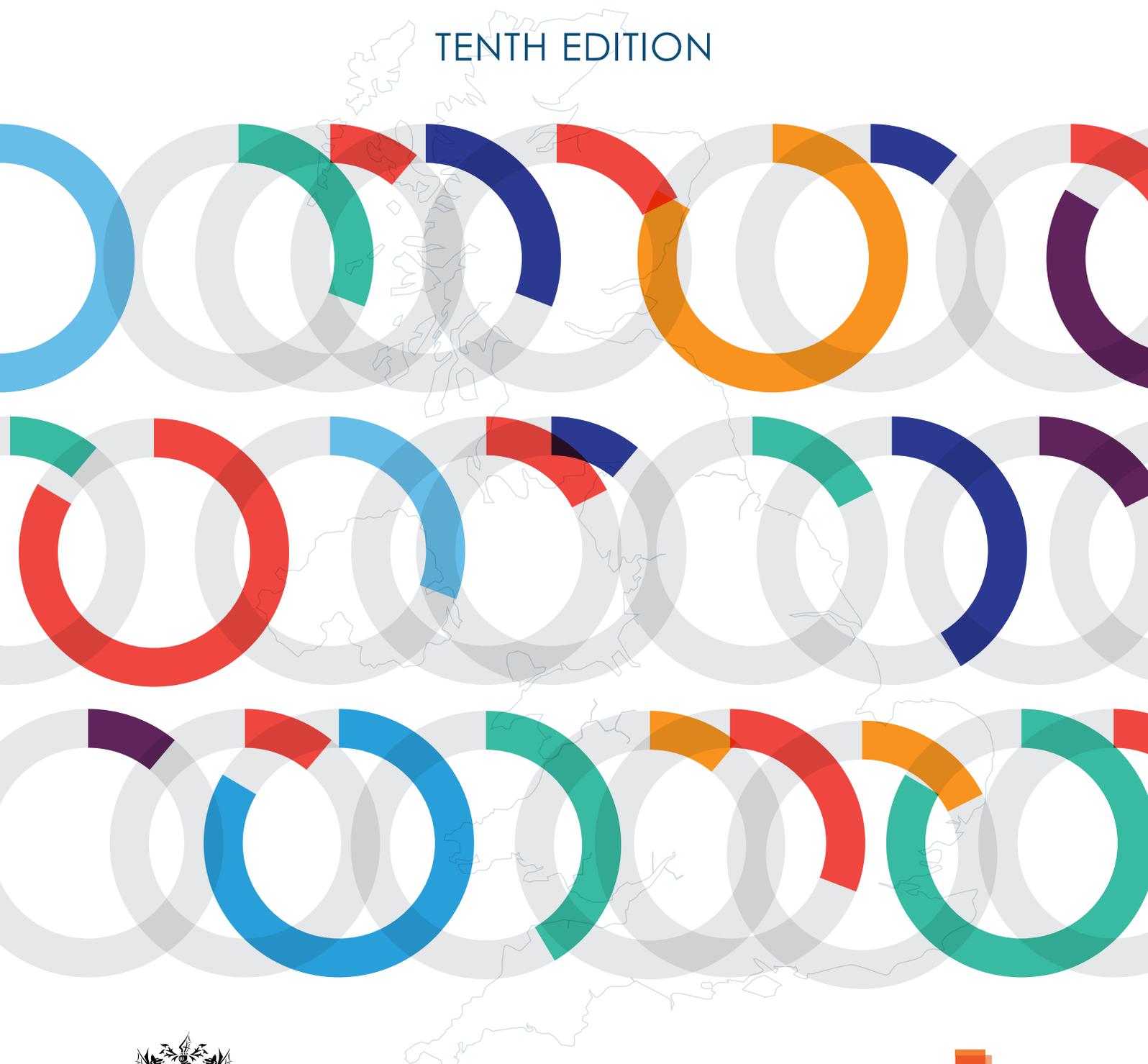


# Total tax contribution of UK financial services

TENTH EDITION



**CITY  
OF  
LONDON**

In association with



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City of London Corporation Research Report

# Total tax contribution of UK financial services

TENTH EDITION

Total tax contribution of UK financial services

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# Foreword

This year, the financial services (FS) industry has made its highest tax contribution to UK public finances in the ten years that we have been publishing this study. In the year to March 2017, UK FS contributed an estimated £72.1bn to the Exchequer – 11% of UK tax receipts. This underlines the importance of the sector as an asset to the UK economy, providing over 3% of jobs, 7% of output, and 11% of taxes.

Produced by PwC, this annual report looks at the contribution of different types of tax paid by FS and changes over time as a result of UK economic conditions and tax policy. In the turbulent decade that has followed the first study, a key – and consistent – finding has been just how important employment in the sector is, not only in providing 1.1 million jobs in FS right across the UK, but also in generating the largest component of FS taxes year on year - £31.4bn in 2017.

At a time of great uncertainty around Brexit, it is worth remembering that the contribution made by employment taxes to the Exchequer has proven not only larger but

also more resilient than profit-linked taxes such as corporation tax. With each job generating an average of nearly £30K in employment taxes annually, a strong and vibrant FS industry benefits the whole economy.

This year's research also highlights the role that location plays for different sub-sectors of the industry. For banks in particular, the location of their operations and employees is critical, with over 90% of their tax generated for the UK Exchequer dependent on where their jobs and operations are. Now, more than ever, this reinforces the need to ensure that the UK remains an attractive and competitive world-leading business location, ensuring that these firms and workers can continue to make a significant contribution to the UK's economic success into the future.



**Catherine McGuinness**  
Chairman of Policy and Resources  
City of London Corporation

November 2017

# Executive summary

The key findings from the tenth study on the total tax contribution of the UK's financial services (FS) sector, for the year to 31 March 2017, are as follows:

- We estimate that the total tax contribution (TTC) of the FS sector in 2017 was £72.1bn, 11.0% of government receipts. This total is the highest contribution recorded in the TTC studies since 2007, and a 1.0% increase on last year.
- The total comprises taxes borne of £31.0bn (a 7.9% increase on last year) and taxes collected of £41.1bn (a 3.4% fall on last year). The increase was partly off-set by a decrease in taxes collected of 3.4%, due to a reduction in employment taxes, VAT and tax deducted at source.
- Employment taxes consisting of employers' NIC, employees NIC, PAYE and PAYE settlement agreements (PSA) remain the largest type of tax paid, with an average of £29,300 paid in employment taxes per employee. The sector employs 1.1 million people, with two thirds of employment outside London.
- The tax profile varies for banks and insurers. Insurance companies tend to collect a high proportion of taxes from their customers whereas employment taxes make up a high proportion of banks' tax contributions – hence tax from insurers is more dependent on the location of customers, and tax from banks on the location of their operations.
- FS firms create value in a number of ways. Government is the largest beneficiary of the value distributed by FS firms (46.3%). Employees are the second largest beneficiary (29.5%), followed by profit available for shareholders or for reinvestment (21.0%), while providers of finance receive the remaining 3.2%.
- Corporation tax (including the bank surcharge) paid by the FS sector, increased from £8.4bn to £11.6bn between 2016 and 2017. This includes the bank surcharge for the first time, raising £1.1bn, while the bank levy paid decreased from £3.4bn to £3.0bn.
- The profile of taxes borne by companies has changed across the ten years of the survey. Corporation tax including the bank surcharge now represents 21.8% of taxes borne (40.8% in 2007). Employers NIC is the largest tax borne by this group of companies (32.4%) followed by irrecoverable VAT (24.1%).

# Summary of report

## 1 Estimated contribution of the financial services sector in the UK

PAGE 8

- The total tax contribution of the FS sector is £72.1bn, the highest level since the survey began.
- The contribution is 11.0% of total UK Government tax receipts.
- It includes both taxes borne of £31.0bn and taxes collected of £41.1bn.

## 2 Trends in Total Tax Contribution over the last 10 years

PAGE 11

- The estimated tax contribution increased by 1.0% compared to 2016 as a result of an increase in taxes borne of 7.9% and a decrease in taxes collected of 3.4%.
- Taxes borne increased as a result of corporation tax, due to the introduction of the bank surcharge, and changes to the tax base.
- Corporation tax (including surcharge) is 21.8% 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.

## 3 Profile of taxes paid by survey participants

PAGE 16

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

## 4 Results for different parts of the sector

PAGE 19

- Different sectors have very different patterns of taxes; employment tax is the largest tax borne by banks, but irrecoverable VAT is the largest tax borne by insurance companies.
- Insurance companies collect a higher share of their tax take from indirect taxes from their customers, while employment taxes are more significant for banks which are dependent on the location of the business.
- The contribution of the banking sector to public finances in 2017 was £35.4bn, comprising £17.3bn from foreign banks and £18.1bn from UK banks.

## 5 Employment taxes

PAGE 23

- Estimated employment taxes are £31.4bn for the FS sector, which is 11.5% of government tax receipts from employment.
- Employment taxes per employee amounted to £29,300, and average wages per employee were £65,101.
- Two thirds of employment was based outside London which is consistent with ONS data.

## 6 Corporation tax

PAGE 26

- The government's figures show that corporation tax (including the bank surcharge) paid by the FS sector increased from £8.4bn to £11.6bn (38.1%) between 2016 and 2017.
- This was a result of the introduction of the bank surcharge, legislative changes to restrict loss relief, and the deductibility of compensation payments.

## 7 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 36.3%, an increase from 35.8% in 2016.
- The Total Tax Contribution of the FS sector is equivalent to 20.5% of turnover.
- The GVA for the FS sector is 7.2% of UK GVA, which compares to tax receipts for the FS sector of 11.0% of total UK tax receipts.
- 46.3% of value distributed by FS companies is paid to the government in taxes.

## 8 The broader picture

PAGE 31

- Over the last 6 years, participants have spent £28.3bn in capital investment and invested £2.3m in research and development.
- The FS sector makes up 2% of the UK's VAT / PAYE registered firms but 24% of total turnover.

# 1. Estimated contribution of the financial services sector in the UK

The total tax contribution of the FS sector is £72.1bn, the highest level since the survey began.

The contribution is 11.0% of total UK Government tax receipts.

It includes both taxes borne of £31.0bn and taxes collected of £41.1bn.

## Background to the study

The tenth Total Tax Contribution (TTC) study of the UK financial services (FS) sector has been carried out using data provided by 50 FS companies. These companies employed 38.4% of the UK FS sector workforce and include UK based banks, foreign based banks, insurers, asset managers, real estate companies<sup>1</sup> and other FS sector companies. For further details on the purpose and outline of the study, see Appendix 1.

## Total Tax Contribution for 2017

From the details of the tax payments provided by the 50 companies participating in the 2017 study, we estimate that the FS sector in the UK made a Total Tax Contribution of around £72.1bn in the year to 31 March 2017.<sup>2</sup> This represents 11.0% of all government receipts for all taxes.<sup>3</sup> Figure 1 sets out the components of tax from the study companies, and extrapolated to the sector as a whole.<sup>4</sup>

---

### FIGURE 1

Total Tax Contribution of the FS sector in the UK financial year to 31 March 2017

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

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### FIGURE 2

Total Tax Contribution of the FS sector in the UK. Comparison of the ten study results

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1 Acting as asset managers of property investments.

2 Includes accounting periods ended in 2016/17.

3 Government receipts are from: Office for Budget Responsibility (OBR) 'Economic and fiscal outlook', alongside Budget 2017, Table 2.8 Current receipts (on a cash basis).

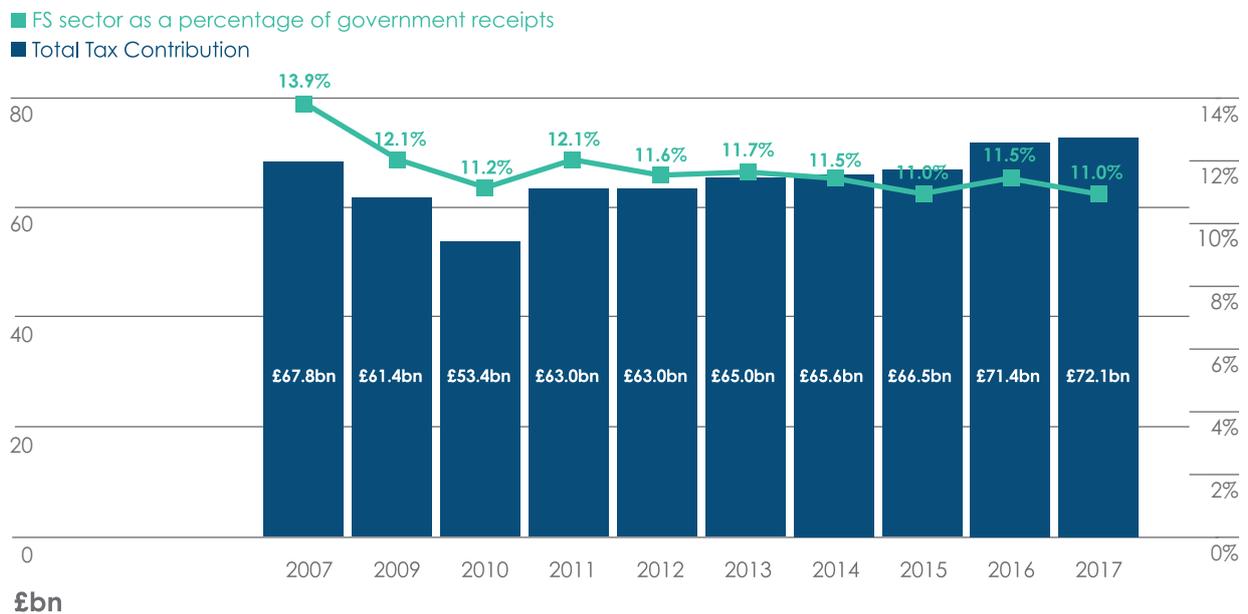
4 Extrapolation is based on government figures for corporation tax, bank surcharge and bank levy receipts from the sector as shown in HMRC T11.1 and HMRC "PAYE and Corporate Tax receipts from the banking sector: 2017", as well on the trend data for the companies participating in the study. Extrapolation 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 parts of the sector, as established in the study. Extrapolation is an estimate only, apart from corporation tax, bank levy and the bank surcharge, where actual figures are included.

**FIGURE 1**  
Total Tax Contribution of the FS sector in the UK financial year to 31 March 2017

	FS companies in the study	Extrapolated to the FS sector	% of government receipts
£ billions	2017	2017	2017
<b>Taxes borne</b>			
Corporation tax <sup>4</sup>	4.4	10.5	
Bank Surcharge <sup>5</sup>	0.5	1.1	
Bank Levy <sup>6</sup>	2.8	3.0	
Other	8.9	16.4	
<b>Total Taxes borne</b>	16.6	31.0	<b>4.7%</b>
<b>Total Taxes collected</b>	18.2	41.1	<b>6.3%</b>
<b>Total Tax Contribution</b>	34.8	72.1	<b>11.0%</b>

**FIGURE 2**  
Total Tax Contribution of the FS sector in the UK. Comparison of the ten study results.

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



5 Corporation tax receipts from the financial services sector as shown in HMRC T11.1. Represents 21.3% of government receipts of corporation tax.

6 Bank surcharge receipts from the financial services sector as shown in HMRC T11.1. Represents 100% of government receipts of the bank surcharge.

7 Bank levy receipts from the financial services sector as shown in HMRC T11.1. Represents 100% of government receipts of bank levy.

## Total tax contribution of UK financial services

This year, the total tax contribution is £72.1bn, an increase of 1.0% compared with 2016, and the highest level since the survey began, exceeding pre-crisis levels. The increase was driven by an increase in taxes borne (7.9% uplift on the previous year), mainly from corporation tax. The increase was partly offset by a decrease in taxes collected of 3.4%, due to a reduction in employment taxes, VAT and tax deducted at source.

The TTC is a lower percentage of government receipts (11.0%) compared to last year (11.5%). There has been an increase in total government receipts largely as a result of increases in NIC (9% or £10bn), which is a reflection of increasing employment in the UK and the move away from public sector service companies. There were also increases in income tax, VAT and corporation tax receipts.

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

**Economic factors:** Looking at the overall ten-year picture, 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 three key taxes over the period. The rate of corporation tax has fallen incrementally from 30% in 2007 to 20% in 2017; 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. These changes affect both the total tax take, and the profile of taxes contributed by the FS sector.

**Introduction of new legislation:** Three taxes introduced over the last ten years have affected banks specifically. The one-off bank payroll tax was introduced in 2010, and the bank levy was introduced in 2011, the latter of which contributed to the increase in the total tax contribution 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 2017's TTC.

## 2. Trends in Total Tax Contribution

The estimated tax contribution increased by 1.0% compared to 2016 as a result of an increase in taxes borne of 7.9% and a decrease in taxes collected of 3.4%.

Taxes borne increased as a result of corporation tax, due to the introduction of the bank surcharge, and changes to the tax base.

Corporation tax (including surcharge) is 21.8% 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 tenth 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 significant changes in the UK economy, in UK tax policy and, as a result, in the tax contribution from the sector. This year the total tax contribution is £72.1bn, an increase of 1.0% compared with 2016, and highest level since the survey began, exceeding pre-crisis levels.

### Trends between 2016 and 2017

To understand the changes in the separate taxes that make up taxes borne and taxes collected, and the impact that these might have on the FS sector as a whole, we compare the 46 companies who provided data for both the 2016 and 2017 studies.

**Taxes borne:** Figure 3 shows how individual taxes contributed to the increase in total taxes borne of 7.9%.

Corporation tax, including the bank surcharge, was the main driver of the increase, reflecting three key policy changes which increased corporation tax take:

- o The bank surcharge is a new corporation

**FIGURE 3**  
Trends in taxes borne and collected 2007/2017

	% increase/decrease
<b>Taxes borne</b>	<b>2017</b>
Corporation tax (including the bank surcharge)	9.0%
Bank levy	-0.7%
Employers NIC	-1.0%
Irrecoverable VAT	-0.1%
Other taxes borne	0.7%
<b>Increase in taxes borne</b>	<b>7.9%</b>
<b>Taxes collected</b>	
Employee income tax	-3.7%
Employees NIC	-0.1%
Net VAT	-1.4%
Tax deducted at source	-1.0%
Stamp Duty Reserve Tax	0.0%
Insurance premium tax	2.8%
<b>Total taxes collect</b>	<b>-3.4%</b>

tax surcharge, introduced on 1 January 2016, which is applied to the taxable profits of banks at a rate of 8%.

- o Legislation to restrict the deductibility of compensation payments.
- o 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 14 banks in the study, decreased total taxes borne by 0.7%. The rate of the bank levy fell from 0.210% in 2015 to 0.180% in 2016 for short term chargeable equity & liabilities, and from 0.105% to 0.090% for long term chargeable equity & liabilities. For further detail on the bank levy, see Appendix 2.

Government data shows that corporation tax for the FS sector increased from £8.4bn to £11.6bn between 2016 and 2017. The bank levy paid decreased from £3.4bn to £3.0bn between 2016 and 2017, reflecting the rate changes.

**Taxes collected:** Figure 3 shows a decrease in total taxes collected of 3.4%.

The decrease is due to a combination of factors. Reductions in the workforce in the retail banks led to a reduction in income tax deducted under PAYE.

Tax deducted at source has decreased due to the removal of the requirement for banks to deduct income tax from interest payments in the year. Taxpayers who have taxable interest income (above the personal allowance) now account for the tax liability themselves.

There has been an increase in insurance premium tax (IPT) receipts, reflecting the change in rate of IPT in October 2016 from 9.5% to 10%.

### Trends in taxes borne and collected by sector

A significant driver of the trend in both taxes borne and taxes collected is due to the banking sector, in part because of the size of the sector - the banks in the study contributed 68.9% of the TTC. This trend also reflects the change in tax base and introduction of new taxes described above.

The insurers in the study contributed 23.0% of the TTC. The increase in taxes collected by the insurance companies is mainly due to the increase in IPT resulting from the rate increase and an increase in tax deducted at source through PAYE from insurance companies who are administering pension funds.

### Trends between 2007 and 2017

**Trends in taxes borne and collected**  
Nineteen companies from the 2017 study also participated in the first study in 2007, so we can look at the trends across ten years for this group, shown in Figure 5.<sup>8</sup>

<sup>8</sup> For the companies participating in both the 2007 and 2017 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 4 Trends in TTC by sub-sector

Components of the increase/decrease in taxes borne and collected

	Banks	Insurers	Other	Totals
Taxes borne	7.5%	-0.3%	0.7%	7.9%
Taxes collected	-8.2%	5.1%	-0.3%	-3.4%

**FIGURE 5**  
Trends in taxes borne and collected 2007/2017

Components of overall % increase/decrease by tax	
<b>Taxes borne</b>	<b>2017</b>
Corporation tax	-23.6%
Bank levy <sup>10</sup>	28.7%
Employers NIC	4.8%
Irrecoverable VAT	12.2%
Other taxes borne	-0.2%
<b>Increase in taxes borne</b>	<b>21.9%</b>
<b>Taxes collected</b>	
Employee income tax	11.4%
Employee NIC	-1.8%
Net VAT	-5.0%
Tax deducted at source	2.8%
Other taxes collected	2.4%
<b>Total increase</b>	<b>9.8%</b>

Total taxes borne by these 19 FS companies have increased by 21.9%, reflecting the introduction of the bank levy, and an increase in the rate of employers NIC and irrecoverable VAT.

As noted in section 1, the rate of corporation tax has fallen from 30% in 2007 to 20% in 2017 (see section 6 for further details). In addition, the legacy of the financial crisis created tax losses brought forward which reduced the corporation tax due on current profits. 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%, counteracted in part by movement in the thresholds at which NIC is paid.

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 9.8%, driven by a rise in employee income tax collected. 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%.

Further detail on the taxes outlined here is given in the rest of this section.

### 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 6 shows that in 2007, corporation tax was 40.8% of total taxes borne, with employers NIC accounting for 21.3%. In 2017, corporation tax made up 21.8% of taxes borne and employers NIC was 32.4%.

<sup>9</sup> The bank levy was introduced in 2011.

## Total tax contribution of UK financial services

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.

### FIGURE 6

The changing profile of the tax system from 2007 to 2017: Taxes borne

### Trends in other business taxes borne

Figure 7 is another way of showing this changing profile of taxes borne. Eleven companies have participated in the survey every year since 2007, and Figure 7 shows the trend in employers NIC, irrecoverable VAT and the bank levy for those companies (taking 2007 as the base year at 100%).

### FIGURE 7

Trend in other taxes borne payments for FS companies

**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, leading to irrecoverable VAT for the sector.

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

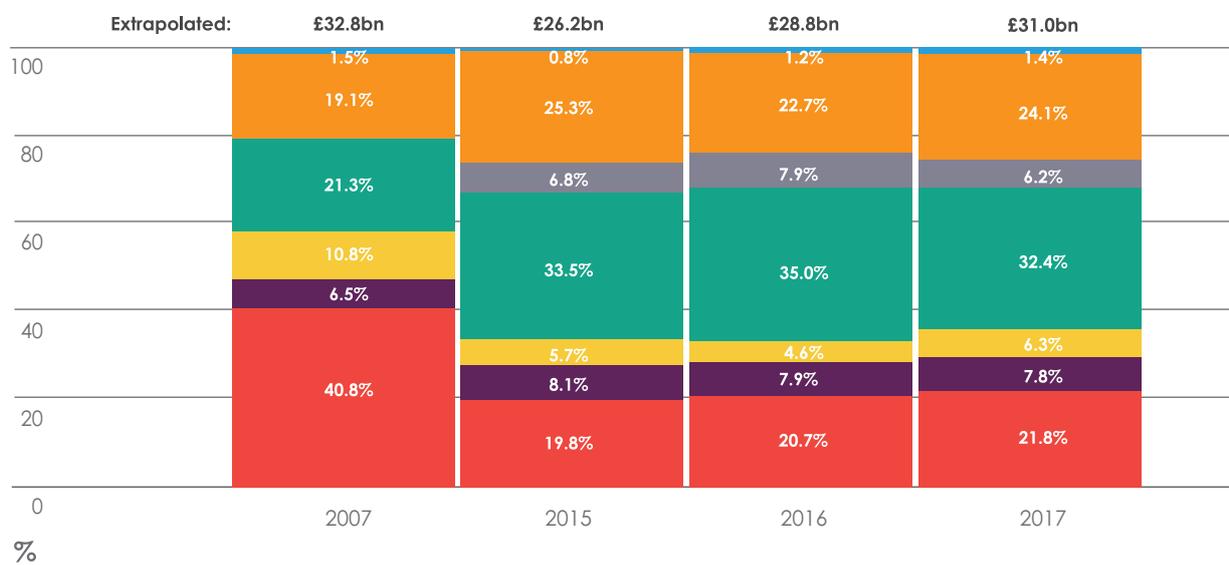
This irrecoverable VAT has increased by 69.5% over the ten years of the survey, highlighting the shift from corporation tax to other business taxes. There is often limited recognition of the significance of this tax for the FS sector.

### FIGURE 6

## The changing profile of the tax system from 2007 to 2017: Taxes borne

Analysis based on survey participants

■ Other taxes 
 ■ Irrecoverable VAT 
 ■ Bank Levy 
 ■ PSA & Employers NIC 
 ■ Stamp duties 
 ■ Business rates 
 ■ Corporation tax



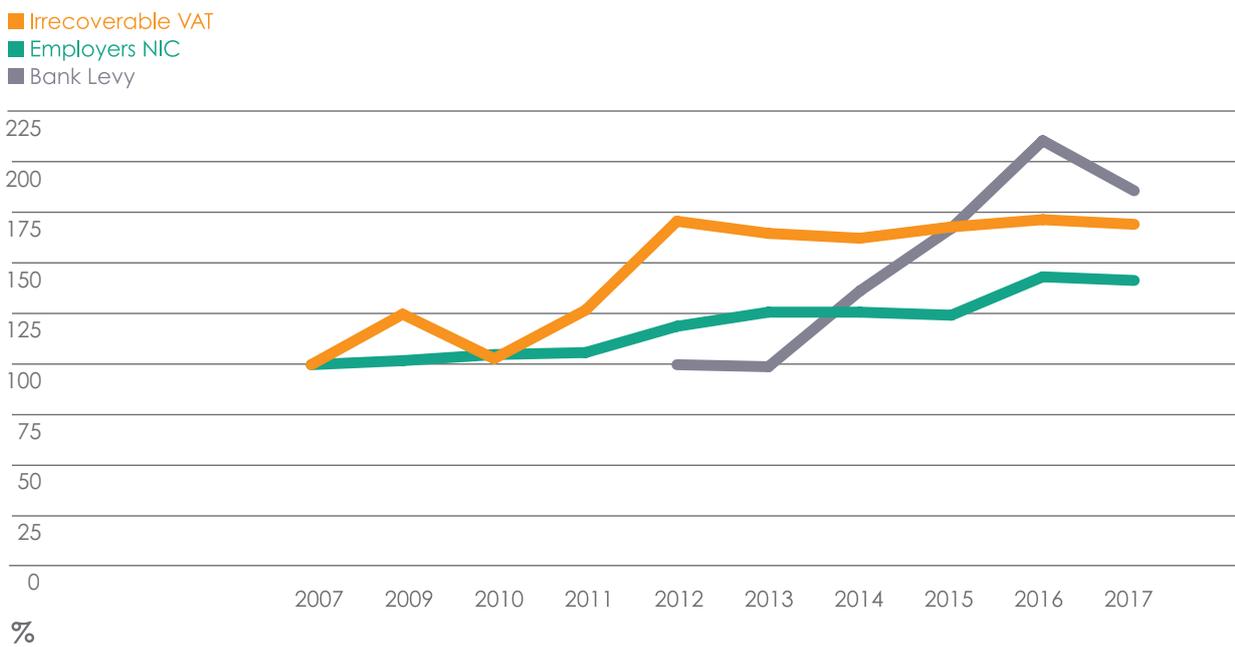
Alongside the increase in rate of VAT, operational changes have also played a role. Increasing investment in information technology and infrastructure throughout the sector, a drive towards outsourcing administrative business functions, and a move towards employing more contractors following the financial crisis, have all increased the external cost base and hence the level of input, and irrecoverable, VAT.

**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 41.7%, 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.

**The 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 2017, the bank levy received by the government increased by 86.1%. There was a decrease in the bank levy in 2017 due to a reduction of the rate for short and long term chargeable equities and liabilities.

**FIGURE 7**  
Trend in other taxes borne payments for financial services companies

Chart shows the average trend for companies in the study providing data for each year



### 3. Profile of taxes paid by survey participants

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

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

Corporation tax, including the bank surcharge, 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 the direct tax contributions of FS companies to the public finances. Taxes borne are a direct cost to these companies and have an impact on their financial results. Aside from corporation tax and the bank surcharge, many are "above the line" taxes that are deductible in calculating profit before tax, so will not be separately disclosed in financial statements. Figure 8 shows the profile of taxes borne by companies in the study.

**FIGURE 8**

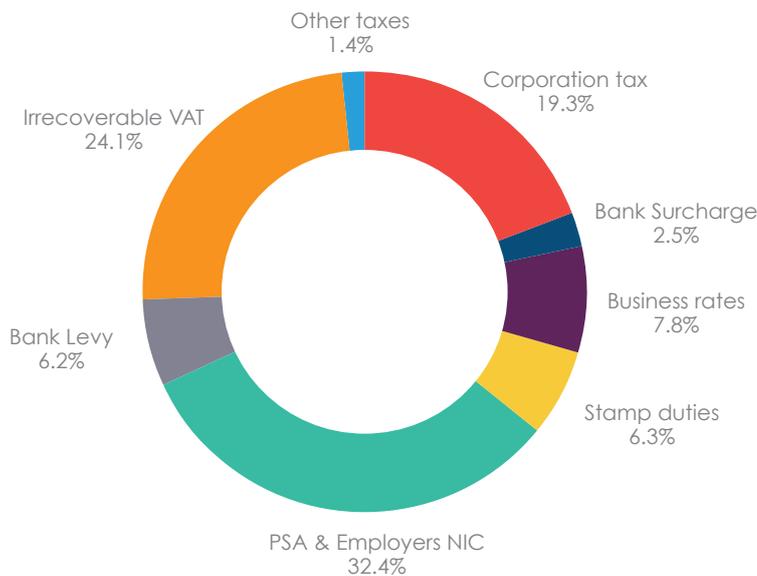
Taxes borne by FS companies in 2017

For every £1 of corporation tax paid there is another £2.36 paid in other taxes borne. Employers NIC (including PSA) is 32.4% of the total, the largest tax borne, followed by irrecoverable VAT (24.1%). Corporation tax (including surcharge) is the third largest tax borne (21.8%).

**FIGURE 8**

Taxes borne by financial services companies in 2017

Chart shows the average result for companies in the study.



The companies in the study are large employers, together employing 422,832 staff – which is reflected in the high proportion of taxes borne accounted for by employers NIC.

### Profile of taxes collected

Taxes collected are those taxes collected from employees and customers, which companies are responsible for administering and paying to Government. These taxes arise from the jobs created and the services provided to customers by FS companies and are part of their indirect contribution to tax revenues. Figure 9 shows the profile of the taxes collected by the companies in the study.

**FIGURE 9**  
Taxes collected by FS companies in 2017

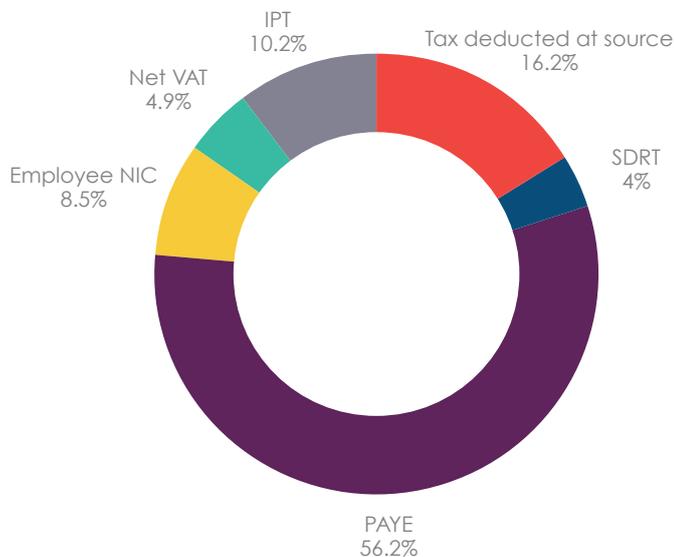
The importance of employment to the sector is evident as employees' income tax deducted under PAYE and NIC are the largest taxes collected, together representing on average 64.7% of the total.

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 (non-life insurers). Foreign based banks administer stamp duty reserve tax, which is paid on transactions in shares.

**FIGURE 9**  
Taxes collected by financial services companies in 2017

Chart shows the average result for companies in the study.



## Total Tax Contribution profile

### FIGURE 10

#### Total Tax Contribution of FS companies

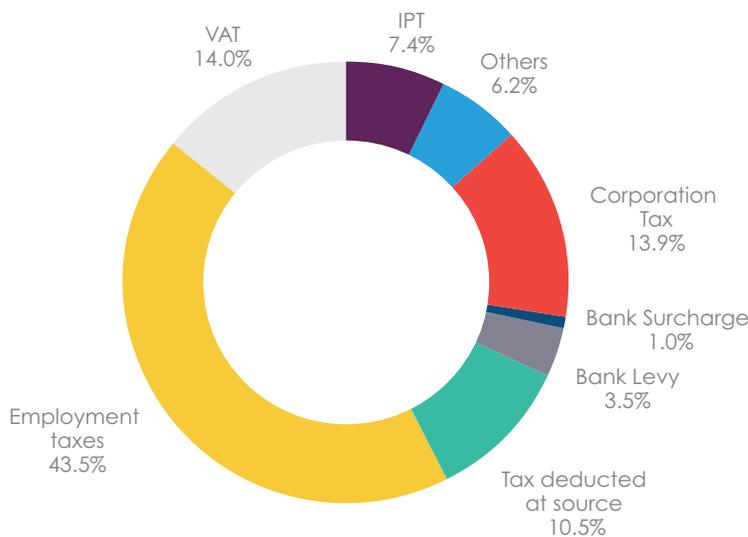
Figure 10 combines taxes borne and taxes collected to show the average Total Tax Contribution profile for companies in the study.

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 together account for 43.5% of the total.

Corporation tax (including surcharge) is the second largest tax of the Total Tax Contribution, followed by VAT (both net VAT collected and irrecoverable VAT) which is the third largest tax. The TTC profile emphasises the significance of the other taxes, in addition to corporation tax, paid by the FS sector.

### FIGURE 10 Total Tax Contribution of FS companies

Chart shows the average result for companies in the study.



## 4. Comparing the different tax profiles for banks and insurers

Different sectors have very different patterns of taxes; employment tax accounts for a significant proportion of taxes borne and collected for banks, but irrecoverable VAT is the largest tax borne by insurance companies.

Insurance companies collect a higher share of their tax take from indirect taxes from their customers, while employment taxes are more significant for banks which are dependent on the location of the business.

The contribution of the banking sector to public finances in 2017 was £35.4bn, comprising £17.3bn from foreign banks and £18.1bn from UK banks.

### Overview of the companies that participated

The companies that participated in the 2017 survey represent a significant part of the FS sector in the UK - Figure 11 shows the sub-sectors represented.<sup>10</sup> Fifty FS companies provided data on their UK tax payments for the 2017 study, together employing 38.4% of the total employees in the sector.

#### FIGURE 11

##### Survey participants by sector

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). ONS data<sup>11</sup> shows that banks employ approximately 48% of FS sector employees, while life, non-life and insurance agents and brokers account for 30% of the total employees of the total; other financial sub-sectors account for the remaining 22%. The number of companies in each sub-sector included in this study broadly reflects the split.

<sup>10</sup> In general UK based banks are retail banks and foreign banks are investment banks.

<sup>11</sup> 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)'.

**FIGURE 11**  
Survey participants by sub-sector

Sub-sector	Number of companies	% of total
Asset manager	8	16%
Insurance	8	16%
Foreign based Banks	11	22%
Real estate	6	12%
UK based Banks	8	16%
Other financial services	4	8%
Life insurance	5	10%
<b>Total</b>	<b>50</b>	<b>100%</b>

### Taxes borne and collected for banks and insurance companies

Figure 12 shows the profile of both taxes borne and collected for banks and insurers.

**FIGURE 12**  
Taxes borne and collected profiles for banks and insurers in 2017

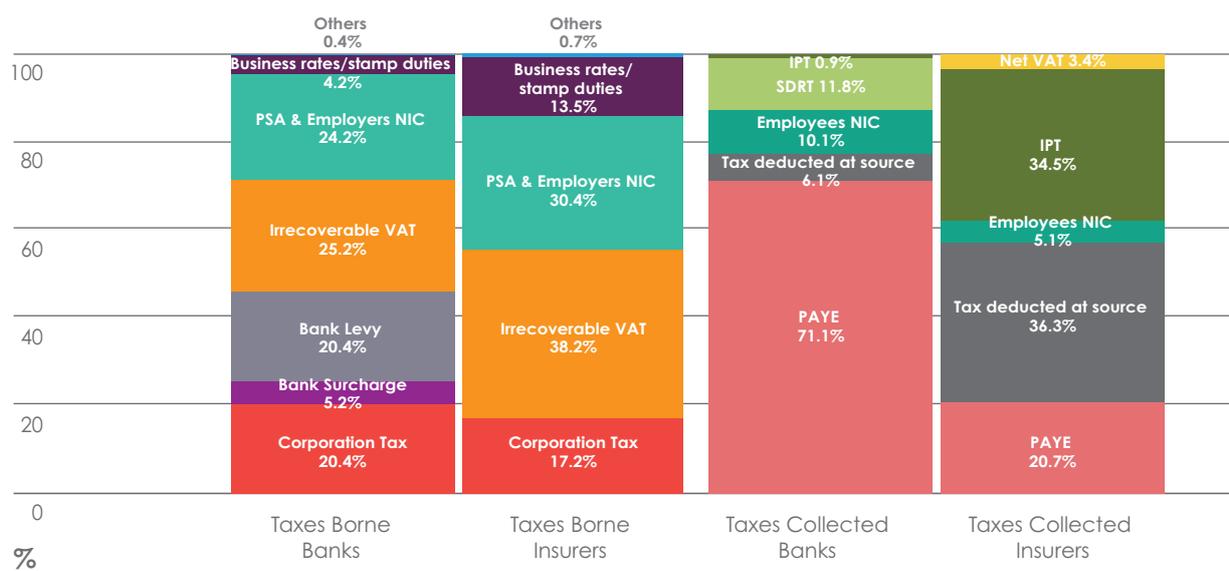
Employment taxes account for a significant amount of both taxes borne and collected for the banking sector, a combination of the contribution of foreign based banks with higher average salaries, and UK based banks with a large number of employees.

Irrecoverable VAT is the largest tax borne by insurance companies in the study, followed by PSA & employers NIC, and corporation tax.

Tax deducted at source is the largest component of taxes collected. This is due to PAYE deducted by insurance companies who administer pension funds on behalf of other companies, a unique tax for insurance companies. As expected, insurance premium tax is a large component of tax collected on general insurance policies.

**FIGURE 12**  
Taxes borne and collected profiles for banks and insurers in 2017

Source: TTC for the banking sector (banks) and (insurers) study participants – chart shows the average result for insurers in the study<sup>12</sup>



<sup>12</sup> <https://www.ukfinance.org.uk/2017-total-tax-contribution-of-the-uk-banking-sector/>

Figure 13 shows the profile of taxes borne and collected for the two sub-sectors. Taxes borne account for 54.0% of the TTC of banks and 32.5% of the TTC of insurers.

**FIGURE 13**

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

As Figure 13 shows, the different profile of taxes from these two major sub-sectors means that location plays a very different role for each.

The TTC from banks is more dependent on employment taxes borne and collected, which are dependent on country of location of employees and business operations.

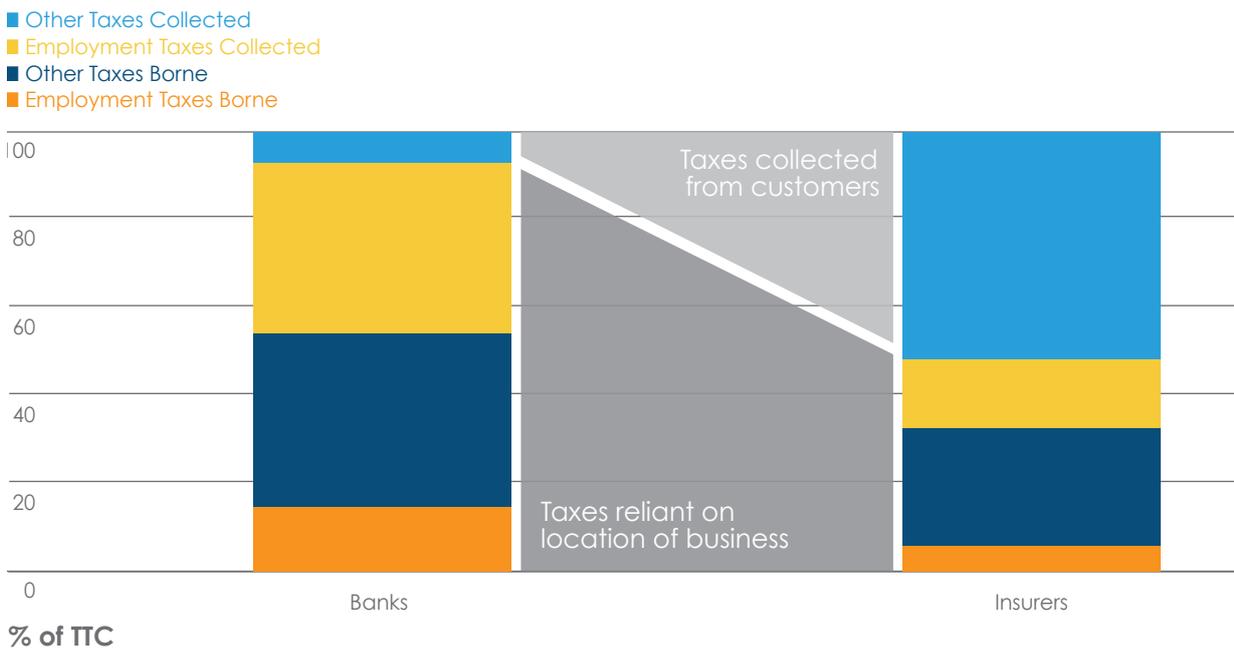
By contrast, because the TTC from insurers is more dependent on customer-related taxes, such as insurance premium tax, the location of customers plays an important role in generating the TTC.

**UK and Foreign based banks**

UK Finance commissioned PwC to carry out a TTC study of the UK banking sector. 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.

**FIGURE 13**

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



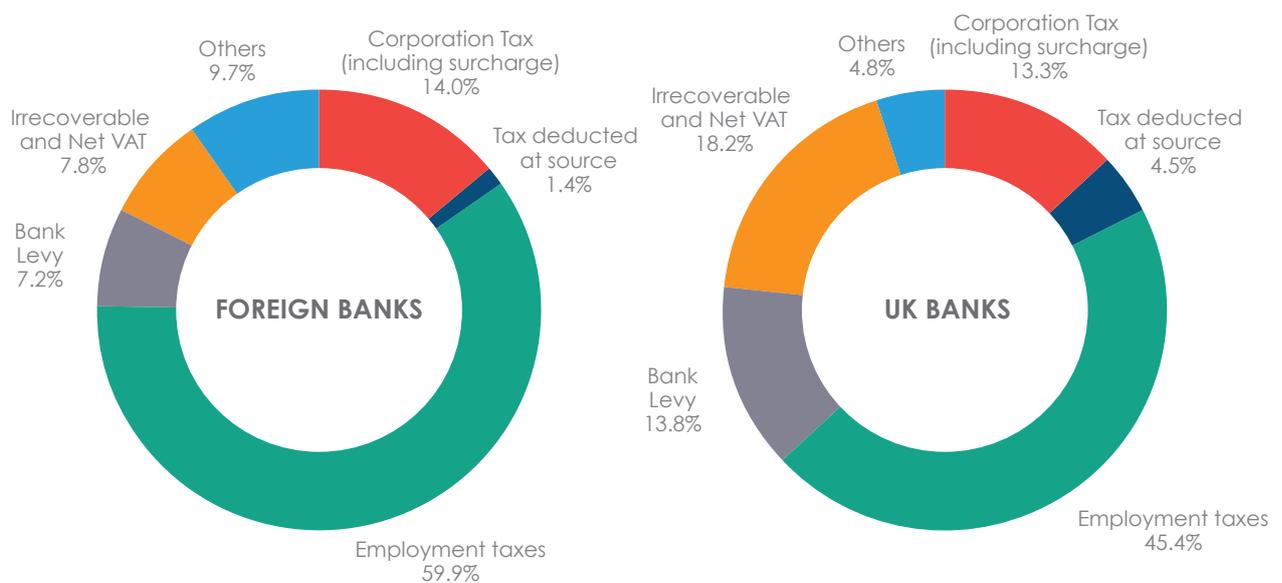
**FIGURE 14**

TTC Profile for Foreign and UK based banks in 2017

The results highlighted the different TTC profiles for UK based and foreign based banks. Figure 14 shows that employment taxes are more significant for foreign based banks, with corporation tax the second largest tax. For the UK banks, VAT was the second largest tax payment, followed by the bank levy.

**FIGURE 14**  
TTC Profile for Foreign and UK based banks in 2017

Source: 2017 Total Tax Contribution study for the UK banking sector<sup>13</sup>



<sup>13</sup> <https://www.ukfinance.org.uk/2017-total-tax-contribution-of-the-uk-banking-sector/>

## 5. Employment taxes

Estimated employment taxes are £31.4bn for the FS sector, which is 11.5% of government tax receipts from employment.

Employment taxes per employee amounted to £29,300 and average wages per employee were £65,101.

Two thirds of employment was based outside London which is consistent with ONS data.

### Extrapolation of the employment taxes paid by the FS sector

Employment and job creation is an important means by 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, which is 3.5% of the total UK workforce (both private and public sector together).<sup>14</sup> Using our study data, we estimate that employment in the FS sector generates total employment taxes of around £31.4bn<sup>15</sup>, equivalent to 11.5% of Government tax receipts from employment.<sup>16</sup>

ONS data also shows an increase in average wage in the sector in 2016/17 of 2.4%.<sup>17</sup>

### Wages and taxes per employee

The FS sector employs skilled, well-paid staff. ONS data<sup>18</sup> shows that the percentage of the workforce population working in the FS sector 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<sup>19</sup> was £65,101. The UK national average for the period was £28,200.<sup>20</sup> Some parts of the FS sector pay higher wages than others, for example, foreign banks tend to pay higher salaries than UK-based banks. For the majority of the sample – companies that together employed 75% of total employees – the average wage was lower, at less than £54,000.

For 2017, employment taxes per employee amounted to £29,300 on average,<sup>21</sup> including taxes borne and collected.

For the FS sector as a whole, there was an increase in employment of 3.1%. However, for the companies in the study, total employees fell by 27,000 and total employment taxes fell by £297m.

<sup>14</sup> Office for National Statistics, 'Labour market statistics', October 2017

<sup>15</sup> 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.

<sup>16</sup> 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.

<sup>17</sup> Office for National Statistics, Average earnings by sector EARN01

<sup>18</sup> Census, 2011, <https://www.nomisweb.co.uk/census/2011/wp6503ew>

<sup>19</sup> 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.

<sup>20</sup> Office for National Statistics – Annual Survey of Hours and Earnings: 2017 provisional results

<sup>21</sup> 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.

### Trend in employment taxes

In those companies reporting numbers for both 2016 and 2017 editions, there was a decrease in the number of employees of 6.6%. This was largely due to changes in the banking sector with firms reducing and re-organising their workforces.

The same group of companies reported an increase in wage per employee of 8.8% and an increase in employment taxes per employee of 4.5%. These increases are driven largely by companies with redundancies and mergers and acquisitions. Removing these companies<sup>22</sup> from the calculation, the average wage per employee increased by 1.3% and average employment taxes per employee by 1.7%.

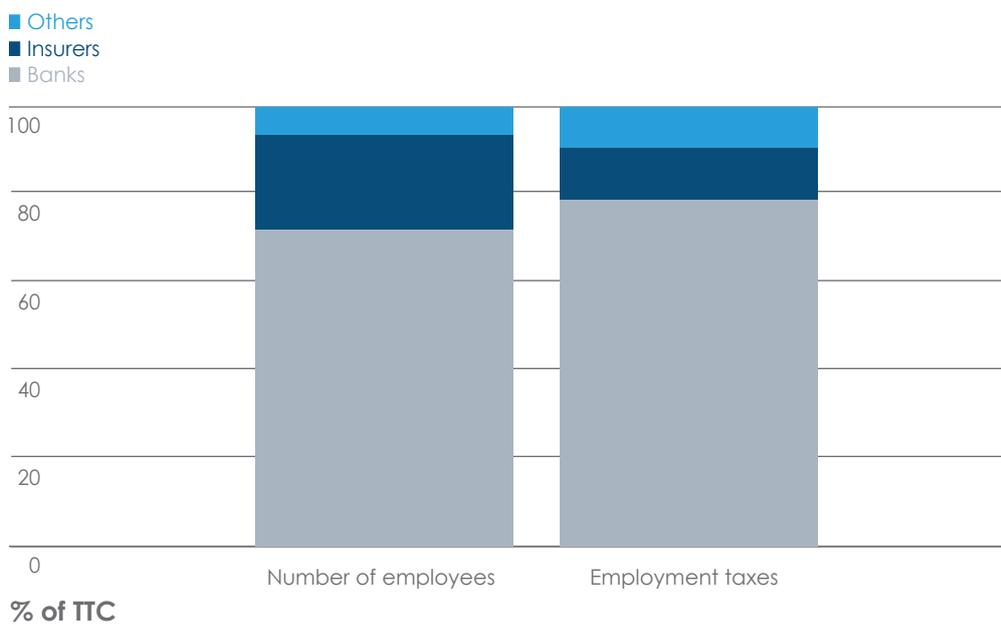
### Employment in the banking sector

The banks in the study are the largest employers in the FS sector – 72.0% of study employees - and generate the largest proportion of employment taxes – 78.8% of the total employment taxes.

**FIGURE 15**  
Employment in the study split by sub-sector

<sup>22</sup> Companies who had a fall in the number of employees but experienced an increase in wages.

**FIGURE 15**  
Employment in the study split by sub-sector



## The regional picture of employment

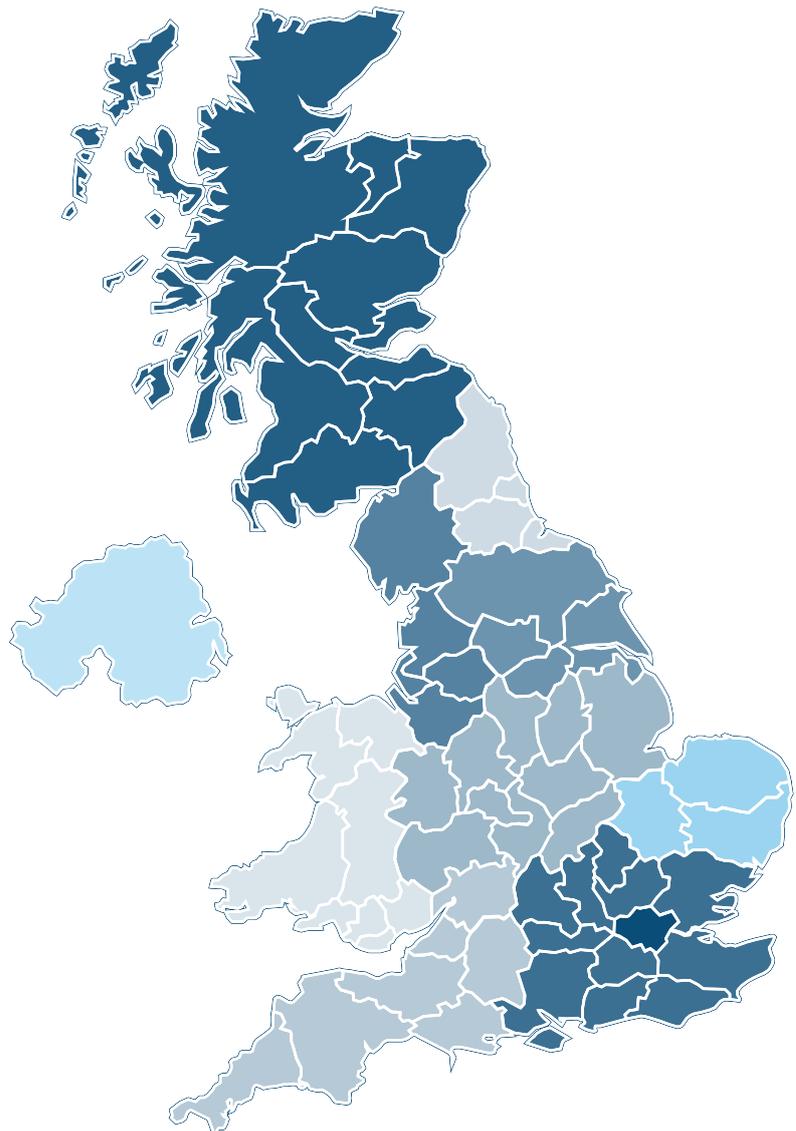
Twenty-one companies provided additional data on the distribution of their employees across the UK. In line with ONS<sup>23</sup> data, results from study participants found that two thirds of their employees were based outside London.

**FIGURE 16**  
Distribution of study participants' employees across UK

<sup>23</sup> ONS, Business Register and Employment Survey, 2017, and ONS Workforce Jobs by Industry, 2017

**FIGURE 16**  
Distribution of study participants' employees across UK

London	32.7%	
Scotland	13.6%	
South East	12.4%	
North West	9.4%	
Yorkshire & Humber	7.5%	
East England	6.5%	
East Midlands	4.8%	
West Midlands	4.8%	
South West	3.2%	
Northern Ireland	2.7%	
North East	1.5%	
Wales	0.9%	



## 6. Corporation tax

The government's figures show that corporation tax (including the bank surcharge) paid by the FS sector increased from £8.4bn to £11.6bn (38.1%) between 2016 and 2017.

This was a result of the introduction of the bank surcharge, legislative changes to restrict loss relief, and the deductibility of compensation payments.

Government figures show the importance of the FS sector for corporation tax receipts. Figure 17 shows that the increase in corporation tax receipts from the FS sector exceeds that in each of the manufacturing, distribution and North Sea companies business sector. Receipts from all other sectors in the economy combined (other industrial and commercial) have grown strongly, reflecting the growth in the economy in the latest year.

**FIGURE 17:**  
Government corporation tax including surcharge receipts by business sector

### The trend in corporation tax

Over the ten 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 which has varied from 30% to 20% across this period, as shown in Figure 18. It was announced in April 2017 that the rate of corporation tax will fall to 17%, although the bank surcharge of 8% will mean a combined rate of 25% for banks.

**FIGURE 17**  
Corporation tax receipts by business sector (including surcharge)

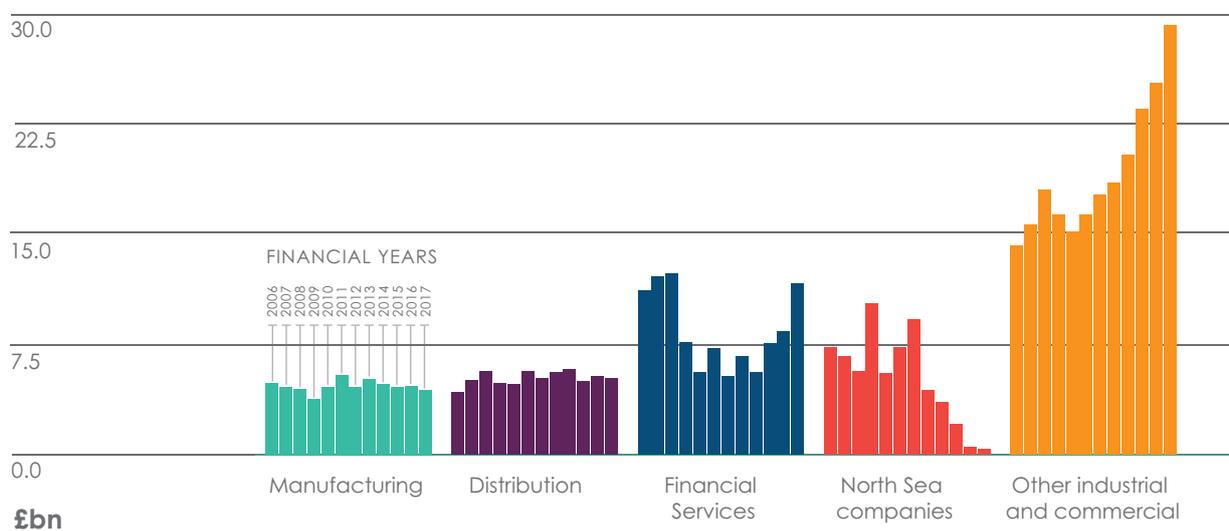
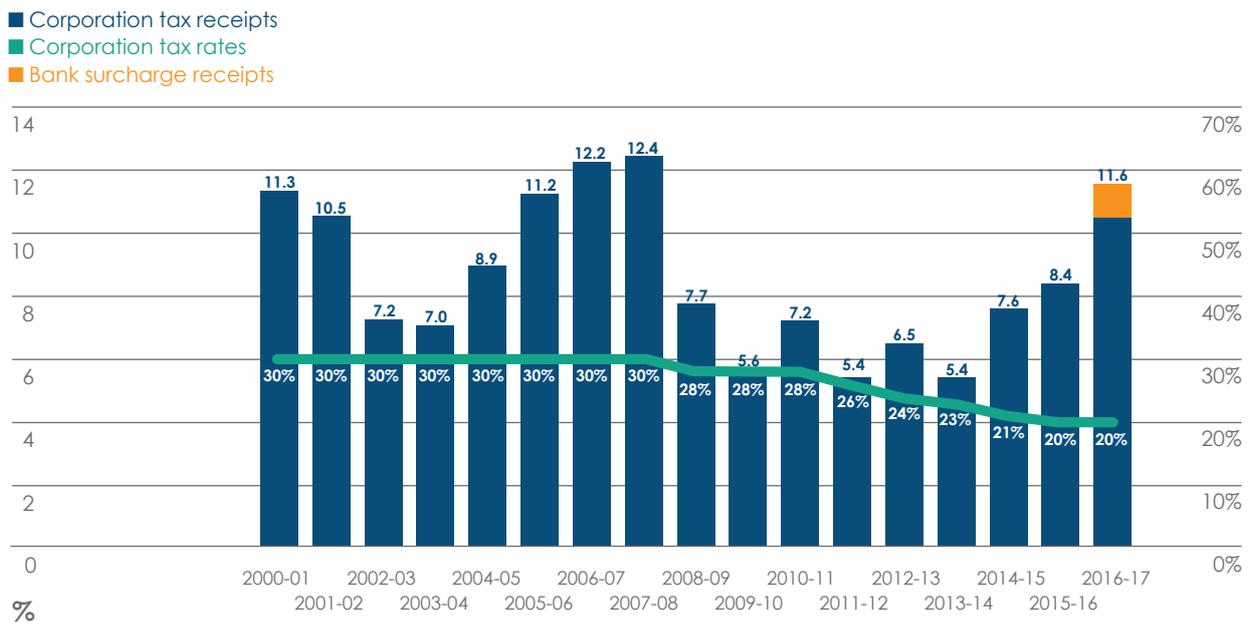


Figure 18 shows a cyclical pattern of corporation tax receipts from the FS sector alongside the changing rates of corporation tax from 2001 (tax year to March 2001). From 2016 to 2017, corporation tax payments increased, driven by the banking sector as explained earlier.

**FIGURE 18**  
Rates of corporation tax and Government corporation tax receipts including surcharge from FS sector

**FIGURE 18**  
Government corporation tax receipts from the financial services sector including surcharge

Source: HMRC T11.1A Corporation tax, bank Levy and bank surcharge net receipts 1999-00 to 2016-17



## 7. Putting Total Tax Contribution data in context

The Total Tax Rate - the measure of taxes borne compared to profitability - is 36.3%, an increase from 35.8% in 2016.

The Total Tax Contribution of the FS sector is equivalent to 20.5% of turnover.

The GVA for the FS sector is 7.2% of UK GVA which compares to tax receipts for the FS sector of 11.0% of total UK tax receipts.

46.3% of value distributed by FS companies is paid to the government in taxes.

### Total tax rate

This ratio compares taxes borne to profits before taxes borne (excluding taxes collected). The average Total Tax Rate for FS companies in the 2017 study was 36.3%.<sup>24</sup> This increase on 2016 arises from the increase in corporation tax referred to above. Figure 19 shows the average Total Tax Rate - the measure of taxes borne compared to profitability - for FS companies in each of the ten studies, together with the statutory rate of corporation tax.

**FIGURE 19**

Total Tax Rates for FS companies

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 profits falling markedly between the two years. In this period corporation tax payments fell with declining profit, but payments of the other taxes borne, remained more stable and the Total Tax Rate rose as a result.

<sup>24</sup> The average Total Tax Rate was 36.3%, the median was 31.6%, and trimmed mean was 31.9%.

**FIGURE 19**  
Total Tax Rates for Financial Services companies  
Comparison of the ten study results

■ TTR  
■ UK Statutory Tax Rate  
■ UK Statutory and bank surcharge



In the years after a recession, as the economy recovers, profits increase, and other taxes borne are more stable, causing the Total Tax Rate to decrease. In addition, losses brought forward offset the corporation tax due on these profits, depressing the Total Tax Rate even further, as can be seen in 2015. In 2016 and 2017, there are fewer carried forward losses available and the Total Tax Rate has increased.

### Total Tax Contribution compared to turnover

In addition to the Total Tax Rate, the total amount of taxes borne and collected as a percentage of turnover is an indication of the size of the Total Tax Contribution (TTC) of the FS sector companies in relation to the size of their business.

As shown in Figure 20, on average the TTC for 2017 was equivalent to 20.5%<sup>25</sup> of turnover, with a split of 9.8% taxes borne and 10.7% taxes collected.

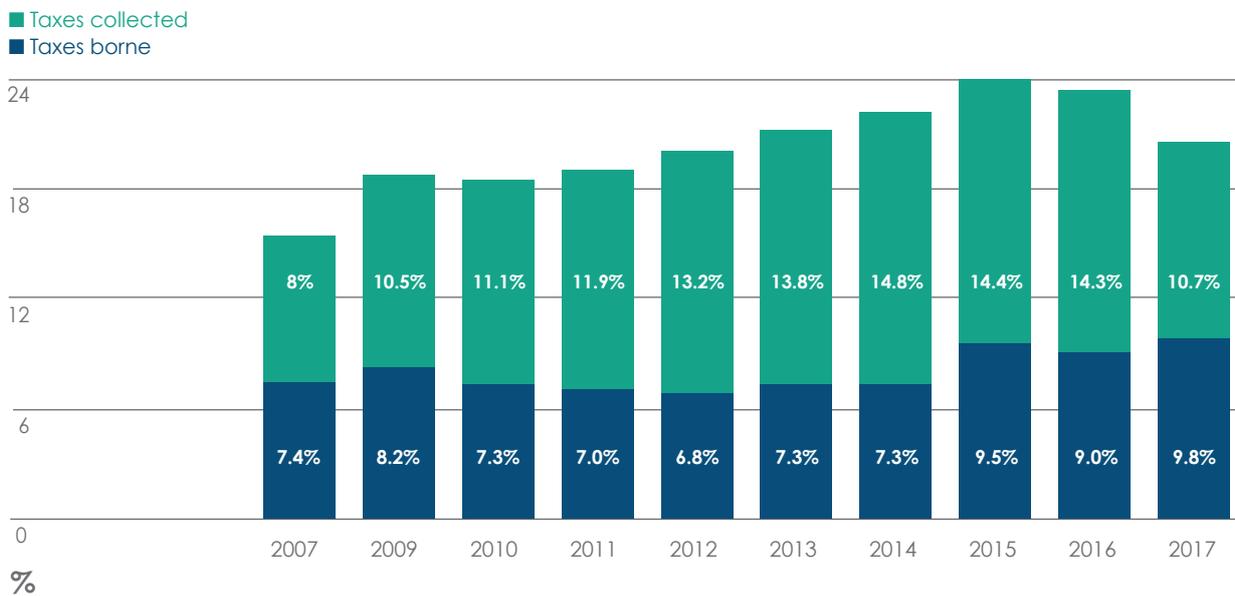
<sup>25</sup> The average TTC to turnover was 27.31%, the median was 23.5%, and trimmed mean was 23.1%.

**FIGURE 20**

Total Tax Contribution as a percentage of turnover for FS companies

In 2007, TTC as a percentage of turnover was 15.4%. In 2009, during the recession, it rose to 18.7% as turnover fell more than taxes. This in turn reflects the impact of non-profit related taxes. Turnover recovered in 2010, but since 2011 it has been slowly declining. Turnover increased in 2017, resulting in a decrease in the ratio, as shown in Figure 20.

**FIGURE 20**  
Total Tax Contribution as a percentage of turnover for Financial Services companies  
Comparison of the ten study results



## Gross Value Added

The tax contribution of the FS sector can be compared to the Gross Value Added (GVA) of the sector<sup>26</sup>. In 2016 the GVA for the FS sector represented 7.2% of UK GVA<sup>27</sup>. In the same year tax receipts for the FS sector amounted to 11.0% of total government tax receipts.

## Taxes borne and collected as a percentage of value distributed

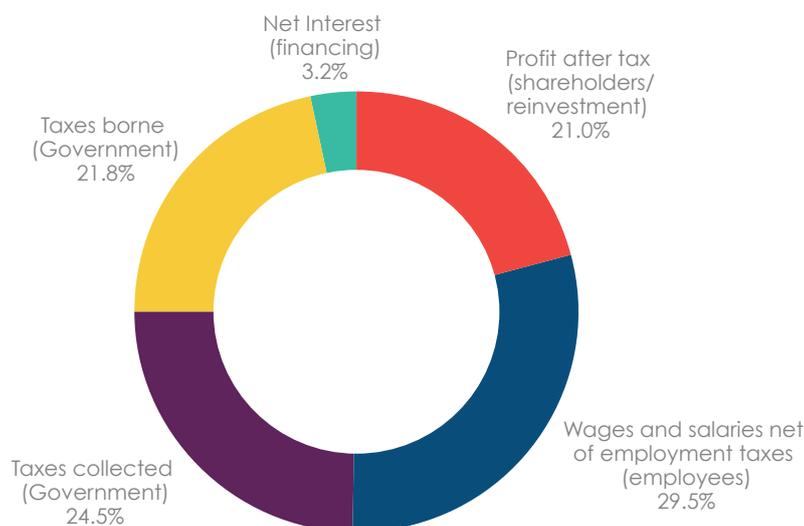
The TTC can be put in the context of value created and distributed by companies. Value is distributed to the government in taxes, to employees in wages, and is retained in the business for reinvestment or distributed to shareholders. Figure 21 shows how the value generated by the FS sector is distributed across the economy, with taxes borne and collected representing 46.3% of the total.

26 An industry's contribution made to economic output is typically measured by calculating the Gross Value Added (GVA), which is a measure of the economic value added of an industry.

27 <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06193>

**FIGURE 21**  
Taxes borne and collected as a percentage of value distributed

Chart shows the average result for insurers in the study.



## 8. The broader picture

Over the last 6 years, participants have spent £28.3bn in capital investment and invested £2.3m in research and development.

The FS sector makes up 2% of the UK's VAT / PAYE registered firms but 24% of total turnover.

### Wider economic contribution

For the sixth year running, we asked companies to provide information on their wider economic contribution in the form of capital investments and research and development expenditure.

41 companies provided data on their capital expenditure in the period under review totalling £2.4bn; 17 companies provided data on research and development expenditure of £510m.

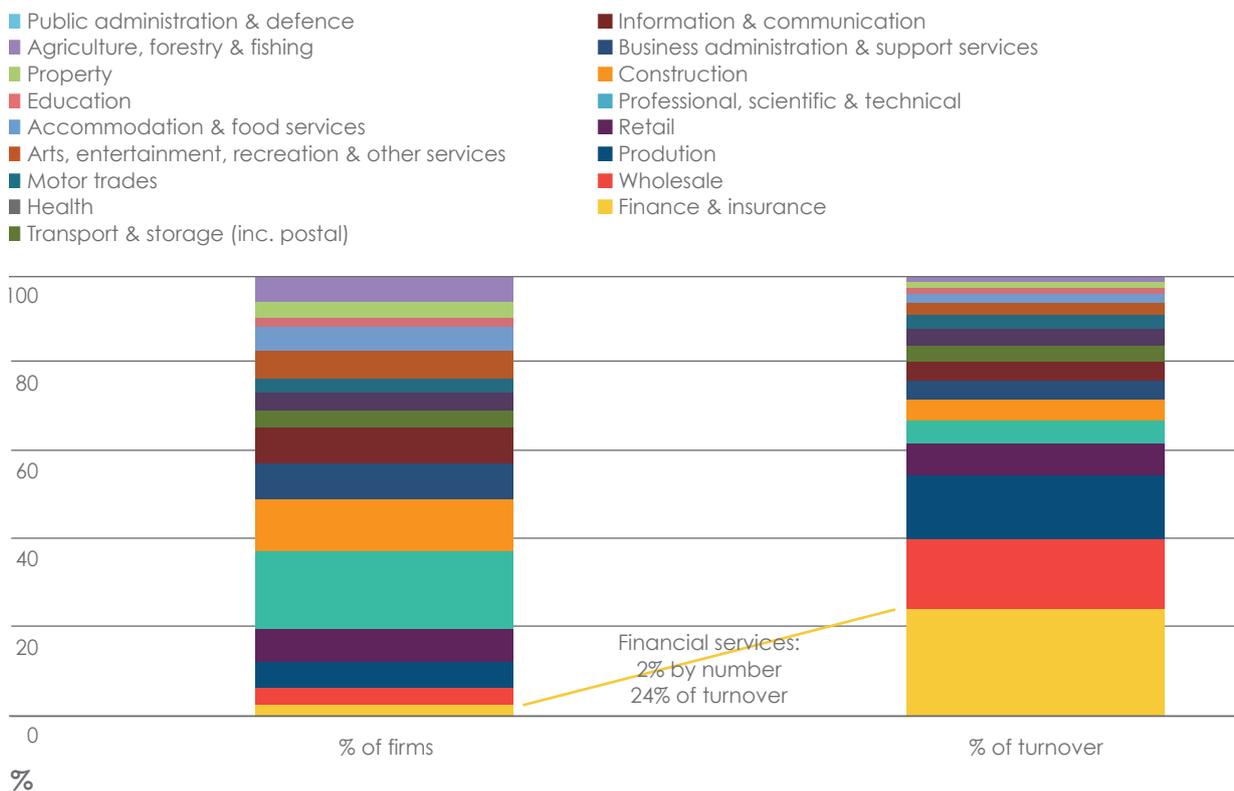
We have collected data on the wider economic contribution since 2011 and over the six-year period companies in the survey population have made capital investments totalling £28.3bn and invested £2.3bn in research and development.

### The FS sector in the context of the broader economy

ONS data shows the turnover from different sectors of the economy and the number of firms contributing to that turnover. This data emphasises the contribution made by large FS firms. As Figure 22<sup>28</sup> shows, the FS sector represents 2% of the number of the UK's firms registered for VAT / PAYE but those firms represent 24% of total turnover.

28 Source: <http://colresearch.typepad.com/colresearch/london/>

**FIGURE 22**  
UK firms sector proportions by number and turnover



# Appendices

The following appendices detail the purpose and outline of the study, recent changes in UK tax policy, the UK taxes borne and collected by financial services companies, and the data provided on total taxes borne and collected by the 50 financial services 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 tenth 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 2017. The purpose of all ten 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 which 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 Total Tax Contribution 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. 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.

## How we collected the data

This tenth study has been carried out using data provided by 50 FS companies on all their UK tax payments. These companies employed 38.4% 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 tenth study looks at tax payments by FS companies in their accounting period ended in the tax year to 31 March 2017; for the majority (74%), this is the calendar year to 31 December 2016. 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 ten 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 ten 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 will be 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 tenth study shows the impact of recent legislative changes in the UK tax system and broader economy. 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:

- 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%. 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% and from January 2017 to 0.170%.
- 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 £10,600 to £11,000 in 2016/17. The higher rate threshold decreased from £31,865 to £31,785 in 2015/16.
- The rate of insurance premium tax (IPT) increased in October 2016 from 9.5% to 10%. The rate is due to increase to 12% as of June 2017. 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 remained at 20% in 2015/16 and 2016/17. It will fall to 17% in 2020.
- Looking forward, the apprenticeship levy was introduced in April 2017. At 0.5% of total employer's wage bill, this is likely to be a significant contribution from the FS sector.

## Appendix 3

List of UK taxes borne and collected by financial service companies

	Tax borne	Tax collected
<b>Profits taxes</b>		
Corporation tax	✓	
Bank Surcharge	✓	
Tax deducted at source <sup>29</sup>		✓
<b>Property taxes</b>		
Bank levy	✓	
Business rates	✓	
Stamp duty land tax	✓	
Stamp duty	✓	
Stamp duty reserve tax	✓	✓
<b>People taxes</b>		
Income tax under PAYE		✓
PSA (tax on benefits)	✓	
Employees' national insurance contributions		✓
Employers' national insurance contributions	✓	
<b>Product taxes</b>		
Net VAT		✓
Irrecoverable VAT	✓	
Custom duties	✓	
Insurance premium tax	✓	✓
Air passenger duty	✓	
Fuel duty	✓	
Vehicle excise duty	✓	
<b>Planet taxes</b>		
Landfill tax	✓	
EU ETS borne	✓	
Carbon reduction commitment	✓	
Congestion charge	✓	
Climate change levy	✓	

<sup>29</sup> 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 50 financial services companies taking part in the study

Taxes borne and collected in their accounting year ended in the year to 31 March 2017.

Tax borne		£Millions
Profit taxes	Corporation tax	4,437.4
	Bank Surcharge	521.1
Property taxes	Bank levy	2,809.2
	Business rates	654.8
	Stamp duty land tax	111.6
	Stamp duty/stamp duty reserve tax	100.4
People taxes	PSA (tax on benefits)	61.5
	Employers' NIC	3,634.6
Product taxes	Irrecoverable VAT	4,237.0
	Insurance premium tax	12.3
	Air passenger duty	7.0
	Fuel Duty	4.9
	Vehicle excise duty	26.0
Planet taxes	Landfill tax	0.6
	Carbon reduction commitment	13.6
	Climate change levy	7.0
<b>Total taxes borne</b>		<b>16,639.0</b>

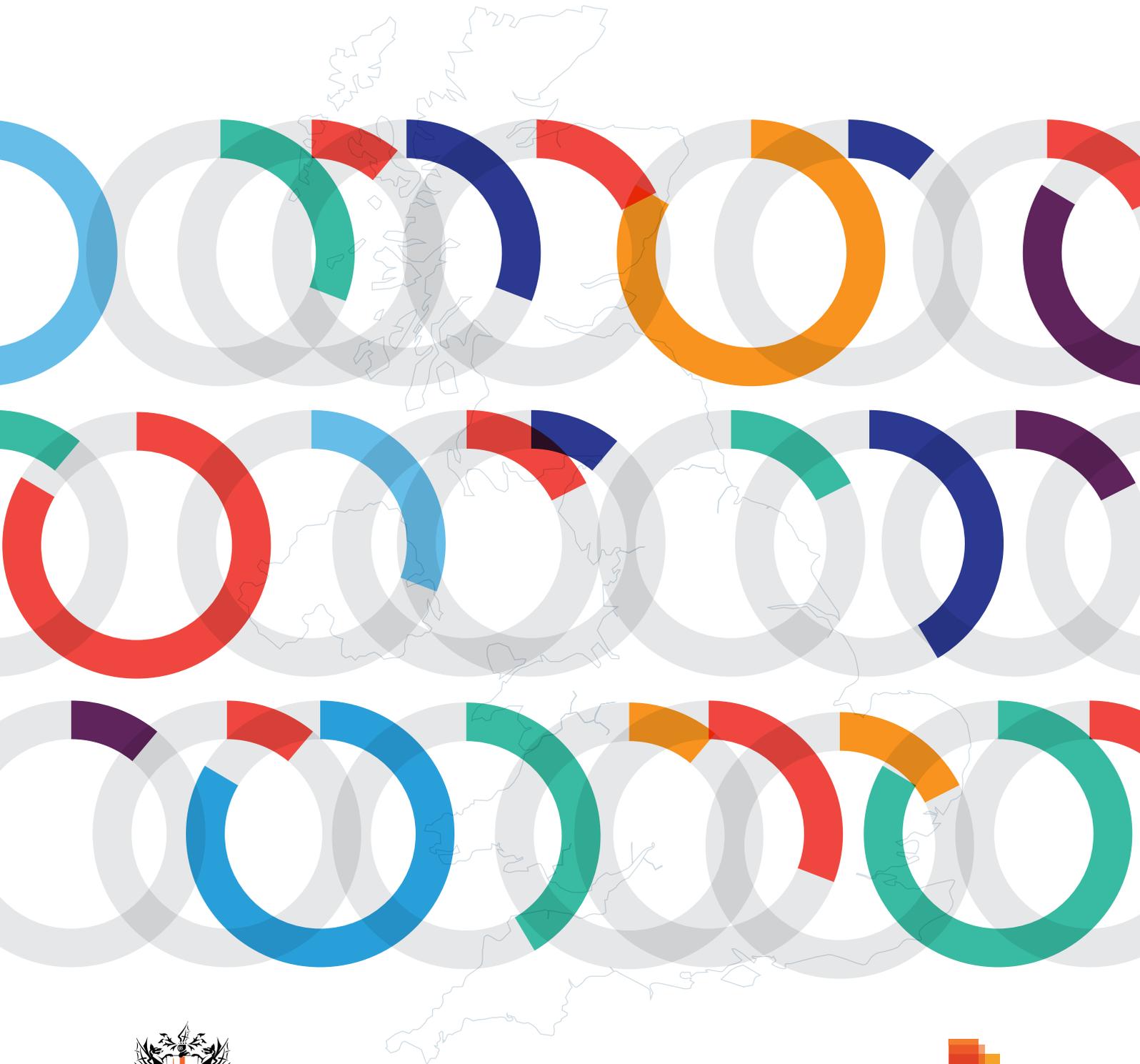
Taxes collected		£Millions
Profit taxes	Tax deducted at source	3,782.3
Property taxes	Stamp duty reserve tax	1,381.1
People taxes	Income tax under PAYE	9,733.7
	Employee's NIC	1,514.5
Product taxes	Net VAT	(30.9)
	Insurance premium tax	1,781.1
<b>Total taxes collected</b>		<b>18,161.8</b>
<b>Total tax contribution</b>		<b>34,800.8</b>



City of London Corporation Research Report

# Total tax contribution of UK financial services

TENTH EDITION



**CITY  
OF  
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In association with

