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| Budget 2021  BSA Submission – Additional Information  Restricted  30 September 2021 |
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# Corporation tax/Banking surcharge

UK banks (and building societies) already pay more tax than their peers. The tax burden is set to rise, as it is for all sectors, with the increase in corporation tax from 19 to 25% and higher national insurance charges. Larger banking institutions pay a surcharge of 8% on top suggesting that from April 2023 their combined tax rate could hit 33%.

The Chancellor’s Spring Budget commitment to ‘a review to ensure the combined rate is not significantly higher for financial services than it is now’ was very welcome. The unanswered question is what is ‘significant’.

Recognition that the level of taxation of banks in the UK would result in lower competitiveness with their international counterparts and damage one of the UK’s key exports is welcome. The banking/ financial services sector will play a major part of generating credit for growth, including in underserved markets, as the UK economy starts to recover from multiple lockdowns and restrictions. Banks (and building societies) will need all the help they can get to ensure that they are able to take on this task without loss of investment or pricing themselves out of the market.

We believe that higher corporation tax should be a cue to cut, or even abolish, sectoral charges. When the surcharge was launched, it was intended to ensure that ‘banks […] continue to make a fair contribution in respect of the potential risks they pose to the UK financial system and wider economy’[[1]](#footnote-1). The sector had now addressed most of these risks through other regulatory means (e.g. capital, liquidity, operational), evidenced by its survival through lockdowns when other sectors have struggled.

A side issue – but relevant to many – is the decision to stagger the increase in corporation tax and potential decrease in the banking surcharge. This will create difficulties for investor relations in terms of tax accounting impacts: significant increases in deferred tax assets/ liabilities now followed by significant decreases in deferred tax assets/ liabilities next year.

# Support for Mortgage Interest

1. **Reduce the waiting time to access Support for Mortgage Interest**

Research[[2]](#footnote-2) suggests that only 30% of households have enough savings to pay their mortgage for two months, but the wait time for those eligible to claim Support for Mortgage Interest (SMI) is currently nine months. This means homeowners could accumulate more than six months arrears before they receive much-needed support making it significantly harder to manage and resolve their financial difficulties. Reducing the waiting time to 13 weeks, as it was after the last financial crisis could make a real difference to their financial circumstances and would be significantly cheaper than housing benefit[[3]](#footnote-3).

1. **Extend support to homeowners on reduced income**

People must receive benefits such as Jobseeker’s Allowance (JSA) or Universal Credit (UC) to be eligible for SMI. But as people move from JSA to UC the zero-earnings rule means they are no longer able to get SMI if they receive any income from work.

Changing eligibility to include those who are experiencing reduced income is not about keeping people in homes they can’t afford. It provides them with time to reassess their financial position and sell their property if necessary, whilst avoiding the trauma of repossession. Repossession is also likely to have a negative impact on an individual’s credit rating, causing further long-term financial consequences.

One in ten[[4]](#footnote-4) homeowners said it was difficult to keep up mortgage payments in the last year, with the top reasons including being furloughed or on reduced pay (34 per cent) and working fewer hours (31 per cent).

We are calling for the zero-earnings rule to be removed from the UC SMI eligibility criteria, so that people can work up to 16 hours a week without it affecting their SMI claim. In addition, as SMI is a loan not a benefit, it does not need to be treated like other UC payments.

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|  | www.bsa.org.uk  The Building Societies Association (BSA) is the voice of the UK’s building societies and also  represents a number of credit unions.  We fulfil two key roles. We provide our members with information to help them run their  businesses. We also represent their interests to audiences including the Financial Conduct  Authority, Prudential Regulation Authority and other regulators, the Government and  Parliament, the Bank of England, the media and other opinion formers,  and the general public.  Our members have total assets of over £435 billion, and account for 23%  of the UK mortgage market and 17% of the UK savings market. |

1. https://www.gov.uk/government/publications/bank-corporation-tax-surcharge/bank-corporation-tax-surcharge [↑](#footnote-ref-1)
2. Social Market Foundation – Safe as Houses Report <https://www.smf.co.uk/publications/safe-as-houses/> [↑](#footnote-ref-2)
3. Centre for Policy Studies – From SMI to Mortgage Support Report: <https://www.cps.org.uk/research/from-smi-to-mortgage-support/> [↑](#footnote-ref-3)
4. The English Housing Survey November – December 2020: <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/978991/Household_Resilience_Study_Wave_2_November-December_2020_Report.pdf> [↑](#footnote-ref-4)