



## Policy costing

Recoup banking insurance costs through a bank levy and invest in financial counselling services	
Party:	Australian Greens
Summary of proposal: The proposal would increase the major bank levy rate from its present level of 0.015 per cent per quarter to 0.05 per cent per quarter. In addition to the increase in the levy rate, the Government would provide \$10 million per year, indexed to the consumer price index, to fund financial counselling and legal assistance. The proposal would have effect from 1 July 2019.	

## Costing overview

This proposal would be expected to increase the fiscal balance by \$14,369 million and the underlying cash balance by \$13,369 million over the 2019-20 Budget forward estimates period. On a fiscal balance basis, this impact reflects an increase in revenue of \$14,410 million and an increase in expenses of \$41 million.

This proposal would be expected to have an ongoing impact that extends beyond the 2019-20 Budget forward estimates period. A breakdown of the financial implications over the period to 2029-30 is provided at [Attachment A](#).

The proposal would not be expected to result in significant departmental expenses as it would not be expected to change the complexity of the existing major bank levy administration.

There is a difference between the fiscal and underlying cash balances due to payments for the major bank levy being calculated quarterly and paid in the quarter after they accrue.

The costing includes an income tax effect as the levy is deductible for company tax purposes and there would be a pass-through of costs for affected institutions, which would alter the tax payable by bank customers.

Estimates in this costing are sensitive to assumptions regarding the overall growth in the liabilities of affected institutions, and the potential behavioural responses in relation to the existing major bank levy and under the proposal.

**Table 1: Financial implications (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	<b>Total to 2022–23</b>
Fiscal balance	3,790	3,480	3,470	3,729	<b>14,369</b>
Underlying cash balance	2,790	3,480	3,470	3,629	<b>13,369</b>

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

## Key assumptions

The Parliamentary Budget Office has made the following assumptions.

- The growth in liabilities would be evenly distributed through the year. The banks' liabilities beyond 2021-22 would increase in line with their average historical growth rate of approximately 1.3 per cent per quarter.
- The affected banks would react to the increased levy as follows.
  - Approximately 75 per cent of the increased levy amount would be passed on to bank customers.
    - ◆ Around 30 per cent of the passed-on costs would go to individuals who would be able to claim a deduction for these costs.
    - ◆ Around 15 per cent of the passed-on costs would go to businesses that would be able to claim a tax deduction for these costs.
    - ◆ Any remaining passed-on costs would be non-deductible for tax purposes.
  - Around 13 per cent of the additional levy would be passed on to shareholders of the affected banks through reduced dividend payments. These reduced dividend payments would reduce the taxable incomes of shareholders liable to pay tax in Australia.
  - The remainder would be absorbed by the affected banks.
- Domestic banks that are not currently liable to pay the major bank levy would not become liable for the levy over the period to 2029-30.
- All institutions are expected to be taxable over the period to 2029-30.

## Methodology

The fiscal balance impact of the increase in the major bank levy was calculated at the end of each quarter by applying the increase in the major bank levy rate to the estimated value of the banks' liabilities. Cash timing assumptions were then applied to reflect the timing of the payments of the levy in order to determine the impact on an underlying cash balance basis.

Estimates of revenue from the major bank levy have been rounded to the nearest \$100 million. Income tax revenue has been rounded to the nearest \$10 million.

Expense estimates have been rounded to the nearest \$1 million.

## Data sources

Commonwealth of Australia, 2019. *2019-20 Budget*, Canberra: Commonwealth of Australia.

Treasury provided the model underlying the 2017-18 Budget measure *Major bank levy – introduction*.

The Australian Prudential Regulation Authority provided information on the banks' liabilities that have been used to calculate the major bank levy revenue for the 2017-18 financial year.

## Attachment A – Recoup banking insurance costs through a bank levy and invest in financial counselling services – financial implications

**Table A1: Recoup banking insurance costs through a bank levy and invest in financial counselling services – Fiscal balance (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
<b>Revenue</b>													
<i>Major bank levy</i>	3,800	4,000	4,200	4,500	4,700	4,900	5,200	5,500	5,900	6,100	6,400	16,400	55,100
<i>Income tax</i>	-	-510	-720	-760	-800	-840	-880	-940	-1,010	-1,040	-1,100	-1,990	-8,600
<b>Total – revenue</b>	<b>3,800</b>	<b>3,490</b>	<b>3,480</b>	<b>3,740</b>	<b>3,900</b>	<b>4,060</b>	<b>4,320</b>	<b>4,560</b>	<b>4,890</b>	<b>5,060</b>	<b>5,300</b>	<b>14,410</b>	<b>46,500</b>
<b>Expenses</b>													
<i>Administered</i>													
<i>Financial counselling and legal assistance fund</i>	-10	-10	-10	-11	-11	-11	-12	-12	-12	-12	-13	-41	-124
<b>Total – expenses</b>	<b>-10</b>	<b>-10</b>	<b>-10</b>	<b>-11</b>	<b>-11</b>	<b>-11</b>	<b>-12</b>	<b>-12</b>	<b>-12</b>	<b>-12</b>	<b>-13</b>	<b>-41</b>	<b>-124</b>
<b>Total</b>	<b>3,790</b>	<b>3,480</b>	<b>3,470</b>	<b>3,729</b>	<b>3,889</b>	<b>4,049</b>	<b>4,308</b>	<b>4,548</b>	<b>4,878</b>	<b>5,048</b>	<b>5,287</b>	<b>14,369</b>	<b>46,376</b>

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms.

A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

**Table A2: Recoup banking insurance costs through a bank levy and invest in financial counselling services – Underlying cash balance (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29	2029–30	Total to 2022–23	Total to 2029–30
<b>Receipts</b>													
<i>Major bank levy</i>	2,800	4,000	4,200	4,400	4,700	4,900	5,100	5,500	5,800	6,100	6,400	15,400	53,900
<i>Income tax</i>	-	-510	-720	-760	-800	-840	-880	-940	-1,010	-1,040	-1,100	-1,990	-8,600
<b>Total – receipts</b>	<b>2,800</b>	<b>3,490</b>	<b>3,480</b>	<b>3,640</b>	<b>3,900</b>	<b>4,060</b>	<b>4,220</b>	<b>4,560</b>	<b>4,790</b>	<b>5,060</b>	<b>5,300</b>	<b>13,410</b>	<b>45,300</b>
<b>Payments</b>													
<i>Administered</i>													
<i>Financial counselling and legal assistance fund</i>	-10	-10	-10	-11	-11	-11	-12	-12	-12	-12	-13	-41	-124
<b>Total – payments</b>	<b>-10</b>	<b>-10</b>	<b>-10</b>	<b>-11</b>	<b>-11</b>	<b>-11</b>	<b>-12</b>	<b>-12</b>	<b>-12</b>	<b>-12</b>	<b>-13</b>	<b>-41</b>	<b>-124</b>
<b>Total</b>	<b>2,790</b>	<b>3,480</b>	<b>3,470</b>	<b>3,629</b>	<b>3,889</b>	<b>4,049</b>	<b>4,208</b>	<b>4,548</b>	<b>4,778</b>	<b>5,048</b>	<b>5,287</b>	<b>13,369</b>	<b>45,176</b>

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms.

A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.