

Methodology: Interest overdue: Why the time is right for a tax on banks

Methodology note | Abhijay Sood | October 2026

Methodology for revenue estimates

- The OBR's March 2026 projection of tax take from the bank surcharge in the coming years is used, divided by 3%, to arrive at a base of £40bn, £43bn, £47bn, and £47bn respectively in the four relevant years. These OBR figures estimate "surcharge profits" which are different from (lower than) overall profit. There is good reason to believe these figures are underestimates: [surcharge receipts were 3.4% higher than forecast in 2025-26](#), and these projections were published only 3 days after the Iran war started. The Iran shock has raised interest rate expectations, which in turn should raise expectations of bank interest income (unless there is a strong economic downturn).
- Elasticity of taxable income with respect to the net-of-tax rate is assumed to be 1.4 for the most mobile third of bank profits (income from trading and similar) and 0.25 for the remaining two thirds.
 - The 1.4 figure is calculated from a semi-elasticity of 2 at current tax rates, which is in line with [previous HMRC modelling](#) on corporation tax. Some sources suggest this figure should be higher, but the targeted anti-avoidance rule on surcharge profits balances this somewhat.
 - The 0.25 is inspired by [a paper](#) finding plausible elasticities of 0.13-0.17 for UK companies with ~£300k of profit. [HMRC modelling](#) assumes an elasticity of 0 on these profits, so 0.25 is quite conservative (particularly due to the [targeted anti-avoidance rule](#)), despite the fact that banks are much larger than the companies in the study.
 - The behavioural response is assumed to phase in over 3 years – beginning at 70% of the full response, then rising to 85%, and then 100%. Of the profit that avoids the tax under this response, 70% disappears entirely (leaving the UK or being spent), while 30% moves to (eg) other companies within the group and is taxed at the regular corporation tax rate.
 - A further reduction of 0.5% has been applied to the tax base to allow for timing and booking not accounted for in elasticity estimates.
- Behavioural adjustments/avoidance and conservative base assumptions apply for the low end of the ranges in Table 2; the high end assumes the OBR's projections underestimate the base (by 3.4%) and there is no behavioural adjustment.
- The elasticity split used may understate revenue at the conservative (low) end from the big four, since their profits are overall less mobile than (eg) multinational banks, but conservative assumptions have been conducted in the same way for simplicity.

- Headroom figures are assumed to be slightly higher than the final-year tax take due to reduced borrowing in earlier years (based on the OBR's 2026 gilt rate projections). The exact impact on headroom would depend on what the money is spent on.
- There is no re-pricing of savings rates, and wider impacts on credit conditions (assumed to be relatively small for a 5-point surcharge increase) are not factored in.
- The tax will raise more money than projected here if it is accompanied by a reduction in the tax-free allowance of the surcharge, which is also possible (eg reducing it from the current £100m back to the £25m level that applied before April 2023); this would add £0.3-0.4bn a year to the revenue projections in Table 2.
- The figures for the big 4 assume 55% of taxable profits are theirs, based on data from the OBR (linked above), [HMRC tax receipts information](#), and the banks' own disclosures ([Barclays](#), [HSBC](#), [NatWest](#), [Lloyds](#)). This is an estimate based on a rough 50-60% range inferred from these sources, which may slightly understate their contribution (eg their contribution to surcharge tax receipts in 2025-26 was 58%, and their large size means the allowance reduces their burden by a relatively smaller amount).
- The pie chart assumes profits (and the corporation tax and surcharge) and the levy grow in line with the OBR's March 2026 projections for these banks, while other taxes grow at 2% a year, which again may be an understatement.
- Claude (Anthropic, Opus 5.5) was used for brainstorming and stress-testing; outputs were verified against primary sources by the author.

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