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The case for a windfall tax on banks

In line with the 38% Energy Profits Levy, a windfall tax targeting UK retail net income would be expected to raise more than £11bn this year from Britain's big four banks alone, without harming the sector's international competitiveness.

Background: The public is paying the price of banks' windfall profits

- Higher interest rates have handed record profits to banks, with the UK's big four – HSBC, Barclays, Lloyds and NatWest – reporting 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.
- These record profits are being fueled by the Bank of England paying interest on hundreds of billions of pounds of risk-free reserves held by banks, for which the Treasury foots the bill. HMT paid £85.9bn to cover the Bank of England's losses between the end of 2022 and March 2025, and is forecast to pay a further £108.7bn between 2025-6 and 2029-30 – an average of £21.7bn a year for the next five years.
- The Treasury could tax banks' unearned windfalls back, as it did in the 1980s, reflecting, in Thatcher's words, the fact that banks profits were *"a result of our policy of high interest rates rather than because of increased efficiency or better service to the customer."*
- Despite record profits, banks have ruthlessly cut back on services for customers, with 6,443 branch closures since 2015, representing 64% of branches.
- Several European countries, including Spain, the Netherlands and Czechia have introduced higher taxes on banks' windfall profits.

A tax on net income from UK retail operations would capture windfalls without harming international competitiveness

- Like in Spain, the UK could introduce a windfall levy on banks' net interest income (NII) and net commissions above a certain threshold (€800m in Spain).
- Targeting net income from UK banks' domestic retail operations specifically would best capture the windfalls banks have made, while eliminating any possible incentive for banks to move their international or investment banking operations abroad.
- The big four have reported retail net income of more than £16.5bn from their domestic retail operations for the first half of this year. If this trend continues, a 38% windfall levy (in line with the successful Energy Profits Levy on windfalls enjoyed by oil and gas companies) on UK retail net income above a threshold of £800m could be expected to raise **£11.3bn** from Britain's 'big four' banks alone.

For further reading see here.

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