Parliamentary Budget Office

Policy costing

Increase to the rate of the Major Bank Levy by 10 percent		
Person/party requesting the costing:	Senator the Hon Matt Canavan	
Date costing completed:	14 May 2024	
Expiry date of the costing:	Release of the next economic and fiscal outlook report.	
Status at time of request:	Submitted outside the caretaker period	
	☒ ~~Confidential~~ – Authorised for public release on 15 May 2024	☐ Not confidential
Summary of proposal: The proposal would increase the Major Bank Levy[1] from the current level (0.06% per annum, 0.015 per quarter) by 10% to the proposed level (0.066% per annum, 0.0165% per quarter). The additional revenue would be used to co-fund community banks. The proposal is ongoing with a start date of 1 July 2024.		

Costing overview

The proposal would be expected to increase the fiscal balance by around $495.8 million, and the underlying cash balance by around $414.9 million across the 2023-24 Budget forward estimates period. The estimated increase in the budget balances reflects an increase in major bank levy (levy) revenue, partially offset by a decrease in company tax and personal income tax revenue. The co-funding of community banks has not been included in this costing.

The costing in the proposal would have an ongoing impact beyond the 2023-24 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2033-34 is provided at Attachment A.

The estimates are sensitive to assumptions about the behavioural responses to the proposal, especially how much of the additional expense from the increase in the levy is passed on to

[1] The *Major Bank Levy Act 2017* provides for a 0.015% levy on authorised deposit-taking institutions (banks) with total liabilities of greater than $100 billion (indexed to grow in line with GDP). The levy is imposed on certain liabilities of the bank that are reported to the Australian Prudential Regulation Authority (APRA) on a quarterly basis. There are currently 5 banks captured by the levy: Commonwealth Bank of Australia (CBA), Westpac Banking Corporation (Westpac), Australia and New Zealand Banking Group Limited (ANZ), National Australia Bank (NAB) and Macquarie Bank.

consumers (which include both individuals and companies) by the banks. The Parliamentary Budget Office (PBO) assumed that 75% of the increase in the levy would be passed on to consumers through mechanisms such as increases to fees on banking products, increases to interest rates on mortgage products, or decreases in interest payments on savings. This is because the levy is anticipated and ongoing, meaning it can be factored into prices and charges for bank services and products, and over the longer run the incidence of bank levies tends to fall on consumers.

The estimates are also sensitive to general economic conditions and the financial positions of the major banks, particularly the value of liabilities held on their balance sheets.

Table 1: Increase to the rate of the Major Bank Levy by 10 percent – Financial implications ($m)[(a)(b)]

	2023-24	2024-25	2025-26	2026-27	Total to 2026-27
Option 1: Increase to the rate of the Major Bank Levy by 10 percent					
Fiscal balance	-	161.8	162.7	171.3	**495.8**
Underlying cash balance	-	116.6	147.2	151.1	**414.9**

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

(b) PDI impacts are not included in the totals.

\- Indicates nil.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- Banks would pass on 75% of the increase in the levy to consumers.
  - While taxpayers may generally take some time to adjust to changes in policy, there is no allowance for transitional change in this costing (that is, this assumption would hold from the date of implementation).
- Regarding the implications of the pass-through of the increase of the levy to consumers:
  - Around 30% is related to individuals who would be able to claim a tax deduction for the additional expenses. Individuals are assumed to have an average marginal tax rate of around 32%, which incorporates the impact of the Stage 3 tax cuts, which take effect from 1 July 2024.
  - Around 15% is related to companies that would be able to claim a tax deduction for the additional expenses, with an average marginal tax rate of around 29%.
  - Any remaining on-passed expenses to consumers would be non-deductible for tax purposes (e.g. borrowing for a principal place of residence).
- Banks would pay out 75% of their after-tax profits as franked dividends. As a result, a proportion of the increase in the major bank levy would be effectively passed on to shareholders in the form of reduced dividends.
  - Shareholders would be Australian resident taxpayers that can claim a tax offset for a franking credit attached to a dividend.
  - Shareholders would be individuals, superannuation funds and other companies with an average marginal tax rate of around 29%. This is based on the weighted average marginal tax rate of dividend recipients in the Australian Taxation Office's (ATO's) 2019-20 Taxation Statistics. This assumption incorporates the impact of the Stage 3 tax cuts taking effect from 1 July 2024.

- Banks that are not currently liable for the levy would not become liable over the period to 2033-34.
- Banks would pay company tax at a rate of 30%.
- Banks subject to the levy would be taxable over the period to 2033-34.
- Departmental costs to increase the major bank levy would be negligible and covered by existing departmental funding for the Australian Prudential Regulation Authority (APRA) and the Australian Taxation Office (ATO).

Methodology

The value of liabilities subject to the levy was calculated based on the value of liabilities in the September 2023 quarter multiplied by the estimated growth rate of nominal GDP.

Revenue from the levy was calculated by multiplying the value of liabilities subject to the levy in each quarter by the difference between the proposed rate and the current rate.

The underlying cash balance impact was calculated by adjusting these amounts to reflect the assumed timing of cash payments.

The decrease in company tax revenue payable by the banks, due to reduced profit from paying the additional levy, was calculated by multiplying the amount of additional levy payable by the company tax rate of 30%.

The decrease in income tax revenue payable by consumers was calculated by multiplying the amount of the additional levy by the assumed proportion of the levy passed on to consumers (75%, as described in *Key assumptions*). Income tax revenue was adjusted to account for the proportion of consumers that would be able to claim a deduction for on-passed expenses (30% related to individuals and 15% related to companies), multiplied by the respective average marginal tax rate of these consumers.

The decrease in income tax revenue payable by shareholders was calculated by multiplying the consequent decrease in the relevant banks' after-tax profits by the assumed proportion that would be distributed as franked dividends. The decrease in shareholder dividend income was multiplied by the assumed average marginal tax rate of shareholders, adjusted to account for the change in imputation credits (also known as franking credits).

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.

Data sources

The Australian Prudential Regulation Authority provided estimates for the value of liabilities subject to the major bank levy across the period from June 2020 to September 2023, as of 12 January 2024, and economic parameters, as at the 2023-24 MYEFO.

The Australian Competition and Consumer Commission (November 2020), '*Home loan price inquiry: Final report*', ACCC, Australian Government.

The Department of the Treasury (the Treasury) (22 January 2003), '*Tax Expenditures Statement 2002, Chapter 5: Tax expenditure estimates*', the Treasury, Australian Government

G Capelle-Blancard and O Havrylchyk (2017), '*Incidence of Bank Levy and Bank Market Power*', Review of Finance, May 2017, 21(3): 1023–1046.

M Kogler (2016), '*On the Incidence of Bank Levies: Theory and Evidence*', International Tax and Public Finance, April 2016, 26: 677–718.

The Productivity Commission (29 June 2018), '*Competition in the Australian Financial System*', Inquiry report No. 89, Australian Government.

Attachment A - Increase to the rate of the Major Bank Levy by 10 percent– financial implications

Table A1: Increase to the rate of the Major Bank Levy by 10 percent – Fiscal balance ($m)(a)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
Revenue													
Major Bank Levy	-	*177.0*	*194.0*	*205.0*	*216.0*	*228.0*	*240.0*	*252.0*	*265.0*	*277.0*	*291.0*	***576.0***	***2,345.0***
Income Taxes	-	*-15.2*	*-31.3*	*-33.7*	*-35.7*	*-37.6*	*-39.7*	*-41.7*	*-43.7*	*-45.9*	*-48.1*	***-80.2***	***-372.6***
Total (excluding PDI)	**-**	**161.8**	**162.7**	**171.3**	**180.3**	**190.4**	**200.3**	**210.3**	**221.3**	**231.1**	**242.9**	**495.8**	**1,972.4**

(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.

Indicates nil.

Table A2: Increase to the rate of the Major Bank Levy by 10 percent – Underlying cash balance ($m)(a)

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
Receipts													
Major Bank Levy	-	*126.0*	*172.0*	*181.0*	*190.0*	*200.0*	*210.0*	*221.0*	*233.0*	*244.0*	*257.0*	***479.0***	***2,034.0***
Income Taxes	-	*-9.4*	*-24.8*	*-29.9*	*-31.3*	*-33.0*	*-34.7*	*-36.5*	*-38.4*	*-40.4*	*-42.4*	***-64.1***	***-320.8***
Total (excluding PDI)	**-**	**116.6**	**147.2**	**151.1**	**158.7**	**167.0**	**175.3**	**184.5**	**194.6**	**203.6**	**214.6**	**414.9**	**1,713.2**

(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.

Indicates nil.

Table A3: Increase to the rate of the Major Bank Levy by 10 percent – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	**Total to 2026-27**	**Total to 2033-34**
Fiscal balance	-	*2.7*	*9.1*	*16.5*	*24.6*	*33.4*	*43.0*	*53.6*	*65.1*	*77.6*	*91.2*	***28.3***	***416.8***
Underlying cash balance	-	*2.2*	*7.9*	*15.2*	*23.1*	*31.8*	*41.3*	*51.7*	*63.0*	*75.3*	*88.7*	***25.3***	***400.2***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[3].

(b) 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. 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.

Indicates nil.