Ireland's Bank Levy 2014 - 2023

1. Introduction

1.1. About this note

This note provides an overview of the "Further levy on certain financial institutions", also known as the "Bank Levy". This note outlines a brief description and history and current context of Ireland's Bank Levy, insights into its financial contribution to the Exchequer, comparisons with other OECD countries levies, and considerations related to bank-specific taxes and levies more broadly. The Parliamentary Budget Office (PBO) also notes the fast-moving environment regarding interest rates at the time of writing, and that all information is correct at the time of publication.

This note forms part of a series of PBO publications intended to serve as ongoing reference documents. These publications are intended to explain key concepts which are present in many of the PBO's core publications, enabling new and returning readers of PBO publications to maximise their understanding of the PBO's analysis. These publications will address issues of varying degrees of complexity.

The paper is structured as follows. Section 2 provides an overview of Ireland's Bank Levy, and how it is calculated. Section 3 examines the implementation of the Bank Levy and its financial contribution to the Exchequer. Section 4 examines Ireland's Bank Levy in an international context and the recent Windfall taxes levied in some EU member states, while Section 5 provides a conclusion.

1.2. Context: The Interest Rate Environment

Consideration of the Bank Levy is timely, and important, given the current context around potential reforms to the charges levied on Ireland's banks as part of Budget 2024. The levy was initially introduced as a revenue raising measure in 2014, however it has since been extended several times by Governments. Currently the Department of Finance is undertaking a review of the Bank Levy, following the Minister's commitment to renew the Bank Levy as part of Budget 2024. This Departmental review was prompted following 2022 review of Retail Banking, which briefly considered the Levy in its report, while there has also been increased attention on this issue following European Central Bank (ECB) changes to interest rates and ongoing cost of living crisis.

The ECB is responsible for setting monetary policy in countries which use the Euro currency, including Ireland, also known as the Eurozone.[1] The network of the ECB and national central banks is known as the Eurosystem. The ECB's primary goal is to maintain price-stability and control inflation at its target rate of 2 percent. To achieve this, the ECB sets key interest rates for European banks who deposit or borrow money from the ECB. They can then in turn pass this on to their own customers, absorb the cost, or retain the balance. When rates are passed on, this means that customers who borrow from banks in the form of loans or mortgages will face higher monthly repayment costs, while those with deposits should be paid more for keeping money with banks. Higher interest rates therefore help to control inflation, by reducing the quantity of additional money being spent in the economy and limiting demand. Further information from the PBO on monetary policy in Ireland can be found here.

Currently ECB key interest rates charged on money borrowed or deposited are at or approaching their highest point since the year 2000 (Figure 1). The deposit interest rates (interest charged on savings in banks) on products offered by both commercial financial institutions for much of 2022 and 2023 have been low to negligible,[2] but more recently there have been some minor increases.[3] Data from the Central Bank of Ireland highlights average interest rates paid to households by retail banks, as of July 2023, range from 0.06 percent (overnight access accounts) to 1.89 percent (new deposits with agreed maturity), and these rates have been marginally changing over recent months.[4] These are below the average interest rates being offered across the Euro area, which range from 0.27 percent (overnight access accounts)[5] to 2.83 percent (new deposits with agreed maturity).[6] While interest rates on new mortgages and borrowings however, appear to be slightly higher than the Euro area average.

As a result of the difference between the interest rate paid to savers and that charged to borrowers, Irish banks have become highly profitable and more resilient to potential future shocks due to having capital buffers above the required regulatory minimum.[7] Furthermore, the regulatory minimum in Ireland is higher in comparison to other Eurozone countries.[8] Yet, it should be noted that at the time of writing, at least 2 of the pillar banks have increased the interest rates for deposit accounts, while the National Treasury Management Agency (NTMA) has also recently

[1] Parliamentary Budget Office (2023) *Introduction to the Irish Economy: Monetary Policy*.
[2] European Central Bank (2023) Key ECB interest rates (accessed 24 August 2023).
[3] Central Bank of Ireland (2023) Press Release (Accessed 15 September 2023).
[4] Central Bank of Ireland (2023) Retail Interest Rates (accessed 20 September 2023).
[5] European Central Bank (2023 Euro area bank interest rate statistics: July 2023
[6] Central Bank of Ireland (2023) Retail Interest Rates – July 2023.
[7] Central Bank of Ireland (2023) Financial Stability Review 2023:I.
[8] Department of Finance (2022) Retail Banking Review.

announced increases to interest rates offered on state savings products[9] (Table 1).

Table 1: Irish pillar retail banks Financial Performance, January-June 2023

Bank	Pre-Tax Profit (€m)	Net Interest Income (€m)	Change vs HY June 2022 (%)
AIB	€987	€1,768	98%
BOI	€1,025	€1,802	236%
PTSB	€26	€298	92%

Sources: AIB plc (2023) Half-Yearly Financial Report; Bank of Ireland Group plc (2023) Interim Report; PTSB Group Holdings plc (2023) Interim Report.

These developments, coupled with the introduction of windfall taxes on the profits of financial institutions in some other EU member states, have generated interest in the Bank Levy as it applies to financial institutions in Ireland.

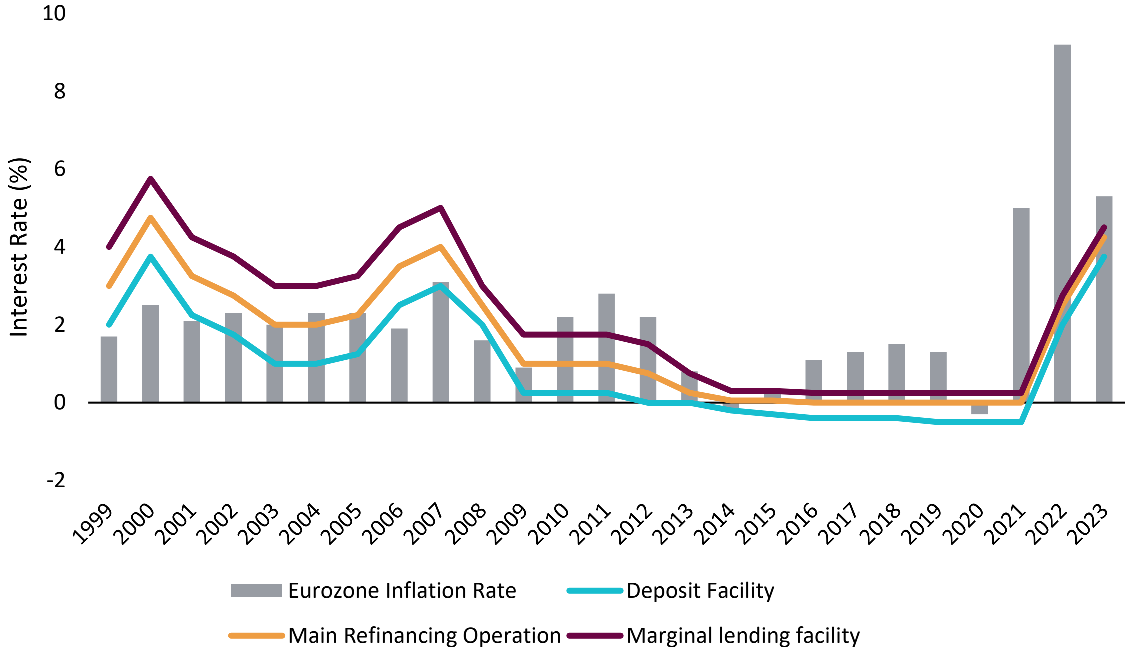
The key ECB interest rates are:[10]

- The interest rate on the main refinancing operations (MRO), which provide the bulk of liquidity to the banking system.
- The rate on the deposit facility, which banks may use to make overnight deposits with the Eurosystem.
- The rate on the marginal lending facility, which offers overnight credit to banks from the Eurosystem.

Figure 1 below highlights key ECB interest rates alongside Eurozone inflation rates from 1999 to date in 2023, and the relationship between the two. As noted above, one of the key objectives of the ECB is to keep inflation at 2 percent and to set interest rates accordingly to achieve this. Interest rates fell significantly following the 2008 Global Financial Crisis to stimulate economic activity (such as spending savings or increase the borrowing of money) in the Eurozone area and even became negative from 2014. They remained low during the Covid-19 pandemic but have increased substantially in a very timeframe recently due to rapidly rising inflation rates which have been exceeding 2 percent.

[9] National Treasury Management Agency (2023) NTMA increases rates for State Savings products | NTMA.
[10] European Central Bank (2023) Key ECB interest rates.

Figure 1: ECB Key Interest rates and Eurozone Inflation, 1999 to 2023



Source: European Central Bank, Key ECB Interest Rates (accessed 29 August 2023) and HICP – Overall index (accessed 31 August 2023).
Note: All ECB Key Interest rates and Eurozone Inflation rate for the years 1999 – 2022 are as of year-end (December). ECB Key Interest rates for 2023 is as of August 2023; Eurozone Inflation rate for 2023 as of July 2023.

2. Background

2.1. Brief Overview of the Levy

The Bank Levy was first introduced in 2014, having been announced in Budget 2014 as an Exchequer revenue-raising measure[11], with the intention to raise €150 million annualy. Revenue generated by the Levy flows into the Exchequer to support government spending. Its initial purpose was to collect a contribution from the banking sector to support Ireland's economic recovery, following the 2008 Global Financial Crisis. During this time the Irish government provided €64 billion in funding to recapitalise Ireland's banking sector. Consequently, the State, through the Minister of Finance, is a major shareholder in two of the three biggest banks operating in Ireland, currently holding a 47 percent stake in Allied Irish Bank (AIB) and a 57 percent stake in Permanent TSB (PTSB).[12-13] The State was a major shareholder in Bank of Ireland (BOI) up until disposal of its final holdings in September 2022.[14] This is in line with the State's policy of winding down its shareholdings in Irish banks and return them fully to private ownership. Collectively, these three banks received €29 billion, with

[11] Department of Finance (2023) Consultation on the future of the Bank Levy.
[12] Department of Finance (2023) Minister McGrath welcomes successful disposal of further stake in AIB Group plc.
[13] Department of Finance (2023) Minister McGrath welcomes the successful disposal of part of the State's shareholding in Permanent tsb Group Holdings PLC.
[14] Department of Finance (2023) State's Shareholdings in Irish Banks.

the remaining €35 billion going to the now defunct Anglo Irish Bank and Irish Nationwide Building Society.[15]

The Bank Levy was initially first intended to apply for three years, from 2014 to 2016, but was extended multiple times, most recently up to 2023. The Levy is extended annually by way of Dáil approval of the Governments Finance Bill, following the Budget in October. In August 2023, the Minister for Finance indicated the Bank Levy will be extended again in Budget 2024.[16] However, it is not clear what, if any, changes will be made following the Department of Finance's public consultation on the future of the Levy.

The Levy contains a number of criteria which must be met before a financial institution is liable for payment to the Exchequer. Currently, the levy is not payable by financial institutions which paid less than €100,000 in DIRT in the year payable.[17] While additional conditions which determine liability include:[18]

- The institution held a banking license or was a building society in the base year,
- The institution was obliged to pay DIRT in the base year, and
- The institution is carrying on a trade or business in the State, whether a business of taking and holding deposits or not, on the date the return and payment are due for the year.

As a result, financial institutions such as local credit unions are not liable to pay the Levy, as they do not hold banking licenses. However, new financial institutions and banks who enter the Irish market, and who satisfy the above these conditions, may still be subject to the Bank Levy, despite not being capitalised by the Exchequer. Currently there are only three pillar banks who are present in the Irish banking sector, (down from 5 a few years ago) which include BOI, AIB and PTSB. There are a range of other organisations providing retail banking products such as, but not limited to, credit unions, An Post, and digital banks.[19] In 2022, the following was collected from each of the three pillar banks via the Bank Levy €22 million (PTSB),[20] €25 million (BOI),[21] and €37 million (AIB).[22]

[15] Department of Finance (2022) Irish Bank Resolution Corporation (IBRC).
[16] RTÉ News (2023) Bank levy to be extended as part of Budget 2024 – McGrath.
[17] Revenue (2023) Stamp Duty Manual.
[18] Revenue (2023) Stamp Duty Manual.
[19] Department of Finance (2022) Retail Banking Review.
[20] Permanent TSB Group Holdings plc (2023) Interim Report for the six months ended 30 June 2023.
[21] Bank of Ireland Group plc (2023) Annual Report 2022.
[22] AIB Group plc (2023) Annual Financial Report for the financial year ended 31 December 2022.

2.2. How is the Bank Levy Calculated?

The Bank Levy is calculated according to the amount of deposit interest retention tax (DIRT) paid by a liable financial institution in a specified base year.[23] However, the Bank Levy was designed to collect approximately €150 million each year. This target yield means the rate of charge levied on financial institutions must change whenever the base year and amount of DIRT paid changes, in order to maintain the constant sum. As noted by the Department of Finance, the changes in the rate of charge levied on the banking sector are primarily driven by a gradual decrease in the rate of DIRT, from 41 percent in 2014 to 33 percent in 2020; and the low interest rate environment that existed up to 2022.[24] As a result, the rate of change has had to increase to 308 percent to ensure a consistent levy contribution is yielded. Table 2 below sets out the base year and rate of charge levied for each year from 2014 to 2023.

Table 2: Bank Levy payable as a percentage (%) of DIRT 2014 to 2023

Year Payable	Base Year	Rate of Charge
2014	2011	35%
2015	2011	35%
2016	2011	35%
2017	2015	59%
2018	2015	59%
2019	2017	170%
2020	2017	170%
2021	2019	308%
2022	2019	308%
2023	2019	308%

Source: Revenue (2023) Tax Duty Manual Section 9 Levies.

3. Implementation of the Levy

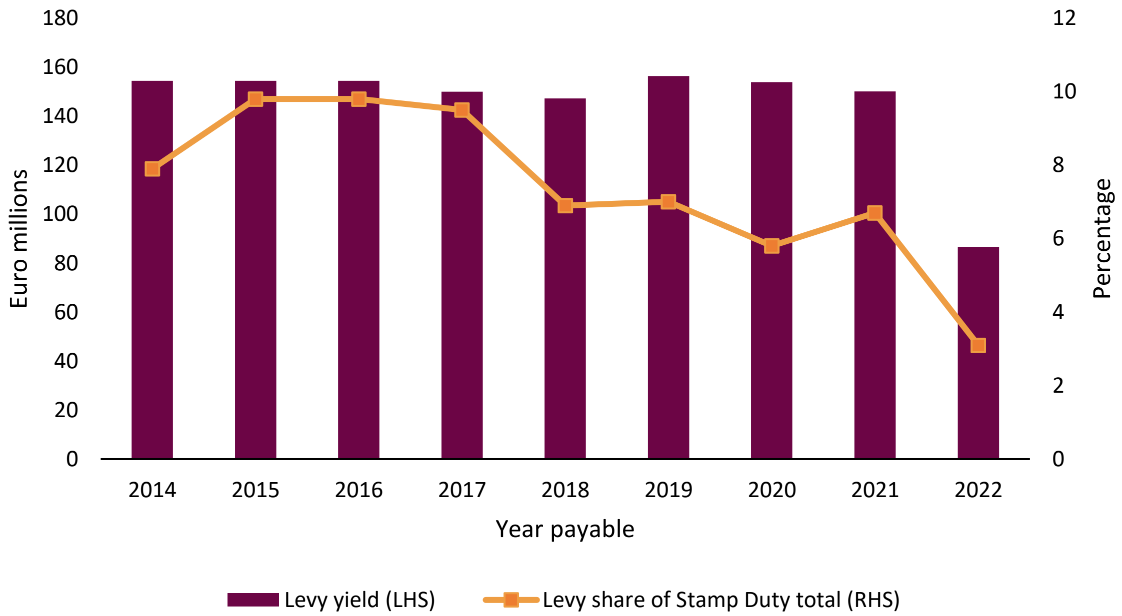
3.1. The Value of the Levy

Figure 2 below shows the value of revenue generated by the Bank Levy annually from 2014 to 2021, and its share as a proportion of total Exchequer stamp-duty revenue for that year. Over the period the Bank Levy yielded between €147 million to €154 million each year, roughly equating to the annual target yield of €150 million. The revenue generated by the Bank Levy as a share of stamp duties revenue fluctuated between 5.8 percent and 9.8 percent over the same period. This is due to differences in the total revenue yielded by stamp duties over this period, while the Bank Levy value remained relatively constant. However, in recent years the share of the Levy has been falling steadily, accounting for about 3 percent in 2022.

[23] Revenue (2023) Stamp Duty Manual.
[24] Department of Finance (2023) Consultation on the future of the Bank Levy.

In 2022 the Levy yielded just €86.7 million due to market issues within the wider banking sector. This lower yield compared to the €150 million desired, was the result of exempting some banks, such as KBC Bank Ireland and Ulster Bank Ireland, from liability due to their respective decisions to leave the Irish market.[25] Furthermore, deposits transferred from these banks to other remaining financial institutions, notably BOI, AIB and PTSB, were also exempt from liability. This exemption will also apply in 2023, and as a result it is anticipated the Bank Levy will not yield the desired €150 million this year. If the Bank Levy remains unchanged in 2024 and beyond, this would increase the burden on existing banks who remain in the market, as there are fewer banks to contribute to the target of €150 million.

Figure 2: Bank Levy yield 2014 to 2022



Source: PBO based on Revenue, Breakdown of Stamp Duty receipts (accessed 18 August 2023).

[25] Revenue (2023) Stamp Duty Manual.

4. International Context

4.1. How the Levy compares Internationally

As noted by the Department of Finance, many other countries have also introduced levies or taxes similar to the Bank Levy.[26] However, the base for calculating the amount of levy/tax payable varies substantially between countries, as do the rates themselves. Most levies and taxes on financial institutions were introduced following the Global Financial Crisis in 2008 as revenue raising measures, similar to Ireland. The Department of Finance further highlights that just three countries – Slovakia, Romania, and Slovenia – have since repealed these levies. Table 3 below provides information on the different levies and taxes applied in different OECD countries. The application of the levy is particularly unique in Ireland given the tax base for the levy, resulting in a substantially different rate compared to OECD counterparts. For this reason, it is difficult to directly compare the Irish Bank Levy with those in other OECD countries.

Table 3: Bank Taxes and Levies in OECD Countries

OECD Country	Tax Rate	Tax Base	Year Introduced
Austria	0.024% - 0.029%	Total liabilities net of equity and insured deposits	2011
Belgium	Varying Rates – unchanged at 0.13231% since 2016	Liabilities to customers	2012 (Replaced in 2016)
Cyprus	0.0375%	Liabilities to customers	2011
France	0.0642%	For 2016-2025 Minimum regulatory capital requirement	2011
Germany	0.0003%	Total adjusted liabilities and off-balance sheet derivatives	2011
Greece	0.12% - 0.6%	Value of the credit portfolio (loans issued within the period)	1975
Hungary	0.15% - 0.2%	Total assets net of interbank loans	2010
Iceland	0.145%	Total debt	2011
Ireland	308%	Total DIRT paid in base year	2014
Latvia	0.072%	Total liabilities	2011
Netherlands	0.022% - 0.044%	Total liabilities net of €20.9 Bn disregard, regulatory capital, DGS and assurance-based liabilities	2012
Poland	0.0366%	Total value of assets	2016
Portugal	0.01% - 0.11%	Total liabilities and financial derivatives	2011
Romania	0.01%	Net Assets, less certain deductions	2011
Slovenia	0.1%	Total assets	2011
Sweden	0.06%	Total liabilities	2015
United Kingdom	0.05% - 0.1%	Total Liabilities net of insured deposits	2011

Source: Department of Finance (2023) Consultation on the future of the Bank Levy.

[26] Department of Finance (2023) Consultation on the future of the Bank Levy.

4.2. Windfall Taxes on the banking sector in the EU

Windfall profits are defined by the International Monetary Fund as unanticipated, fortuitous, gains typically generated by exceptional unexpected events such as wars, natural disaster, or pandemics.[27] Windfall taxes refer to temporary taxes introduces on these excessive profits. Over the last 12 months, given the same issues and economic challenges as in Ireland, with banks not passing rising interest rates on to savers during a period of high inflation, a number of EU states have also announced additional windfall taxes on their domestic banking sectors. These include Spain, Italy, Lithuania, Hungary, and Czechia. Further information is set out below in Table 4.

In Spain, a levy was introduced in a context where, as the ECB increased interest rates in response to inflation, this may further increase profits in the banking sector than would otherwise be the case, while wages are not keeping pace.[28] As noted by the ECB, the revenue raised from banking levies is intended pay for the cost of supportive measures for the population, in the context of high inflation to offset the higher cost of living. In Lithuania, the banking levy is being introduced in a similar context as that of Spain, where high inflation, high interest rates and high levels of liquid assets in the banking sector may augment the sector's profitability,[29] without providing the high interest to the banks savers.

Comparable arguments have been made across EU Member states where similar levies are proposed or have been introduced.[30] Elsewhere, there have also been similar calls in the UK and Hungary to introduce a similar windfall tax on bank profits.[31] Coupled with reports of significant profits by Irish banks, this has prompted discussion of additional tax measures on the sector in Ireland and potentially reforming Ireland's domestic banking levy in response. However, in Italy, the sudden announcement of a potential 40 percent windfall tax on bank profits provided a shock to the Italian financial sector. This highlighted the need for proceeding with caution when considering and implementation such a measure.

[27] International Monetary Fund (2022) Excess Profit Taxes: Historical Perspective and Contemporary Relevance.
[28] European Central Bank (2022) CON/2022/36.
[29] European Central Bank (2023) CON/2023/9.
[30] Financial Times (2023) Italy joins wave of windfall taxes on banks across Europe.
[31] Reuters, (2023) Factbox: European countries imposing windfall taxes on banks | Reuters.

Table 4: Temporary Levies proposed/introduced on Banks

Country	Tax Rate	Tax Base	Year(s) Payable
Czechia	60%	Profits exceeding 120% of average profits over the period 2018-2021	2023 & 2024
Hungary	8% - 10%	Net revenues	2022 & 2023
Italy*	40%	Net interest income, capped per institution	Not defined
Lithuania	60%	Net interest income that is 50% greater than the average net interest income over the period 2018-2021 (2023) and 2019-2022 (2024)	2023 & 2024
Spain	4.8%	Sum of the net interest and net commission fees	2023 & 2024

Sources: Financial Times (2023) Italy joins wave of windfall taxes on banks across Europe (Czech Republic, Hungary, Italy); European Central Bank (2023) CON/2023/9 (Lithuania); European Central Bank (2022) CON/2022/36 (Spain).
Note: * Correct at the time of writing, subject to change.

The ECB has cautioned that imposing levies or other financial contributions on the banking sector could make banks less resilient to shocks, and therefore have negative consequences for the broader economy.[32] For example, such levies may disincentivise banks from attracting deposit funding from customers and providing lending to the real economy.[33] With regard to the Irish Bank Levy, the Department of Finance has previously raised concerns it may discourage banks from increasing interest rates on deposit accounts, as this would subsequently increase DIRT payments and liability for the Levy.[34] However, as there is a target yield, liability is limited. In addition, the Department notes that a range of other levies apply to financial service businesses to support regulation or recovery of the sector, as well as the Bank Levy, including:[35]

- Industry Funding Levy (domestic)
- Credit Institutions Resolution Fund Levy (domestic)
- Additional Supervisory Levy (domestic)
- Single Resolution Fund (European Union)

The Central Bank of Ireland highlighted that banking sector profits are growing due to increased net interest income.[36] This is reflected in the recent half-yearly financial reports from the three main pillar banks in Ireland, which all recorded a significant increase in income from net interest (see table 1). This highlights the additional profit potential created by the current interest rate environment. The Central Bank also notes the banking sector has capacity to absorb shocks which may occur in the

[32] European Central Bank (2023) CON/2023/9.
[33] European Central Bank (2023) CON/2023/9.
[34] Department of Finance (2022) Retail Banking Review.
[35] Department of Finance (2023) Consultation on the future of the Bank Levy.
[36] Central Bank of Ireland (2023) Financial Stability Review 2023:I.

future.[37] This is because of the strong regulation in place to ensure banks have sufficient capital.

As part of the consultation on the Bank Levy, the Department of Finance outlines four main options for the future of Ireland's Bank Levy. This includes:

Table 5: Future of the Bank Levy Options

Option	Further Details
Maintain status quo	The Levy could be maintained in its current format.
Amend current methodology	Retain the current Levy, but adjust key elements such as the base year, the chargeable rate, and the target yield.
Replace current methodology	This consists of two options, replace with (1) a levy based on liabilities or (2) a levy based on assets.
Abolish the Bank Levy	Abolish the Irish banking levy in its entirety.

Source: Department of Finance (2023) Consultation on the future of the Bank Levy.

5. Conclusion

The future of the Irish Bank Levy and what form it will take, is currently under consideration by the Department of Finance as part of Budget 2024. The Bank Levy, first introduced in 2014, is intended to generate a contribution to the Exchequer of €150 million per annum from the Irish banking sector. This was following the State's intervention to recapitalise the banking sector with €64 billion in response to the Global Financial Crisis in 2008 and 2009. Similar banking levies were introduced across the European Union at the time.

More recently, Irish and domestic attention has once again been drawn to the debate on placing additional taxes or levies on financial institutions, in light of the windfall profits in the banking sector. This increased profitability have been attributed to the high interest rate environment set by the ECB in response to high inflation and the cost-of-living crisis.

While the banking sector in Ireland is regarded as resilient to future shocks, the ECB notes the introduction of new levies can have potential negative consequences for the sector and the wider economy. Any amendment to the existing Bank Levy or introduction of a new tax or levy should thoroughly consider the current state of the banking sector, wider economic context and potential negative consequences which may arise from such changes.

[37] Central Bank of Ireland (2023) Financial Stability Review 2023:I.