Bank Taxes:
EU Experience and Related Analytical Considerations

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Based on “Bank Profits and Bank Taxes in the EU” (2024)

Caveats

- The views expressed are those of the author and do not necessarily represent the views of the IMF, its Executive Board, or IMF management

- **Based on:**
  Bank Profits and Bank Taxes in the EU (Maneely and Ratnovski, 2024, IMF WP)
  - Reflects conceptual issues and the state of practice at that time

- "The Taxation and Regulation of Banks" (Keen, 2011, IMF WP)
- IMF surveillance of EU countries with bank taxes

- Not covering Iceland – refer to Iceland IMF team/surveillance documents

Initial considerations

- **Plausible rationale**
  - Protected/franchised sector; public backstops
  - Largely VAT-exempt, weakening standard consumption-tax coverage
  - Sharing gains from windfall profits (real or perceived)
  - "*That's where the money is*" – Willie Sutton
- **Caution**
  - Retained earnings are a first line of defense for bank capital and stability
  - Tax incidence may pass to borrowers/depositors; capital accumulation and credit provision
  - May disadvantage domestic banks and encourage activity or profits to shift abroad
- **Broader tax policy principles**
  - Compare bank taxes to other revenue raising measures
  - Efficient, fair, simple, transparent, stable, predictable

Empirical evidence of financial intermediation and real effects of bank taxes

- **Credit supply and pricing**
  - Higher lending rates and lower loan volumes, especially for weaker banks / borrowers
  - *Buch et al., 2016, JBF; Borsuk et al., 2023, JBF*
- **Real effects**
  - Lower investment; especially for bank-dependent firms
  - *Sobiech et al., 2021, JCF; Borsuk et al., 2024, JFS*
- **Incidence is shared with customers**
  - Lending rates, deposit rates, or fees, depending on market structure and tax design
  - *Buch et al., 2016, JBF; Kogler, 2018, ITPF*
- **Bank behavior**
  - Taxes can induce search for yield, although liability levies may reduce leverage
  - *Borsuk et al., 2023, JBF; Bremus et al., 2020, JBF*

2024 IMF paper: Bank taxes in EU countries

- **12 of 27 EU countries introduced new bank taxes following 2023 monetary policy tightening**
  - Deposit rates adjusted more slowly than lending rates, higher NIM boosted bank profits
- **Tax designs differed markedly**
  - *Stock* – Liabilities or assets
  - *Flows* – Profits or “excess” profits; net interest income or broader net revenue
  - Temporary vs. permanent; in some cases, capital-substitution options
- **Tax burden also varied**
  - Very small: about **0.02–0.04% of RWA** in the Netherlands and Belgium
  - Moderate: around **0.3–0.8% of RWA** in several countries
  - High: about **1% of RWA** in Lithuania
- **After 2024:**
  - Some taxes expired: Czechia, Lithuania, original Italian levy
  - Others were extended, redesigned, or increased: Latvia, Romania, Hungary, Spain

Design trade-offs in bank taxes

- **Profits/revenue vs. assets/liabilities**
  - Profits/revenue tax moves with bank profitability, may encourage greater pass-through to deposit rates
  - Asset/liability tax provides more stable fiscal revenue, but can become burdensome when bank profits fall
- **Profits vs. net interest income / net revenue**
  - Profit tax offers more scope for avoidance or profit shifting, but preserves provisioning incentives
  - NII tax is more closely linked to gains from higher interest rates, but may encourage substitution from interest margins toward fees
- **"Excess" vs. regular profits/revenue**
  - Windfall profits may be perceived, but are hard to define economically in a cyclical industry
  - Correct definition: return above the normal return on capital, but that is hard to define and historical averages in a cyclical industry may be misleading (e.g., the pandemic)
  - Once fiscal revenue is targeted, mainly affects the distribution of burden across banks

Bank taxes vs other policy measures

- **Bank taxes vs. capital building**
  - Windfall profits provide an opportunity to strengthen bank capital
  - Allowing banks to retain the tax amount as capital may help (Italy), but does not lock it in
  - Higher regulatory capital buffers (e.g., CCyB) preserve the resilience gains better

- **Retail government savings instruments can address low deposit-rate pass-through through**
  - A simple, safe savings instrument offered through bank interface (Belgium, Portugal)
  - Forces banks to compete for deposits
  - Broadens the retail investor base for government debt
  - Links household returns directly to sovereign fiscal credibility

- **Compare bank taxes to other revenue raising measures**

Bank taxes in subsequent IMF surveillance

- **Appraisal hinges on design**
- **Favorable appraisal – selected examples**
  - **Lithuania**: new lending excluded
  - **Czechia**: carefully defined excess profits
  - Temporary measures that ultimately expired
- **Cautionary appraisal – selected examples**
  - **Latvia:** reassess levy (distortionary); allow expiry in 2027
  - **Romania:** turnover tax could weaken buffers and intermediation
  - **Hungary:** reduce reliance on windfall taxes and other interventions
  - **Slovenia:** allow asset tax to expire as planned
  - **Spain:** improved design, but rationale/complexity questioned; allow to expire
- **Some positive design recommendations – selected examples**
  - **Poland:** shift from asset levy toward a CIT top-up
  - **Austria:** shift from assets toward selected liabilities

Summary

- **Plausible rationale** (Keen, 2011; Maneely & Ratnovski, 2024)
  - Economic rents, implicit public support, or systemic risk externalities
  - Partly offset potential VAT under-taxation
- **Design and the objective need to match** (Keen, 2011; Maneely & Ratnovski, 2024)
  - Tax the identified rent or externality, not simply “banks”
  - Windfall/rents: benchmarked to normal return on capital rather than ad hoc historical profits
- **Fiscal revenue vs macro-financial costs** (M&R, 2024; Buch et al., 2016, Sobiech et al., 2021)
  - Effects on capital accumulation and credit supply
  - Incidence may ultimately fall partly on borrowers, depositors, or investors
- **Implementation matters** (Maneely & Ratnovski, 2024)
  - Avoid ad hoc taxation that reduces predictability
  - Avoid designs that most discourage lending or provisioning
  - Assess bank taxes against alternative revenue-raising measures