Company tax changes and the big four banks

David Richardson

Summary

If the company tax rate were 25 per cent today it would represent a 'gift' of $2,219 million to the big four banks or $660 million for the Commonwealth Bank alone. However, the Government plans to phase in the tax cuts over a number of years.

If the Government's plan were fully implemented then by 2026-27 the gift to the big four banks would be a massive $3,500 million with the Commonwealth Bank receiving a tax cut of $1,000 million. Over the ten years to 2026-27 when the total benefit to companies is estimated at $65 billion, our estimates suggest the big four banks will receive a 'gift' of $9,500 million with Commonwealth Bank alone to receive $2,800 million. These banks hardly need any assistance when their pre-tax profit is over $43 billion and after-tax profit is still very large at over $30 billion. Indeed, based on a survey by *The Banker*, a London based industry journal, the profits of Australia's big four banks are the most profitable in the world relative to the size of their home country. Australia's top four banks were 2.9 per cent of Australia's GDP.

Results

Following the recent release of the Commonwealth Bank's half-year profit to December 2017 announcement it is appropriate to consider once again how much the big four Australian banks would benefit from the Government's planned company tax cut. Along with the Commonwealth results for calendar 2017 there are also the results for the remaining big four banks; the ANZ, National Australia Bank and Westpac. Those banks reported their results for their financial year that ends in September.

Table 1 accordingly presents the profit figures for the big four banks in the year to September 2017 except for the Commonwealth Bank (CBA) where the figure for the profit for the rolling year to December 2017 has been used. The abbreviations used in Table 1 are those used by the Australian Stock Exchange. An adjusted total is also given to make adjustments for the NAB profit write down as a result of discontinued operations. Hence the bottom row gives an underlying figure for tax payable in respect of 2017 and the value of the gift due to the proposed tax cut. Given the figures for pre-tax profit and tax provisions reported by the banks it is a relatively simple matter to calculate the cost to government revenue of moving towards a 25 per cent company tax cut. Those calculations are presented in the final column of Table 1. It is assumed that there are no complications with carried forward losses or other adjustments and we can simply multiply the present tax rate by 5/30 to obtain the benefit to each of the companies.

Table 1: Big bank financial details; year to Sept 2017 (Dec for CBA) $m

	Profit (pre-tax)	Tax paid	Proposed gift
ANZ	9,627	3,206	534
CBA	13,944	3,960	660
NAB	8,661	2,480	413
WBC	11,515	3,518	586
Total	**43,747**	**13,164**	**2,194**
Adjusted total	**na**	**13,313**	**2,219**

Source: ANZ, NAB and WBC annual reports 2017 and CBA half-yearly report 2017.

The calculations presented in Table 1 show that if the 25 per cent company tax rate had applied in 2017 the companies would have received an aggregate tax benefit of $2,219 million with the Commonwealth Bank alone receiving a benefit of $660 million. Estimates of the benefit for the other big four are also presented in Table 1.

Knowing what the tax cut might mean for the big banks if they received it now is important but it is also worth calculating what the tax cuts are likely to be worth over the next ten years.

According to the planned schedule the banks will not be affected until 2023-24 when companies of all sizes become eligible for the lower 27.5 per cent company tax rate. That rate then falls to 27, 26 and 25 per cent in subsequent years, 2024-25, 2025-26 and 2026-27. The other main thing we need to do is project forward the financial data presented in the banks' annual reports over the next 10 years. Our procedure is to project the banks' financial data forward using the official projections for nominal economic growth as presented in the Mid-Year Economic and Fiscal Outlook. It is assumed that banks' financial aggregates continue to grow into the future at least as fast as the size of the Australian economy.

Table 2: Projected benefits of company tax cuts for the big banks $m

	Tax payable at 30%	Value of planned tax cut	Benefit to CBA
2023-24	18,117	1,510	449
2024-25	18,977	1,898	564
2025-26	19,878	2,650	788
2026-27	20,823	3,470	1,032

Source: TAI calculations based on Table 1 and MYEFO projections.

Based on our projections Table 2 shows that by the time the tax cuts are fully implemented in 2026-27 the 'gift' to the banks will be $3,470 million pa while the Commonwealth Bank alone will receive an annual gift of over one billion dollars at $1,032 million.

In the decade to 2026-27 the cumulative total benefits to the big banks will be $9,528 million while the Commonwealth Bank alone will receive a benefit of $2,834 million. Given the assumptions used in these calculations and to caution against imputing too fine a precision to the estimates we prefer to present them to two significant figures at $9,500 million and $2,800 million respectively. The official estimate is that the total gift to the corporate sector will be $65 billion over the same decade. On our figures a good deal of that will go to the banks even though banks only benefit towards the end of the decade.

These banks hardly need any assistance when their pre-tax profit is over $43 billion and after-tax profit is still very large at over $30 billion. Indeed, based on a survey by *The Banker*, a London based industry journal, the profits of Australia's big four banks are the most profitable in the world relative to the size of their home country. Australia's top four banks were 2.9 per cent of Australia's GDP. By contrast the top four banks in the UK and US were 0.9 and 1.2 per cent of GDP respectively.