Parliamentary Budget Office

ECR-2025-3046

Big corporations tax (banks)	
Party:	Australian Greens
Summary of proposal: The proposal would increase the rate of the Major Bank Levy[1] (MBL) to 0.08% per quarter. Ensure major banks[2] repay cheap COVID-era funding by requiring repayment of the Term Funding Facility (TFF) and bond repayments from their 'excess reserves' accounts issued during quantitative easing through a levy. The proposal would start on 1 July 2025.	
Additional information (based on further advice provided): The TFF levy would: • be calculated on the first Wednesday of each month • be equal to the difference between the RBA's cash-rate target when the levy is calculated and the interest rate applicable on the funds withdrawn from the TFF, discounted by 1/12 • be payable 12 months after the funds withdrawn from the TFF mature. The levy would apply retroactively from when funds were first withdrawn from the TFF (April 2020) and terminate after the last funds mature (June 2024).	

Costing overview

The proposal would be expected to increase the fiscal balance by around $35.1 billion and the underlying cash balances by around $32.6 billion over the 2025-26 Budget forward estimates period (see Table 1). The estimated increase in the budget balances reflects an increase in MBL revenue and an increase in revenue from the proposed TFF levy, partially offset by a decrease in company tax and personal income tax revenue.

The fiscal balance impact of the TFF levy occurs entirely in 2025-26, reflecting the proposal start date of 1 July 2025. The cash balance impact of the TFF levy occurs almost entirely in 2025-26, reflecting that the TFF levy associated with the funds that last matured (in June 2024) would be payable by June 2026 and banks will adjust company tax instalments during that same financial year.

[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. 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.

[2] The major banks are the 5 banks currently captured by the *Major Bank Levy Act 2017*.

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A.

Table 1: Big corporations tax (banks) – Financial implications ($m)[a][b]

	2025-26	2026-27	2027-28	2028-29	**Total to 2028-29**
Fiscal balance	12,900.0	7,190.0	7,340.0	7,670.0	**35,100.0**
Underlying cash balance	10,670.0	7,220.0	7,140.0	7,570.0	**32,600.0**

(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.

Uncertainties

Increase of the rate of the major bank levy

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 major bank levy is passed on to consumers (which include both individuals and companies) by the banks. The Parliamentary Budget Office (PBO) assumes that 75% of the increase in the major bank 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 major bank 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.[3]

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.

Introduce a Term Funding Facility Levy

The estimates are sensitive to assumptions about the behavioural responses to the proposal. The PBO assumed that none of the proposed TFF levy would be passed on to consumers as it would be a one-time expense, levied after loans have been issued to bank customers. Deviations from this assumption would decrease the amount of personal income and company tax revenue. This is because for a proportion of consumers bank fees would be tax deductible. The estimates are also sensitive to general economic conditions and the funding arrangements of the major banks, particularly the value of liabilities held on their balance sheets and the amounts withdrawn from the TFF.

Key assumptions

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

Increase of the rate of the major bank levy

- Banks would pass on 75% of the increase in the major bank levy to consumers.

[3] The Productivity Commission (29 June 2018), *'Competition in the Australian Financial System, Current state of competition (page 4-9)'*, Inquiry report No. 89, Australian Government.

  - 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 major bank 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%.
  - 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, partnerships, trusts, charities, and other companies with an average marginal tax rate of around 27.6%. This is based on the weighted distribution of dividend recipients in the Australian Taxation Office's (ATO's) 2021-22 *Taxation Statistics* and applying 2024-25 rates and thresholds.
- Banks that are not currently MBL liable would not become liable over the period to 2035-36.
- Banks would pay company tax at a rate of 30%.
- Banks subject to the MBL would be taxable over the period to 2035-36.
- Departmental costs to increase the MBL would be negligible and covered by existing departmental funding for the Australian Prudential Regulation Authority (APRA) and the ATO.

Introduce a Term Funding Facility Levy

- Banks subject to the TFF levy would hold funds from the TFF for the entirety of the maximum 3-year term.
- Banks subject to the TFF levy would account for around 79% of initial allowance of the TFF and for around 75% of additional allowance of the TFF.[4]
- Banks subject to the TFF levy would not pass on the TFF levy (either in its entirety or partially) to consumers.
- Banks subject to the TFF levy would pay the TFF levy in the financial year when it becomes payable.
- Banks subject to the TFF levy would pay out 75% of their after-tax profits as franked dividends. As a result, a proportion of the TFF levy would be effectively passed on to shareholders in the form of reduced dividends.

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[4] Reserve Bank of Australia (RBA) (2021) *Statement on Monetary Policy – August 2021*, RBA, accessed 15 May 2025.

    - Shareholders would be Australian resident taxpayers that can claim a tax credit for a franking credit attached to a dividend.
    - Shareholders would be individuals, superannuation funds, partnerships, trusts, charities, and other companies with an average marginal tax rate of around 27.6%. This is based on the weighted distribution of dividend recipients in the Australian Taxation Office's (ATO's) 2021-22 *Taxation Statistics* and applying 2024-25 rates and thresholds.
- Banks subject to the TFF levy would pay company tax at a rate of 30%.
- Banks subject to the TFF levy would be taxable for the 2025-26 income year and adjust their income tax instalments during 2025-26 to account for the cost impact of the TFF Levy.
- Departmental costs to implement and administer the TFF levy would be covered by existing departmental funding for APRA and the ATO.

Methodology

Increasing the rate of the major bank levy

The value of liabilities subject to the major bank levy was based on the calculated value of the actual liabilities up to June 2024 and forecast from June 2024 quarter multiplied by the growth rate of nominal GDP.

Revenue from the major bank levy was calculated by multiplying the value of liabilities subject to the major bank 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, captured by the major bank levy, was calculated by multiplying the amount of additional levy payable (which would decrease profits) 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 major bank 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).

Introduce a Term Funding Facility Levy

Revenue from the TFF levy was calculated by multiplying the levy rate (the difference between the RBA's cash-rate target and the interest rate applicable on the funds withdrawn from the TFF, discounted by 1/12) by the value of funds from the TFF held by banks on the first Wednesday of each month.

The value of funds from the TFF held by banks was adjusted to account for the different interest rates and maturity dates of each drawdown. The amount of TFF levy payable was then timed such that it would be payable on 1 July 2025.

- No levy was calculated for funds associated with the TFF initial allowance (provided at a rate of 0.25%) during the period where the RBA cash rate target was 0.10% (from 4 November 2020 to 3 May 2022).

The decrease in tax revenue of the banks subject to the TFF levy was calculated by multiplying the amount of levy payable (which would decrease profits) by the company tax rate.

The decrease in tax revenue of shareholders was calculated by multiplying the consequent decrease in dividends by the assumed average marginal tax rate of shareholders, adjusted to account for imputation credits.

Departmental expenses were considered and assumed to be negligible and able to reasonably be absorbed.

Financial implications were rounded consistent with the PBO's rounding rules.[5]

Data sources

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025,* Commonwealth of Australia.

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 at 16 January 2024.

Australia and New Zealand Banking Group (ANZ) (2024) *2024 Annual Report*, ANZ website, accessed 9 May 2025.

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S Black, B Jackman, and C Schwartz (2021), *An Assessment of the Term Funding Facility*. Reserve Bank of Australia, accessed 9 May 2025.

G Capelle-Blancard and O Havrylchyk (2017), *Incidence of Bank Levy and Bank Market Power*. Review of Finance, May 2017, 21(3): 1023–1046, accessed 9 May 2025.

M Kogler (2016), *On the Incidence of Bank Levies: Theory and Evidence*. International Tax and Public Finance, April 2016, 26: 677–718, accessed 9 May 2025.

Macquarie (2024) *2024 Annual Report*. Macquarie website, accessed 9 May 2025.

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Reserve Bank of Australia (RBA) (2021), *Statement on Monetary Policy – August 2021*. RBA, accessed 9 May 2025.

[5] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Reserve Bank of Australia (RBA) (2025), *Statement on Monetary Policy – February 2025*. RBA, accessed 9 May 2025.

Reserve Bank of Australia (RBA) (2022), *Monetary Policy Operations – Current – A3*. RBA, accessed 9 May 2025.

The Australian Competition and Consumer Commission (2018), *Home loan price inquiry: Final report*. ACCC, Australian Government. Accessed 9 May 2025.

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Westpac (2024) *2024 Annual Report*, Westpac website, accessed 9 May 2025.

Attachment A – Big corporations tax (banks) – Financial implications

Table A1: Big corporations tax (banks) – Fiscal balances ($m)(a)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Tax revenue													
Term Funding Facility Levy	*7,310.0*	-	-	-	-	-	-	-	-	-	-	***7,310.0***	***7,310.0***
Term Funding Facility Levy - Income taxes	*-2,060.0*	-	-	-	-	-	-	-	-	-	-	***-2,060.0***	***-2,060.0***
Major Bank Levy	*8,100.0*	*8,400.0*	*8,800.0*	*9,200.0*	*9,700.0*	*10,200.0*	*10,800.0*	*11,300.0*	*11,900.0*	*12,500.0*	*13,200.0*	***34,500.0***	***114,100.0***
Major bank levy - Income taxes	*-450.0*	*-1,210.0*	*-1,460.0*	*-1,530.0*	*-1,610.0*	*-1,700.0*	*-1,790.0*	*-1,880.0*	*-1,980.0*	*-2,080.0*	*-2,180.0*	***-4,650.0***	***-17,870.0***
Total (excluding PDI)	**12,900.0**	**7,190.0**	**7,340.0**	**7,670.0**	**8,090.0**	**8,500.0**	**9,010.0**	**9,420.0**	**9,920.0**	**10,420.0**	**11,020.0**	**35,100.0**	**101,480.0**

(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: Big corporations tax (banks) – Underlying cash balances ($m)(a)

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Tax receipts													
Term Funding Facility Levy	*7,310.0*	-	-	-	-	-	-	-	-	-	-	***7,310.0***	***7,310.0***
Term Funding Facility Levy - Income taxes	*-2,190.0*	*130.0*	-	-	-	-	-	-	-	-	-	***-2,060.0***	***-2,060.0***
Major Bank Levy	*6,000.0*	*8,300.0*	*8,600.0*	*9,100.0*	*9,600.0*	*10,100.0*	*10,600.0*	*11,200.0*	*11,700.0*	*12,300.0*	*13,000.0*	***32,000.0***	***110,500.0***
Major bank levy - Income taxes	*-450.0*	*-1,210.0*	*-1,460.0*	*-1,530.0*	*-1,610.0*	*-1,700.0*	*-1,790.0*	*-1,880.0*	*-1,980.0*	*-2,080.0*	*-2,180.0*	***-4,650.0***	***-17,870.0***
Total (excluding PDI)	**10,670.0**	**7,220.0**	**7,140.0**	**7,570.0**	**7,990.0**	**8,400.0**	**8,810.0**	**9,320.0**	**9,720.0**	**10,220.0**	**10,820.0**	**32,600.0**	**97,880.0**

(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: Big corporations tax (banks) – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Fiscal balance	*240.0*	*640.0*	*990.0*	*1,360.0*	*1,770.0*	*2,210.0*	*2,700.0*	*3,230.0*	*3,800.0*	*4,430.0*	*5,120.0*	***3,230.0***	***26,490.0***
Underlying cash balance	*180.0*	*540.0*	*900.0*	*1,270.0*	*1,660.0*	*2,100.0*	*2,570.0*	*3,090.0*	*3,660.0*	*4,270.0*	*4,950.0*	***2,890.0***	***25,190.0***

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals 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[6].

(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.

[6] Online budget glossary – Parliamentary Budget Office (pbo.gov.au)