MC2023/03621

HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Rt Hon Sir George Howarth MP
House of Commons
London
SW1A 0AA

3 March 2023

Dear Sir George,

Thank you for your email of 21 February to the Chancellor of the Exchequer enclosing correspondence from your constituents suggesting a windfall tax on banks. I am replying as the Minister responsible for this policy area.

Banks already face two additional taxes. The Bank Corporation Tax surcharge is an additional rate of tax on banks' profits, which when combined with standard Corporation Tax, payable by all UK companies, means that banks currently pay a rate of 27 per cent on their profits. From April 2023, the changes to both Corporation Tax and the bank Corporation Tax surcharge (as confirmed at the Autumn Statement) will mean that banks will pay a combined rate of 28 per cent on their profits; this is more than they do now and more than most other businesses. Furthermore, banks with balance sheet equity and liabilities of £20 billion or more pay the bank levy.

The Government has also kept in place restrictions that mean banks cannot claim tax relief for historic losses incurred during the financial crisis, a measure which so far is estimated to have raised around £3.5 billion. Banks face greater restrictions in this area than other companies.

Taken together, measures introduced post-financial crisis, also including denying banks Corporation Tax relief for Payment Protection Insurance compensation payments, are forecast to have raised more than £57 billion by 2028.

According to recent reports by UK Finance, the UK banking sector currently employs almost half a million people, with almost two thirds (65 per cent) outside London and contributes almost £39 billion in tax revenue. Maintaining the UK's competitiveness is vital for safeguarding both jobs across the country and Exchequer yield used to fund essential public services. And the overall tax burden is a key factor in banks' consideration of the optimum location for their often highly mobile activity.

It is the Government's belief that a much higher combined rate of tax on banks' profits would significantly worsen the UK's competitive position relative to other major financial centres, including New York, Frankfurt and Paris. Reversing the decision taken at the Autumn Statement and instead charging a 35 per cent surcharge rate, as your constituents has suggested, would lead to a combined 60 per cent tax rate on banking profits. This would be highly uncompetitive and put jobs and Exchequer revenue at risk.

Meanwhile, monetary policy is the responsibility of the independent Monetary Policy Committee of the Bank of England. Paying interest on reserves is a monetary policy tool and as such is a decision for the Bank. The separation of fiscal and monetary policy is a key feature of the UK's economic framework, and essential for the effective delivery of monetary policy. Paying interest on reserves is part of how central banks ensure commercial banks pass on changes in interest rates to households and businesses - ceasing to pay interest would impair that transmission channel.

I hope your constituents can appreciate why the Government acted as it did at the Autumn Statement, and I also hope they will agree with me that it has done so in a way that ensures that banks will continue to bear a greater tax burden than most other businesses - as they have done since the bank levy was introduced in 2011.

Please pass on my thanks to your constituents for taking the trouble to make me aware of these concerns.

Kind regards,

ANDREW GRIFFITH MP