



Phil Bowen PSM FCPA Parliamentary Budget Officer

Senator Christine Milne Leader of the Australian Greens Parliament House CANBERRA ACT 2600

Dear Senator Milne

# Response to costing requests

Please find attached a response to your costing request on "Banks – Public Support Levy" (letter of 5 February 2012).

If you have any queries about these costings, please do not hesitate to contact Rachel Lloyd on (02) 6277 9540.

Yours sincerely

Phil Bowen

February 2013



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# **COSTING – OUTSIDE THE CARETAKER PERIOD**

Name of proposal to be costed:	Banks – Public Support Levy			
Summary of proposal:	The proposal would introduce a 20 basis point levy on bank assets in excess of \$100 billion, as suggested in the IMF Report "A fair and substantial contribution from the financial sector: Final Report for the G-20"			
	The IMF estimates that banks which are perceived as "too big to fail" (TBTF) receive a 20 basis point advantage over small banks due to the implicit Government guarantee underwriting their activities.			
	The proposal is intended to make major banks pay a fair charge for the public support they receive.			
	The proposal will have effect from 1 July 2013.			
Person/party requesting costing:	Senator Christine Milne, Australian Greens.			
Date costing request received:	5 February 2013.			
Date costing completed:	13 February 2013.			
Did the applicant request the costing be confidential?	Yes.			
Agencies from which information was obtained.	Not applicable.			
Expiry date for the costing	Budget 2013-14.			

### Costing overview

This proposal is expected to increase both the underlying cash and fiscal balances by \$11.0 billion over the 2013-14 Budget forward estimates period. This impact reflects an increase in revenue of \$15.8 billion from the levy and a decrease in company tax receipts of \$4.7 billion over this period.

This proposal will have an ongoing impact that extends beyond the forward estimates period.

Departmental costs are expected to be minimal and have not been included in this costing. Administration of the policy should not be a significant cost given that the Australian Prudential Regulation Authority (APRA) already collects data on bank assets and that the levy would only apply to four taxpayers at present.

This costing is considered to be of high reliability. It is based on high quality, up to date information and current growth forecasts. No data assumptions have been made.

#### POLICY COSTING - OUTSIDE THE CARETAKER PERIOD

This costing advice is valid until Budget 2013-14. Estimates will become dated as new banking statistics become available (updated monthly) and when updated GDP forecasts are released (May 2013).

Table 1: Financial implications (outturn prices)(a)

Impact on	2012-13	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	poledia bra 12 pri vii trom l	2,500	2,700	2,800	3,000
Fiscal balance (\$m)	and not rest-eni	2,500	2,700	2,800	3,000

<sup>(</sup>a) A positive number for the fiscal balance indicates an increase in revenue. A positive number for the underlying cash balance indicates an increase in revenue.

# **Key assumptions**

Assumptions detailed in the costing request:

- The levy is treated as a deductible expense for company tax purposes.
- The levy is 20 basis points (0.2 per cent) of the value of total resident assets of each bank in excess of the \$100 billion threshold.
- The proposal would start from 1 July 2013.

The PBO has made the following assumptions regarding this proposal.

#### General Assumptions

- The levy would be payable in a single instalment within the financial year based on the estimated value of assets as at 1 July each year.
- The value of bank assets is assumed to grow each year by the growth rate in GDP.

#### Behavioural assumptions

- The costing assumes that the cost of the proposed levy is not passed on to bank customers.
  - This assumption may be reasonable given that, based on the APRA data, only the 4 major banks would be subject to the levy and that competition from other approved deposit taking institutions would limit their ability to pass the impact through to customers, with the result that the levy would impact on profit and taxable income (as costed).
  - The impact of varying this assumption mainly impacts on the rate at which the levy is assumed to be deducted from assessable incomes. If banks were to pass the levy through to consumers in the form of increased fees or reduced interest, that pass through would increase the assessable income of the banks for tax purposes, offsetting the deduction they receive for the levy, but would be matched by reductions in the taxable income of (resident) bank customers. In this case, the impact of reduced income/tax deductions on tax revenue would depend upon the marginal tax rates of bank customers.

# POLICY COSTING - OUTSIDE THE CARETAKER PERIOD

- The costing also assumes that the imposition of the levy does not change the behaviour of Australian banks or their customers, for instance by moving business offshore, restructuring banking businesses to get under the asset threshold or shifting business away from banks subject to the levy to those that are not subject to the levy.
  - The levy would represent a significant impost on affected banks. According to APRA data, the total profit of 4 major Australian banks in the year ended March 2012 was \$33 billion and tax paid was \$9.6 billion. The levy proposed is equivalent to more than a quarter of the income tax currently paid by the banks. Such an increase in tax liability is likely to result in a behavioural response.
  - There is, however, no basis for estimating what the nature or magnitude of any behavioural change would be in response to the proposal. The actual behaviour of the major banks in response to the levy could materially affect the costing.

# Methodology

Total resident assets of Australian banks were obtained from the APRA *Monthly Banking Statistics* for each licensed bank. Total resident assets are defined as "all assets on the banks' domestic books that are due from residents". The bank assets were then tested against the proposed \$100 billion threshold. Only assets of banks that were in excess of threshold were assessed for the levy.

#### Data sources

APRA Monthly Banking Statistics, December 2012.

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