positivemoney

How much would a windfall tax on bank profits raise?

February 2025

Summary

- A number of European countries, including the Netherlands, Spain and Czechia, have introduced higher taxes on the windfall profits banks are making from high interest rates.
- Based on newly announced annual results, a windfall tax in the UK would raise between **£2bn and nearly £15bn from the 2024 profits of the big four banks alone**, depending on how it is designed.

The public are paying the price of banks' windfall profits

- Banks are receiving tens of billions of pounds of public money due to the way in which the Bank of England currently remunerates central bank reserves.
    - Analysis from former BoE deputy governor Sir Paul Tucker suggests that **banks are due to receive £42bn and £33bn in 2023 and 2024** from interest paid on risk-free reserves. The costs of this are ultimately borne by the Treasury.
- Higher interest rates have also enabled banks to charge households and firms more for mortgages and other loans. Banks are making exorbitant profits by not passing these gains onto depositors.
- The UK's big four banks - HSBC, Barclays, Lloyds and Natwest - have reported pre-tax profits of **£45.9bn** for 2024. This is more than four times the profits recorded in 2020, before rates started rising, and nearly double the £25.6bn average annual profits of 2018-21.
- There is strong public support for implementing a windfall tax. YouGov polling commissioned by Positive Money in September 2023 found that 58% of UK adults support a one-off tax on banks, while only 12% opposed. There was majority support among voters for each of the main political parties.

Option 1: reversing recent cuts to the existing surcharge and banking levy

- The government introduced a bank profits surcharge in 2015, in recognition of the need for banks to "make a fair contribution in respect of the potential risks they pose to the UK financial system and wider economy." However, while taxes have been raised on other sectors enjoying windfalls (namely energy), the banking surcharge has recently been cut from 8% to 3%, and the bank levy has also been cut.
- In contrast to this 60% cut to the surcharge in the UK, the Dutch parliament has voted to increase the country's bank levy by 70%.
- Combining the most recent results for the big four banks with forecasts from the OBR's fiscal outlook, it can be estimated that reversing cuts to both the surcharge and bank levy could be expected to raise an additional **£3.5bn** this year.

Option 2: raising the surcharge in line with the Energy Profits Levy

- The government could raise significantly more revenue by raising the banking surcharge in line with the 35% Energy Profits Levy imposed on oil and gas companies.

- Doing so could be expected to increase the tax intake by **£14.7bn** from the 2024. profits of the big four banks alone.

Option 3: the Thatcher government model

- In 1981, the Thatcher government introduced a 2.5% tax on banks' non-interest bearing deposits. As Thatcher explained in her memoirs: "Naturally, the banks strongly opposed this; but the fact remained that they had made their large profits as a result of our policy of high interest rates rather than because of increased efficiency or better service to the customer."
- The BoE's latest data suggests there are more than £450bn of non-interest bearing deposits that could be eligible for such a levy today, with more than £300bn held by households and more than £150bn held by non-financial firms. A 2.5% tax would therefore raise around **£11.3bn.**

Option 4: the Czech model

- The Czech government has introduced a 60% windfall tax on bank profits exceeding 120% of the 2018-21 average, which will apply for three years from 2023.
- The big four banks in the UK recorded an average pre-tax profit of £25.9bn between 2018 and 2021. Replicating the Czech tax would therefore raise **£8.9bn** from these banks' profits in 2024.

Option 5: the Spanish model

- Spain has introduced a 4.8% windfall levy on banks' NII and net commissions above a threshold of 800 million euros, which has since been extended indefinitely.
- The UK's big four banks reported net commissions and fees of £6.6bn and NII of £39bn from their domestic operations in 2024. A 4.8% levy would therefore raise more than **£2bn** from these banks alone.

Positive Money is a not-for-profit research and campaigning organisation, working towards reform of the money and banking system to support a fair, democratic and sustainable economy. We are funded by trusts, foundations and small donations.

For more information or to arrange a meeting to discuss further please contact Simon Youel at simon.youel@positivemoney.org.uk or on 07817765517.