# Why the banks won't be paying tax this year

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Project Merlin claims the banks will be making a tax contribution of at least £8 billion to the UK Exchequer this year. It was a number that anyone with an ounce of knowledge of recent banking tax history could see was artificial. This just doesn't even vaguely relate to the tax that banks pay if you bother to actually ask people what tax banks really suffer.

Of course, in popular perception the tax that banks pay is corporation tax - and rightly so. Most of the other taxes that will very obviously go to make up this tax are other costs of sale on which they get tax relief - like VAT included in their purchases, or taxes actually really suffered by other people. Employer's national insurance is an example of the latter - it's a tax that all economists agree is really paid by employees who simply see their gross wages reduced to reflect that part notionally paid by their employer. In other words, this is not a real cost to banks at all.

And if in doubt that VAT is not a real cost consider the simple fact that banks only pay VAT themselves becasue they do not charge VAT on their services to their customers - which means that their products are relatively underpiced compared to almost all other services a consumer can buy, most of which will have VAT included in them. In this case the VAT paid by banks is not a measure of what they're paying, it is a measure (yet again) of the way the tax system is used to provide them with a hidden subsidy.

So let's get back to the one tax the banks do pay as a charge on the income they make - which is corporation tax. As the [Mail on Sunday notes today,] based on research I did for them, the likelihood that any of our big banks will be paying any serious sums in corporation tax for a while to come is remote in the extreme. That's because the 2009 accounts of each of the major banks shows just how much deferred tax asset they're sitting on relating to tax losses that they can offset against their future profits - including those subject to Project Merlin. The figures are:

HSBC _ £4.2 billion

Barclays - £1 billion

Lloyds - £4 billion

RBS - £5.1 billion

Add them together and that's more than £14.3 billion of tax that's not going to be paid any time soon. Or at UK current corporate tax rates some £51 bn of profit that needs to be earned before tax is paid.

Now of course not all that tax will not be paid in the UK, I admit.

But let's also be candid - these are UK banks and so some of it definitely will not be paid here. Which makes Project Merlin look even more like a sham.

And whose accounting logic is behind it? Why, PricewaterhouseCoopers and its Total Tax Contribution of course - their purely political form of accounting designed to add up every penny a company pays to government for the sole purpose of seeking reduction in the one rate that really maters - which is corproation tax.

The Total Tax Contribution was the invention of John Whiting when he was at PWC. Of course he's now director of the Office of Tax Simplification. No coincidence there then, eh?