

Bank levy

Katarina Frajtova Michalikova^{1,*}

¹University of Zilina, Faculty of Operation and Economics of Transport and Communications, Department of Economics, Univerzitna 1, 010 26 Zilina, Slovakia

Abstract.

Research background: The bank levy was approved in 2011 and entered into force in 2012. Shortly after the economic crisis, Slovakia was not the only country to introduce it. Unlike other countries, the Slovak government did not have to help banks financially and then compensate for this help by increasing their taxation. The bank levy thus served mainly to improve the overall image of public finances in the country.

Purpose of the article: The main goal of the article is to confirm the correctness of the abolition of the bank levy, which has distorted the management of banks in Slovakia for almost a whole decade. The abolition of the levy will contribute to greater stability of the banking sector, which will be helpful in the restart of the Slovak economy affected by the crisis caused by the covid-19 pandemic.

Methods: Analysis of the legislation regulating the introduction of a bank levy in Slovakia, its development from the introduction of a bank levy to its abolition. Comparison of the expected benefits of this tool with reality.

Findings & Value added: The article monitors the development of bank levies in Slovakia from its introduction to its abolition. The imposition of a bank levy resulted in additional taxation of the banking sector. The difference compared to other taxes was that the amount of the levy does not depend on the bank's profit, but on the size of its liabilities.

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* Corresponding author: katarina.michalikova@fpedas.uniza.sk

1 Introduction

The issue of bank levy is currently an extremely topical issue. Slovakia introduced a bank levy in 2012 and was introduced to cover possible future financial crises and to protect the stability of the banking sector in Slovakia.

If we look more closely, the bank levy, or otherwise called the special levy of selected financial institutions, respectively banks and branches of foreign banks was introduced on 1 January 2012 by Act no. 384/2011 Coll. on the special levy of selected financial institutions and on the amendment of certain laws. This statutory payment of a special levy was a response to the conclusions adopted by the European Council on 17 June 2010 on a new European strategy for jobs and growth, in which the European Council agreed that "Member States should introduce levy and tax regimes for financial institutions to: to ensure a fair burden sharing and to introduce incentives to limit systemic risks " [4].

Act No. 384/2011 Coll. on a special levy of selected financial institutions and on the amendment of certain laws defines a special levy as a levy that a bank or a branch of a foreign bank is obliged to pay, the basis for calculating the levy being the amount of the bank's liabilities reported in the balance sheet reduced by the amount of equity on the value of long-term financial resources provided to a branch of a foreign bank and on the value of subordinated debt pursuant to a special regulation (Section 2 letter a) of the Act on Special Deduction).

Liabilities in accordance with Act no. 431/2002 Coll. on Accounting, as amended, means the sources of assets that represent the total amount of liabilities of the entity, including other liabilities and the difference between assets and liabilities (§ 2 paragraph 4 letter k)). By balance sheet we generally understand the balance sheet - a list of assets (assets) and their sources (liabilities) in accounting for a certain period. Finally, the equity is, according to Act no. 513/1991 Coll. The Commercial Code, as amended, consisting of the entrepreneur's own sources of financing the business assets (§ 6 para. 4).

2 Methodology

The paid special levy is considered to be a state financial asset, kept in a separate extra-budgetary account, which is intended to cover costs associated with resolving financial crises in the banking sector and to protect the stability of the Slovak banking sector, replenish the Deposit Protection Fund or strengthen own sources of financing of legal entities with 100% state ownership (§ 4 para. 3).

From the point of view of the development of the special levy rate itself, it is necessary to focus on individual historical changes in the amount of the special levy rate:

1. In the promulgated wording of the Act on the special levy of 20 October 2011, the rate of the special levy for the relevant calendar year was set at 0.4% [2].
2. Also in the period from 1 January 2012 to 31 August 2012, the special levy rate was 0.4%.
3. In the period from 1 September 2012 to 28 April 2015, the rate of the special levy remained at 0.4%, but it could have been modified depending on the rules that were regulated in this period in § 8 of the Act on the special levy as amended from 1 September 2012 to 28 April 2015.
4. The rate of the special levy remained at the same level until 24 October 2016, when it was most significantly adjusted. The levy rate was set at 0%, unless Section 11 of the Act on Special Levels, as amended from 24 October 2016 to 31 December 2019, provides otherwise. Pursuant to the provisions of Section 11, the rate of the special levy for the years 2017 to 2020 is 0.2% per year.

Based on the presented development of special levy rates during the years 2012 to 2019, it can be stated that the rate decreased from 0.4% to 0.2% after the initial years, starting from 2017. It can also be concluded that after 2020 the rate of the special levy would fall to 0% if the existing legal situation continued [11].

Bank levies had economically significant effect on banks funding choices. It has been estimated that the banks increased their equity-asset ratio by 1-1.5 % on average in response to levies [1].

The legal status just mentioned is broken by the amendment, which entered into force on 1 January 2020. The amendment changes the wording of the provision of § 3 par. 2, the new wording of which stipulates that the rate of the special levy for the relevant calendar year is 0.4%. The amendment also introduces a new provision of § 11 a, according to which § 11 will not apply in 2020 [10].

And it is this amendment from January 1, 2020 that brought the biggest outrage in the banking sector. Because, as mentioned above, the initial level of the levy was 0.2 percent of the value of the bank's liabilities less the amount of equity. So, the bank levy was originally supposed to end in 2020. However, at the end of 2019, Parliament decided to extend the duration of this special tax without setting a deadline and increase the levy level to 0.4 percent. This meant that banks would have to pay around € 300 million a year (twice the original amount) [7].

This sector fee was added to the normal taxes paid by all companies in Slovakia, including banks, as well as to payments to the Deposit Protection Fund or to the Single European Crisis Mechanism [3].

The defended goal of the levy is to create resources to deal with possible future financial crises. However, this need was significantly minimized, if not completely eliminated, following the introduction of the single European resolution mechanism in 2015 [9]. Increasing the levy in a situation that does not in any way indicate a threat of risks in the banking sector is therefore completely at odds with the stated goal [5]. This reveals that the real aim of the last increase in the bank levy was to accumulate additional state budget revenues and not to rehabilitate possible crises.

The bank levy set up in this way raised relevant questions about its compliance with the constitution, specifically with the right to conduct a business, but also with some principles of the rule of law. The way in which such a substantial interference was taken in the possibility of using the economic value of assets in an important segment of the economy also raised questions about the legitimacy of the measure [19].

3 Result and Discussion

However, the bank tax (levy) meant that the banking sector started the year on 1 January with minus EUR 300 million, regardless of what it does during the year. Almost all taxes, with the exception of property taxes, which are low in Slovakia, depend on the company's economic activity. The company starts at zero at the beginning of the year and almost everything that the state takes (VAT, motor vehicle tax, ...) is tied to economic activity in a given year.

The additional taxation of banks was caused by the fact that the problems of banks during the crisis years in many countries led to governments being forced to help banks financially [5]. Subsequently, they sought to partially offset these costs by increasing the taxation of banks. However, this was not the case in Slovakia - the government did not have to help the banks, but nevertheless took this step. From the beginning, however, this plan was seen as temporary [23].

The amount of the 0.4% levy sounded low compared to the fact that we pay income tax of 20-25%, but in real terms it would lead to a tax of banks of around 50% and if the profitability of banks would decrease and in the case of smaller banks it would be a

percentage of taxation, much higher. Economic analyst Róbert Prega [15], commented on the excessive profitability of banks as a minimum inaccuracy. The Ministry of Finance officially said in its press release that the banking sector has a profitability of 11%. Róbert Prega refuted this information [16]. The profitability of the banking sector in 2018, which they talked about, was 9% and not 11%. The controller's recommendation is 6 to 10%. 9% is therefore fully in line with the regulator's recommendation and is nothing special or non-standard. This is the normal profitability of the sector [12].

Within the European Union (EU) we can find many examples of countries that have never had a bank levy, e.g. Czech Republic [20]. Despite the similarity with the Slovak economy, its banking market is relatively different, mainly due to our membership in the euro area, where we are negatively affected by negative interest rates and also the absence of a large part of foreign exchange income, which has a negative effect on profit [6]. This fact already favors the Czech banking market, not to mention the absence of the bank tax, which we have the highest in our country [22].

Furthermore, there are countries that have introduced a bank tax after us and still have it, but the amount that banks pay is lower in size than in Slovakia and there are countries where they had a bank tax but it has already been abolished, such as in Austria [27]. Or in some countries, the bank tax was transformed into contributions to the so-called single resolution fund, which is another novelty - in addition to contributions to the deposit protection fund, banks pay regular contributions to the resolution fund [22].

The form of the bank levy until July 2020 significantly affected the financial stability of the banking sector and reduced its profitability. Only a stable and profitable banking sector is able to support the growth of the Slovak economy by providing a sufficient volume of loans to households, the business sector and the state. The bank levy threatened the stability of the banking sector even under standard circumstances, and the current crisis has only deepened its fatal effects [14].

The Ministry of Finance of the Slovak Republic and the Slovak Banking Association expressed their interest in jointly contributing to the development of the economy, improving the financial health of Slovakia and the stability of the banking sector in a Memorandum of Understanding [8]. The document emphasizes the importance of the banking sector in supporting the country's sustainable development, providing credit facilities to entrepreneurs as well as the population affected by the current crisis, long-term employment and providing investment funds for structural projects [24].

Pursuant to the Memorandum, the obligation to pay bank charges was abolished on 1 July 2020. And the banks undertake, as part of their approval processes for the accounting periods 2019 - 2022 inclusive, to propose to their shareholders only the payment of dividends up to the net profit of the given financial year reduced by an amount equal to 0.2% of the bank's liabilities, calculated according to the Act on special financial contribution with liabilities as of 30.6.2020. This obligation does not apply to branches of foreign banks [13].

The submitted bill ensures the fulfillment of the Memorandum of Understanding concluded between the Ministry of Finance of the Slovak Republic and the Slovak Banking Association in June 2020 (hereinafter the "Memorandum of Understanding"), which agreed to draft the relevant legislation [26].

The aim of the submitted bill is to abolish the obligation to pay a special levy and Act no. 384/2011 Coll. on a special levy with effect from 1 January 2021. Act no. 384/2011 Coll. on the special levy entered into force on 1 January 2012 and its aim was to introduce levies for selected financial institutions and thus contribute to the creation of mechanisms for these financial institutions to share in the costs of future financial crises in the banking sector, to ensure a fair burden sharing and taxpayers, the government and the economy in the event of resolving financial crises, to stimulate selected financial institutions to reduce systemic risks and to protect the stability of the financial sector of the Slovak Republic [25].

The draft law is in accordance with the Constitution of the Slovak Republic, constitutional laws, the findings of the Constitutional Court of the Slovak Republic, other legal regulations of the Slovak Republic, international treaties and other international documents by which the Slovak Republic is bound and European Union law [18].

The bill has a negative impact on the public administration budget, while in terms of impacts on the business environment, a positive impact on the profitability of the banking sector is expected [21]. The bill has no social impacts, no impact on public administration services for the citizen and also no impact on employment, the environment, the informatization of society, nor on marriage, parenthood and the family. The effectiveness of the bill is proposed from 1 January 2021, taking into account a sufficient legislative period [28].

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Table 1. Income of the state budget from the levy

Year	Prediction (e.g., for 2020 is the forecast from Nov. 2019)	Fact (Fund received from FR SR)
2012	102 105 000 €	120 306 608.14 €
2013	203 000 000 €	203 998 727.36 €
2014	160 649 000 €	153 190 846.30 €
2015	104 588 000 €	110 289 290.38 €
2016	113 806 000 €	119 772 091.30 €
2017	126 692 000 €	127 283 895.12 €
2018	133 646 000 €	134 177 118.30 €
2019	143 076 000 €	143 411 403.02 €
2020	288 839 000 €	148 949 960.73 € (Measures have been taken to waive installments for the 3rd and 4th quarters)

4 Conclusion

The abolition of the bank levy is a necessary step to ensure the stability of the banking sector. Only healthy banks can fulfill their basic tasks, even in economically difficult times. Slovak banks want and must be part of the start-up of the economy affected by the coronation crisis, and only a strong and stable banking sector can help its clients in this situation and contribute to the recovery of the economy.

The abolition of the bank levy is also an exchange for the fact that the banks allowed all clients to defer payments without any fees.

The outbreak of coronavirus (COVID-19) has an impact on various spheres of everyday life of individuals as well as companies worldwide [29]. The affected areas clearly include the financial sector. Although it is currently not possible to quantify the overall consequences of a pandemic, it is essential that measures be taken without undue delay to mitigate its negative effects. Then he appealed with his words as well The President of the Supervisory Board of the European Central Bank, Andrea Enria:

"The coronavirus is a significant shock to our economies. Banks must continue to be able to provide financing to households and businesses facing temporary difficulties. The aim of the supervisory measures adopted today is to support banks in fulfilling their tasks in the economy and in resolving operational problems, including pressure on their employees. "

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