



Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Christine Milne
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Milne

Please find attached a response to your costing request on *Public Support Levy* (letter of 14 August 2013).

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

If you have any queries about this costing, please do not hesitate to contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

16 August 2013



COSTING – ELECTION CARETAKER PERIOD

Name of proposal:	Public Support Levy
Summary of proposal:	<p>The proposal would introduce a 20 basis point levy on bank assets in excess of \$100 billion, as suggested in the International Monetary Fund Report “A fair and substantial contribution from the financial sector: Final Report for the G-20.” This would replace the Financial Stability Fund measure announced by the Government in the August 2013 Economic Statement.</p> <p>The IMF estimates that banks which are perceived as “too big to fail” receive a 20 basis point advantage over small banks due to the implicit Government guarantee underwriting their activities.</p> <p>The proposal is intended to make major banks pay a fair charge for the public support they receive.</p> <p>The proposal would have effect from 1 July 2014.</p>
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	14 August 2013
Date costing completed:	16 August 2013
Date of public release of policy	14 July 2013
Agencies from which information was obtained:	Not applicable

Costing overview

This proposal is expected to increase both the underlying cash and fiscal balances by \$7.9 billion over the 2013-14 Budget forward estimates period. This impact reflects an increase in revenue of \$11.5 billion from the levy and a decrease in company tax receipts of \$3.6 billion over this period.

This proposal will have an ongoing impact that extends beyond the forward estimates period.

Departmental costs are expected to be minimal and have not been included in this costing. Administration of the policy should not be a significant cost given that the Australian Prudential Regulation Authority (APRA) already collects data on bank assets and that the levy would only apply to four taxpayers at present.

This costing is considered to be of high reliability. It is based on high quality, up to date information and current growth forecasts. No data assumptions have been made.

Table 1: Financial implications (outturn prices)^(a)

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-	2,700	2,500	2,700
Fiscal balance (\$m)	-	2,700	2,500	2,700

(a) A positive number for the fiscal balance indicates an increase in revenue in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue in cash terms.

Key assumptions

Assumptions detailed in the costing request:

- The Public Support Levy would replace the Financial Stability Fund measure that the Government announced in the August 2013 Economic Statement.
- The levy is treated as a deductible expense for company tax purposes.
- The levy is 20 basis points (0.2 per cent) of the value of total resident assets of each bank in excess of the \$100 billion threshold.
- The proposal would start from 1 July 2014.

The PBO has made the following assumptions regarding this proposal.

General assumptions

- The levy would be payable in a single instalment within the financial year based on the estimated value of assets as at 1 July each year.
- The value of bank assets is assumed to grow each year by the growth rate in GDP.

Behavioural assumptions

- The costing assumes that the cost of the proposed levy is not passed on to bank customers.
 - This assumption is reasonable given that, based on the APRA data, only the 4 major banks would be subject to the levy and competition from other approved deposit taking institutions would limit their ability to pass the impact through to customers, with the result that the levy would impact on profit and taxable income (as costed).
 - The impact of varying this assumption mainly impacts on the rate at which the levy is assumed to be deducted from assessable incomes. If banks were to pass the levy through to consumers in the form of increased fees or reduced interest, that pass through would increase the assessable income of the banks for tax purposes, offsetting the deduction they receive for the levy, but would be matched by reductions in the taxable income of (resident) bank customers. In this case, the impact of reduced income/tax deductions on tax revenue would depend upon the marginal tax rates of bank customers.
- The costing also assumes that the imposition of the levy does not change the behaviour of Australian banks or their customers, for instance by moving business offshore, restructuring banking businesses to get under the asset threshold or shifting business away from banks subject to the levy to those that are not subject to the levy.

- According to APRA data, the total profit of the four major Australian banks in the year ended December 2012 was \$32.6 billion and tax paid was \$10.2 billion. The levy proposed is equivalent to more than a quarter of the income tax currently paid by the banks. Such an increase in tax liability is likely to result in a behavioural response.
- The PBO cannot reliably estimate what the nature or magnitude of any behavioural change would be in response to the proposal. The actual behaviour of the major banks in response to the levy could materially affect the costing.

Methodology

Total resident assets of Australian banks were obtained from the 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.

Data sources

- *APRA Monthly Banking Statistics, June 2013*
- *APRA Quarterly Authorised Deposit-taking Institution Performance, March 2013*
- *2013 Economic Statement*
- *Pre-Election Economic and Fiscal Outlook 2013*