Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Too-Big-To-Fail Bank Levy* (letter of 23 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen
24 June 2016

Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	**Too-Big-To-Fail Bank Levy**
Summary of proposal:	The proposal would introduce a 20 basis point levy on bank assets in excess of $100 billion. The levy would be deductible for the purposes of calculating company tax payable. The proposal would have effect from 1 September 2016.
Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	31 May 2016 http://greens.org.au/sites/greens.org.au/files/20160531_Banking%20and%20Finance.pdf
Date costing request received:	23 June 2016
Date costing completed	24 June 2016
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

This proposal would be expected to increase both the fiscal and underlying cash balances by $14,900 million over the 2016-17 Budget forward estimates period. This impact entirely reflects an increase in revenue over this period. A detailed breakdown of this costing is presented at Attachment A.

This proposal would have an ongoing impact that extends beyond the 2016-17 Budget forward estimates period.

Departmental expenses are not expected to be significant and have not been included in this costing.

This costing is considered to be of low to medium reliability. While it is based on high quality, up-to-date information and current growth forecasts, there is significant uncertainty around the behavioural response of banks to the proposal. As the proposed levy would be equivalent to approximately a quarter of the income tax currently paid by the major banks, it is likely to result in a behavioural response. However, the nature, timing and magnitude of this response are highly uncertain and cannot be reliably estimated.

Table 1: Financial implications (outturn prices)[(a)(b)]

Impact on ($m)	2016–17	2017–18	2018–19	2019–20	**Total**
Fiscal balance	2,900.0	3,700.0	4,000.0	4,300.0	**14,900.0**
Underlying cash balance	2,900.0	3,700.0	4,000.0	4,300.0	**14,900.0**

(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 levy would be payable annually in a single instalment in advance based on the estimated average value of bank assets over the year.
- The value of bank assets is assumed to grow each year by the average growth rate in bank assets over the last five years.

Behavioural assumptions

- The costing assumes that, as the levy would only apply to some banks, competition from other financial institutions would mean that the proposed levy would not be passed on to bank customers, and instead would reduce the profit and taxable income of these banks.
- This assumption would only have a material impact on the costing if the average marginal tax rate of bank customers was materially different from the company tax rate. The costing also assumes that the imposition of the levy would not change the behaviour of Australian banks over the short term, for instance by moving banking business offshore or restructuring businesses to get under the asset threshold.
  - Behavioural responses of the major banks in reaction to the levy could materially affect the estimated revenue from the levy.

Methodology

Total resident assets of Australian banks were obtained from the Australian Prudential Regulation Authority (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 the threshold were assessed for the levy. An offsetting company tax deduction was then applied.

Estimates are rounded to the nearest $100 million.

Data sources

- APRA Monthly Banking Statistics
- APRA Quarterly Authorised Deposit-taking Institution Performance.

Attachment A: Too-Big-To-Fail Bank Levy—financial implications

The following table provides a breakdown of the estimated impacts of applying a 20 basis point levy on bank assets in excess of $100 billion over the 2016-17 Budget forward estimates period.

Table A: Too-Big-To-Fail Bank Levy —Financial implications (outturn prices)[a][b]

($m)	2016–17	2017–18	2018–19	2019–20	**Total to 2019–20**
Fiscal and underlying cash balances – revenue/receipts					
Gross revenue raised from proposed levy	4,100.0	5,300.0	5,700.0	6,100.0	**21,200.0**
Impact on company tax	-1,200.0	-1,600.0	-1,700.0	-1,800.0	**-6,300.0**
Net financial implications	**2,900.0**	**3,700.0**	**4,000.0**	**4,300.0**	**14,900.0**

(a) A positive number indicates an increase in revenue or a decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

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