

Tax briefing note

Bank levy

June 2025

What is it?

The bank levy is a tax on bank liabilities. It was introduced in 2011 following the financial crisis as a way to charge banks for the implicit bailout guarantee they enjoyed from the government. There is a standard rate, originally planned to be 0.075 per cent but subsequently repeatedly raised to 0.21 per cent on long-term liabilities together with a short-term liabilities rate of half the standard rate.

From January 2021, the bank levy no longer applied to non-UK liabilities of UK banks, removing a distortion favouring non-UK banks (who already only pay on their UK liabilities). The rates also fell to 0.1 per cent for liabilities of less than one year and 0.05 per cent for those greater than one year and have remained unchanged since then.¹

What's the problem with it?

Research has shown that bank levies prompt banks to shift risks on balance sheets from liabilities to assets. It has also shown that total risk reductions have been concentrated on low-risk institutions which pose little or no threat to financial stability with little change among riskier banks.² Following the crash, banks were already reducing both their assets and liabilities to increase their margin for error. This led to lower than expected receipts from the levy, which in turn prompted repeated increases in the rate between 2011 and 2015. This suggests that the rate was not set for the economically neutral reason of pricing risks to taxpayers but instead to raise revenues from an electorally unpopular target. Reductions in both rates were introduced from 2016.³

Fundamentally, the regulatory approach of strengthening powers of the Bank of England to wind up failing banks is a better tool for managing risks to taxpayers from banks. Full regulatory powers to ensure that bank losses fall on shareholders and bondholders instead of taxpayers, often called a 'bail-in', would mean there is no longer a justification for a specific tax on banking. Given the importance of banking, financial and business services in general to the British economy, the best tax and regulatory approach to manage the specific risks from the sector is important.

What should be done?

The bank levy should be abolished. Bail-in and wind-up powers should be set to ensure no remaining risks are left with taxpayers and the bank levy should be abolished when this objective has been met.

¹ Office for Budget Responsibility, Bank levy, 22 May 2025, obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/bank-levy (accessed 6 April 2025).

² Devereux, M. et al, 'Can Taxes Tame the Banks? Evidence from the European Bank Levies', The Economic Journal, Volume 129, Issue 624, November 2019, p. 3058.

³ HM Revenue & Customs, HMRC internal manual: Bank Levy Manual: BKLM160000 – Introduction: the rate of the bank levy, October 2022, www.gov.uk/hmrc-internal-manuals/bank-levy-manual/bklm160000 (accessed 6 April 2025).