

## UK sees rise in tax-take from banking industry

The corporate tax paid by banks operating in the UK almost doubled during the past fiscal year compared with the same period a year earlier, despite a decline in profitability for many firms during the period.

Figures from UK tax authorities show that the UK banking sector paid £2.3bn in corporation tax in the tax year ended in March, up from £1.3bn the previous year. Although the figure is rising, it is still substantially down on the £7.3bn paid in 2006–2007, partly due to lower profits and the continued use of tax credits linked to losses during the credit crisis.

Receipts from payroll taxes rose to a new record high of £17.8bn, partly due to the 50% tax rate that was introduced in 2010 on earnings above £150,000. Takings are expected to decline this year because the rate has fallen to 45%. Total taxation from the bank industry including the bank levy rose to £21.7bn, 5.9% up on the previous year but substantially down on two years ago, when a one-off payroll tax hit the sector.

The increase in corporate tax surprised many, because bank performance in 2012 was certainly not as good as in 2011.

**BARCLAYS** posted a US\$1bn loss in 2012 compared with a US\$3bn profit a year earlier, while **HSBC**'s net income declined by more than US\$2.5bn in 2012. **STANDARD CHARTERED**'s results were flat, while **RBS** has been loss-making since 2008. A better start to this year may partly explain the rise.

Indeed, tax lawyers and bankers were divided as to why corporate tax rose despite the poor results for the industry. One explanation was the use of deferred tax

assets, which banks have racked up because of losses during the crisis.

"It's reasonable to imagine how firms who have been making decent money effectively haven't had to pay tax until last year and will start this year," said one investment banking head for a European firm based in London.

Still, DTA movements don't entirely explain the jump in revenue. Global DTAs at the world's largest banks – most don't break down tax assets by country – declined in 2012 after five straight years of increases. Global banks are still sitting on more than US\$147.9bn in DTAs. HSBC's DTAs declined by US\$200m and those at Barclays fell by £700m from 2012 to 2011.

This suggests that banks are still deploying their DTAs and have plenty more

to use. However, DTAs can only be used in the jurisdiction where they were accrued, and in the UK there is no time limit on how long they can be held, unlike the US where they must be used within five years of their accrual. As banks do not detail where DTAs were used, it is difficult to ascertain whether they have been deployed in the UK or elsewhere.

### Tax loopholes

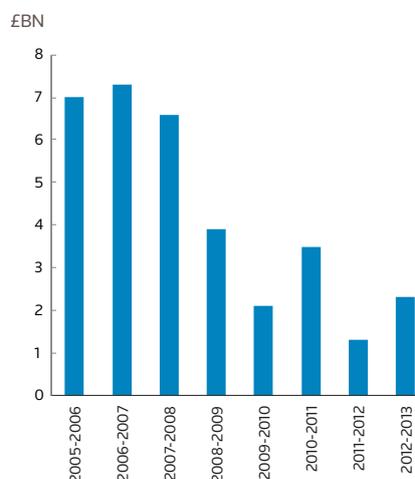
There is also widespread belief that the government has cracked down on tax loopholes and that these efforts are starting to bear fruit. Such measures include identifying promoters of avoidance schemes, attempting to claw back lost revenue and closing loopholes on offshore revenue.

Hugo Jenney, head of tax at Stephenson Harwood, suggested that in addition to banks using up losses carried forward, progress has been made on blocking the use of tax schemes. "The other possibility is that HMRC and government closure of tax loopholes and signing of codes of conduct by banks has reduced banks' use of tax schemes," he said.

However, one senior investment banker at a European lender suggested that far more needed to be done in the matter of tax evasion, and he expected more loopholes to be closed and corporate tax revenue to increase in the coming years. Unlike many in his industry, he added that he thought this was a good thing.

"I think they've hired more inspectors, but governments need to be more robust," he said. "This is a profoundly important issue. Look at the £130bn Vodafone deal. Britain is getting very little revenue out of that. Disparities like that mean the system needs to be simplified. I know there are thousands of accountants and lawyers working on ways to minimise the tax burden, but reform is in everyone's interest." Spencer Anderson

### CORPORATE TAX PAID BY BANKS IN UK



Source: HMRC

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■ Standard Chartered's head of capital markets for the Middle East, North Africa and Pakistan is joining **FIRST GULF BANK** as head of debt markets, the Abu Dhabi-based lender said on Monday. *Steve Perry* is the latest western bank executive to join FGB, which is

expanding in a bid to build its market share in investment banking. *Perry* will join FGB early this month, the bank's spokesman said. In July, *Simon Penney*, former chief executive of RBS's Middle East and Africa business, joined FGB as head of wholesale banking.

■ *Emilio Mahuad* has been named head of corporate client solutions for Mexico at **UBS**. He will oversee M&A advisory, ECM, DCM and financing solutions groups in Mexico. He was most recently at BofA Merrill, as managing director of the investment banking group in Mexico.

■ *Niccolo Manno* has resigned as director at **DEUTSCHE BANK**'s Asia-Pacific equity syndicate desk. It is understood that *Manno* will join JP Morgan in a similar position. He replaces *Gordon Crosbie-Walsh*, who left the firm in June and joined Jefferies.

■ **GOLDMAN SACHS** has appointed *Stuart Bernstein* as its new head of its venture capital coverage group. A 27-year firm veteran, *Bernstein* fills a vacancy left by former head *Frank Walters*, who left the firm in March to join BofA Merrill. Previously,

*Bernstein* headed the firm's FIG ECM effort, including a leadership role on the US\$20bn Visa IPO of 2008, the largest US IPO ever. He moved into a new role at the bank's clean technology and renewable energy group in 2010.