

# Cost Estimate of Election Campaign Proposal

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Publication date:	2019-09-25
Short title:	New CIT tax bracket for banks
Description:	Taxing banks' net income in excess of \$1 billion at 21%.
Operating line(s):	Corporate income tax (CIT) revenues
Data sources:	Financial data: Public financial statements, Capital IQ <sup>1</sup>
Estimation and projection method:	<p>Banks with a net income above \$1 billion were identified using publicly available financial statements. Taxable net incomes were projected using PBO's projection of nominal GDP and the historical relationship between growth in banks' net income and nominal GDP growth.</p> <p>Projected tax revenues were calculated by applying a 6-percentage point tax increase on projected net earnings before tax exceeding 1 billion. As per the literature, behavioral effects from balance sheet management were incorporated but were negligible due to the strict Basel III requirements on capital.</p> <p>This estimate also accounted for the interaction with an increased corporate income tax rate from 15% to 21% on large firms.</p>
Uncertainty assessment:	<p>The estimate has moderate uncertainty. While financial statements offer an accurate historical database of the banks' income, future operating profits could be volatile. CIT revenues are sensitive to banks' profitability and balance sheet management.</p> <p>Other behavioral effects could also affect the cost estimate.</p>

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### Cost of proposed measure

\$ millions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
New tax bracket for banks	-766	-3,131	-3,407	-3,697	-4,007	-4,343	-4,703	-5,088	-5,499	-5,938
Interaction effects	766	3,131	3,407	3,697	4,007	4,343	4,703	5,088	5,499	5,938
Total cost	0	0	0	0	0	0	0	0	0	0

Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost