

2009 Pre-Budget Report



PBRN02

9 December 2009

BANK PAYROLL TAX

Who is likely to be affected?

1. Banks, financial businesses and holding companies in banking groups, building societies, financial businesses and holding companies in building society groups and UK branches of foreign banks ("taxable companies" referred to in this note hereafter as a bank) that provide a bonus exceeding £25,000 to a banking employee directly or through an intermediary.

General description of the measure

2. Legislation in Finance Bill 2010 will introduce a new bank payroll tax. This will be set at 50 per cent. It will be payable by a bank, on the amount of a bonus to which a banking employee is entitled, to the extent that the bonus exceeds £25,000. A bank will also be liable to the bank payroll tax where the bonus entitlement arises in respect of services performed for the bank regardless of who awards the bonus.
3. The provisions will include anti-avoidance measures.

Operative date

4. The bank payroll tax will have effect from the time of the announcement on 9 December 2009 until 5 April 2010 for all discretionary and contractual bonus awards. There is an exception for contractual bonus entitlements where the payer has no discretion as to the amount of the bonus because of a contractual obligation existing at the time of the Chancellor's announcement.

Current law and proposed revisions

5. The bank payroll tax applies to bonuses comprising money, money's worth, benefits and loans. Where the bonus includes money's worth or a benefit, the amount of remuneration for the purposes of bank payroll tax is the higher of market value or the cost of providing it.
6. Bank payroll tax does not apply to regular salary, wages or benefits.

7. A bonus is subject to bank payroll tax where it is awarded to the employee, or where a contractual obligation to pay or provide the bonus arises from the time of the announcement on 9 December 2009.
8. For the purposes of the bank payroll tax, a banking employee is someone whose duties comprise banking employment and who is either resident in the UK in the tax year 2009-10 or performs their duties wholly or partly in the UK. Banking employment is one where the duties are wholly or mainly concerned, whether directly or indirectly, with activities regulated by the Financial Services and Markets Act 2000.
9. Bank payroll tax applies to arrangements where an individual provides banking services through an intermediary or a bonus is provided through an intermediary.
10. Bank payroll tax is payable on 31 August 2010.
11. The detailed provisions for the assessment and the collection of bank payroll tax will be published in due course. This will include provisions for penalties and interest.
12. Bank payroll tax does not affect income tax or National Insurance liabilities of bank employees.
13. Bank payroll tax is not taken into consideration when calculating the bank's profits or loss for corporation tax or income tax purposes.

Further advice

14. A Technical Note, including draft legislation and explanatory notes, has been published today on the HM Revenue & Customs (HMRC) website.
15. Banks should contact their HMRC Customer Relationship Manager for information not covered by the Technical Note.
16. If you have any questions about this change, please email pbr2009.taxteam@hmrc.gsi.gov.uk or telephone 020 7147 0110. Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk