

11 Banking taxes

- A new bank tax would have the potential to provide the Territory with significant revenue of about \$24 million, based on the Commonwealth's major bank levy and South Australia's similar proposal.
- The tax would be paid by Commonwealth Bank, ANZ, Westpac, NAB and Macquarie Bank. However, the cost of the tax may be passed on to bank customers in the form of higher interest rates charged to borrowers or lower interest rates on deposits.

11.1 The Commonwealth's major bank levy

In its 2017-18 Budget, the Commonwealth introduced a major bank levy on banks with over \$100 billion in total liabilities. As a result, the major bank levy applies to Australia's five largest banks: the Commonwealth Bank, ANZ, Westpac, NAB and Macquarie Bank.

The levy applies from 1 July 2017 and is based on the liabilities of each bank, less some exclusions considered low risk and deposits up to \$250 000. The levy is set at the rate of 0.015 per cent payable quarterly, which equates to an annual rate of 0.06 per cent. The major bank levy is forecast to raise about \$1.5 to \$1.6 billion per annum for the Commonwealth Government.

The Commonwealth's stated policy rationale for introducing the major bank levy is:

- ensuring the banking sector makes a fair contribution to the economy given its unique role in Australia's economy and associated systemic risks it imposes
- improving competition and accountability
- complementing prudential reforms.

The major bank levy follows a 2010 recommendation by the International Monetary Fund to introduce a tax on the financial sector, with several countries having introduced similar levies since 2010. Such a tax may be justified on the basis the Commonwealth Government would support Australia's largest banks in the event of a significant financial crisis. As a result, the credit ratings of Australia's largest banks benefit from the perception or expectation of Commonwealth support. The value of this implicit subsidy was estimated by the Reserve Bank of Australia at about \$1.9 billion in 2013.

In terms of the impact of the major bank levy, although payable by Australia's five largest banks, the cost may be passed on to bank customers in the form of higher interest rates charged to borrowers and lower interest rates on deposits.

If competitive pressure from smaller banks and other financial institutions limits the impact on bank customers then the profitability of the major banks could decrease, with consequences for bank shareholders.

11.2 Introduce a state bank levy?

In South Australia's 2017-18 Budget, a similar bank levy at the same rate of 0.015 per cent was proposed but the enabling legislation is yet to be passed by the South Australian Parliament. The South Australian bank levy is forecast to raise \$417 million over the next four years.

Importantly, the South Australian bank levy would be imposed on South Australia's share of the total value of bank liabilities subject to the major bank levy. South Australia's share of bank liabilities is to be based on South Australia's gross state product share of national gross domestic product. This is currently about 6 per cent.

Although a bank levy was not included in Western Australia's 2017-18 Budget, the Western Australian Government has said it will consider introducing a bank levy similar to that proposed in South Australia.

By way of comparison, based on the Territory's gross state product share of 1.4 per cent, the Territory could raise about \$24 million from a new bank levy with a similar design to that proposed in South Australia.

There is a risk if a state-imposed bank levy was passed on to borrowers in the form of higher interest rates, then this could reduce home ownership, especially for borrowers on lower incomes. A further risk is a constitutional challenge against any state bank levy in the High Court. Concerns have also been expressed in South Australia about the effect of the bank levy on customers and investment in the state.

Discussion question

Q11.1 Should the Territory consider introducing a bank levy?