This is due, in part, to the fact that the insurance companies collect insurance premium tax from their customers and pay it over to the Government.

It is important to stress that both Figures 16, 17 and 18 show an analysis only of the figures provided by the companies in the study, and so cannot be extrapolated to the sector as a whole.

Figure 18 Analysis of study data by financial services sub-sector – corporation tax, total taxes borne and taxes collected



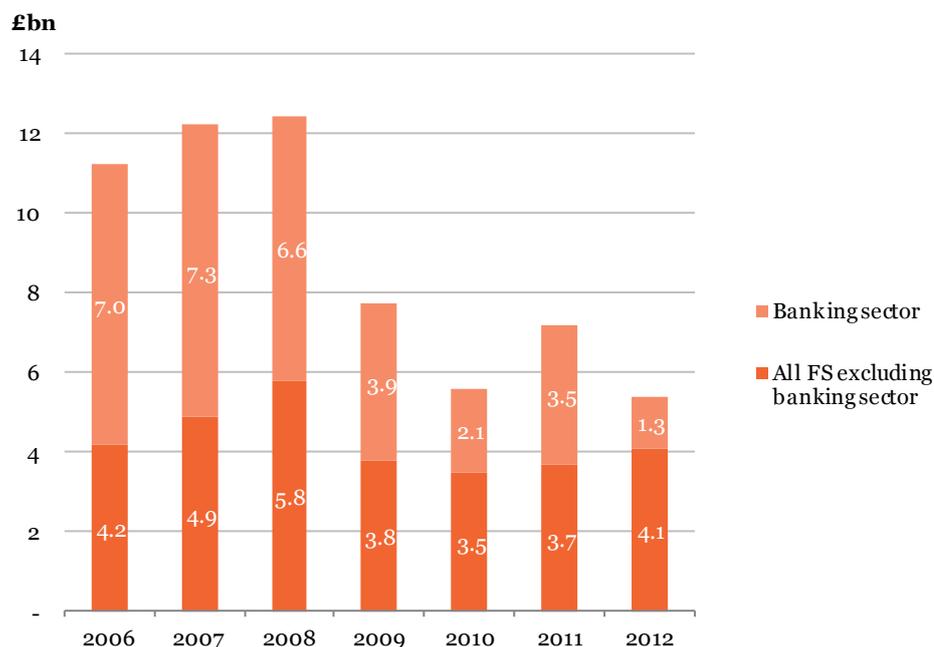
As can be seen from Figure 18, of the industries in the study, the banks are the largest payers of corporation tax (46.6%, 2011: 34.7%), and of total taxes borne (76.4%, 2011: 72.8%), including employer's NIC, irrecoverable VAT and bank levy, as well as corporation tax. The banks have been the biggest payers of taxes borne in all five studies and this compares to 70.3% in 2007. The banks are also the biggest collectors of taxes, with 65.6% (2011: 66.5%) of the figures in 2012.

Corporation tax in the banking sector

The figures above are only for companies included in the study. However, HM Revenue & Customs have published details of employment taxes and corporation tax receipts from the entire banking sector from 2006 to 2012.¹⁹ Figure 19 shows these figures for corporation tax together with the total corporation tax receipts from the financial services sector. It is clear that lower payments by the banks following the financial crisis have had a major impact on corporation tax receipts from the sector. The increase in corporation tax payments by the banking sector of 66.7% between 2010 and 2011 reversed sharply in 2012 with a 62.9% decrease.

¹⁹ HM Revenue & Customs Official Statistics 31 August 2012, Pay As You Earn and corporation tax receipts from the banking sector

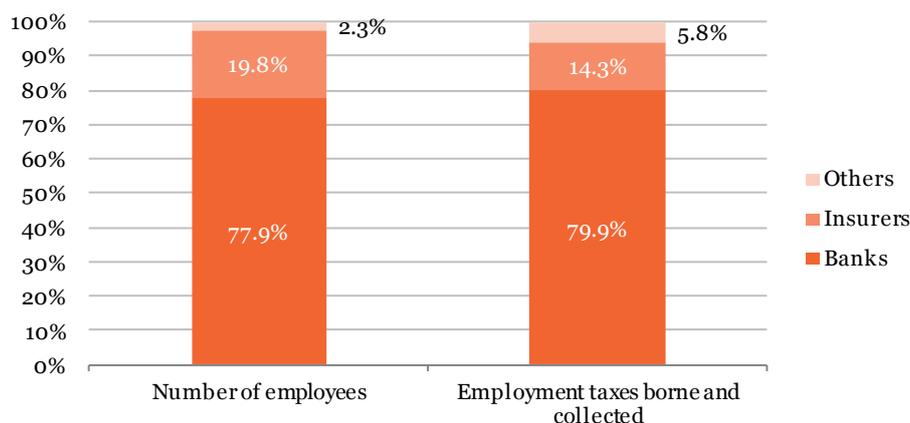
Figure 19 Corporation tax paid by the FS sector – 2006 to 2012



Employment taxes by sector

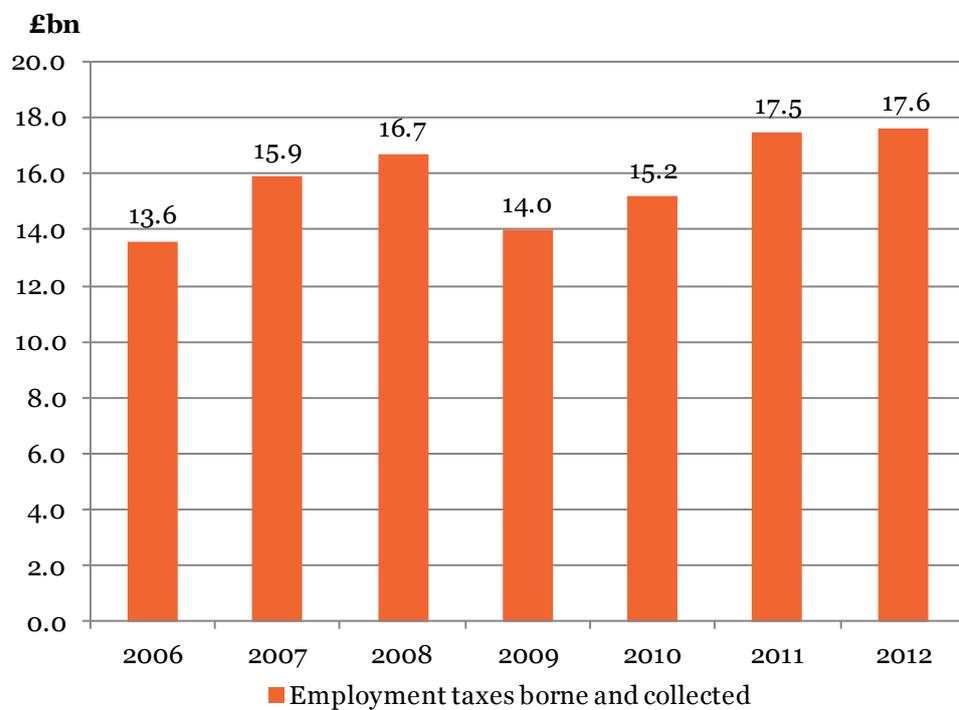
The banks in the study are also the largest employer and generate the largest employment taxes. Figure 20 analyses the study figures by sub-sector and shows that banks employed 77.9% (2011: 83.6%) of the employees and generated 79.9% (2011: 83.5%) of the employment taxes (employer taxes borne, and employee taxes collected together). Of these taxes, 49.2% (2011: 49.3%) is from UK banks and 30.7% (2011: 34.2%) is from foreign banks.

Figure 20 Analysis of study data by financial services sub-sector – employee numbers and employment taxes



Again, these are figures only for the companies in the study. The recent HM Revenue & Customs paper also included employment tax figures for the entire banking sector for 2006 to 2012 and these are shown in Figure 21. These figures do not include the bank payroll tax of £3.4bn paid in 2011.

Figure 21 Employment taxes paid by the banking sector – 2006 to 2012



Appendices

Appendix 1 - List of UK taxes borne and collected by financial services companies

	<i>Tax borne</i>	<i>Tax collected</i>
<i>Profits taxes</i>		
<i>Corporation tax</i>	✓	
<i>Tax deducted at source ¹</i>		✓
<i>Property taxes</i>		
<i>Bank levy ²</i>	✓	
<i>Business rates</i>	✓	
<i>Stamp duty land tax</i>	✓	
<i>Stamp duty</i>	✓	
<i>Stamp duty reserve tax</i>	✓	✓
<i>People taxes</i>		
<i>Income tax under PAYE</i>		✓
<i>PSA (tax on benefits)</i>	✓	
<i>Employee's national insurance contributions</i>		✓
<i>Employers' national insurance contributions</i>	✓	
<i>Bank payroll tax ³</i>	✓	
<i>Product taxes</i>		
<i>Net VAT</i>		✓
<i>Irrecoverable VAT</i>	✓	
<i>Custom duties</i>	✓	
<i>Insurance premium tax</i>	✓	✓
<i>Planet taxes</i>		
<i>Vehicle excise duty</i>	✓	
<i>Landfill tax</i>	✓	
<i>Air passenger duty</i>	✓	
<i>Congestion charge</i>	✓	
<i>Climate change levy</i>	✓	

¹ Tax deducted at source from, for example, interest, royalties, subcontractors, PAYE on annuities, withholding tax on Property Income Dividends and others

² Bank levy applies to periods of account ending on or after 1 January 2011. The levy is charged on a bank's chargeable liabilities (as defined).

³ Bank payroll tax (BPT) is a one-off tax charged on 2009 bonuses. The period it applies to is from 9 December 2009 to 5 April 2010. It is a tax borne by the banks.

Appendix 2 - Data provided by thirty nine FS companies taking part in the study

Taxes borne and collected in their accounting year ended in the year to 31 March 2012.

Taxes borne		£millions
Profit taxes	<i>Corporation tax</i>	1,678.8
Property taxes	<i>Bank levy</i>	942.6
	<i>Business rates</i>	625.2
	<i>Stamp duty land tax</i>	122.2
	<i>Stamp duty</i>	18.9
	<i>Stamp duty reserve tax</i>	74.0
People taxes	<i>PSA (tax on benefits)</i>	40.1
	<i>Employers' NIC</i>	2,938.2
Product taxes	<i>Irrecoverable VAT</i>	3,418.1
	<i>Customs duties*</i>	-
	<i>Insurance premium tax</i>	8.5
Planet taxes	<i>Landfill tax</i>	0.7
	<i>Vehicle excise duty</i>	35.1
	<i>Air passenger duty</i>	11.1
	<i>Congestion charge*</i>	-
	<i>Climate change levy</i>	7.2
	<i>Fuel Duty</i>	7.5
Total taxes borne		9,928.2
Taxes collected		
Profit taxes	<i>Tax deducted at source</i>	2,387.7
Property taxes	<i>Stamp duty reserve tax</i>	796.7
People taxes	<i>Income tax under PAYE</i>	7,017.0
	<i>Employee's NIC</i>	1,292.0
Product taxes	<i>Net VAT</i>	545.3
	<i>Insurance premium tax</i>	1,043.1
Total taxes collected		13,081.8
Total tax contribution		23,010.0

* Data was requested from the participating companies for customs duties and congestion charge, but the total amounts were less than £100,000 and so round to nil.



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