



Bonus Season

Bonus season¹

In 2007 bank bonuses were around £11.6bn in the UK². They fell to about £6.7 billion in 2010³ and are expected to fall further this year. But those on already on top pay are still set for top rewards. According to one survey of City employees one third expect to get a bonus and 55% hope for one. That leaves just one in eight thinking no bonus is likely⁴. Other surveys broadly agree⁵.

Surprisingly 59% of those working in the City expect their bonus to be the same as last year or higher. Only 30% expect it to be lower, again leaving about an eighth expecting a much-reduced bonus or no bonus at all⁶. The bonus culture is clearly still alive and well. This is despite the fact that a survey of more than 1,300 City professionals showed that their pay had increased by more than 11% in the last year, often as a result of promotions, which tend to happen frequently⁷.

The average bonus anticipated across all sectors and role types was just under 24% of basic pay. However, this was not true at the highest pay levels. At director and managing director levels (these being pay grades not necessarily indicating that the person holding this title is a top level manager in banks, unlike the rest of industry) expectations are much higher with bonus expectations of 42% and 70% of base salary respectively⁸.

Average basic pay in the City of London has been reported to be about £52,000 but this is not a fair representation of what really happens⁹. Whilst in admin and support grades averages are around £28,000 a year¹⁰ the basic pay of director grade staff averages around £130,000 a year and managing directors might average £238,000 a year¹¹. It is notable that those holding this last grade had the highest average reported pay rises in the last year – of more than 20% in the year, and also have the highest bonus expectation, by far¹².

What is very clear as a result is that, as has been widely noted, the gap between best paid and the rest in the City is growing, and that as times have become tougher it is those on lowest pay who are seeing their expectations fall whilst those on highest pay are continuing to reap the best rewards. An admin staff grade employee on £28,000 may expect a reward at the average rate of about £7,000 based on this data, although the likely bonus will be somewhat lower in most such cases since the average rate is skewed upwards by those on high incomes and bonus rates. In the meantime those on a basic income of approximately £240,000 are expecting average bonuses of over £160,000, taking their pay to in excess of £400,000 per annum.

A fair contribution

To ensure that those on top pay make a fair contribution to addressing the fiscal deficit, and to address pay inequalities more widely, the TUC believes that all pay (whether in the form of salary, benefits in kind or bonuses) that in any year exceed ten times UK median pay should not be subject to corporation tax relief within the financial services sector. That would set the current limit at about £262,000¹³.

The impact for the finance sector

Working out the impact of this change for the financial services sector is not a precise science: too little data is published by companies to be sure just how many staff they might have who would be affected by this cap on tax relief. However, data can be estimated. In this report this has been done using a variety of data sources. First the Labour Force Survey¹⁴ has been interrogated for a period of almost three years (to enable a large enough sample size to be gathered) to indicate the sectors in which those earning more than £250,000 are likely to work. While this sample is relatively small, no other data sources on this issue are publicly available. This analysis is set out below:

Industry sector in main job	Percentage of sample earning over £250,000 by sector from 2009 to Q3 2011
No answer	0
Agriculture, forestry and fishing	0
Energy and water	6
Manufacturing	10
Construction	10
Distribution, hotels and restaurants	6
Transport and communication	18
Banking and finance	36
Public admin, education and health	8
Other services	6
Total	100

This analysis shows that 36% of those earning more than £250,000 (the income bracket closest to ten times median income for which data is readily available for comparison) are in the banking and finance sectors.

Secondly, the total number of people earning more than £262,000 and their total incomes have been estimated on the basis of the following HM Revenue & Customs data¹⁵:

Range of total income (lower limit)	All taxpayers	Total income of taxpayers	Mean income
£	Number	Amount	£
7,475	2,320	20,300	8,750
10,000	6,390	79,600	12,457
15,000	5,220	90,700	17,375
20,000	7,050	172,000	24,397

30,000	5,930	225,000	37,943
50,000	2,290	151,000	65,939
100,000	369	44,100	119,512
150,000	157	26,600	169,427
200,000	158	45,400	287,342
500,000	29	19,600	675,862
1,000,000	14	31,200	2,228,571
All Ranges	29,900	906,000	30,301

While there are no data showing how many people earn between £200,000 and £262,000 the mean is only a little above that sum, so it has been assumed that at least 40% of those in the income bracket £200,000 to £500,000 fall into this category (95,000 people) leaving 138,000 people who earn between £262,000 – 1,000,000 to be considered with total income of £31.2 billion at an average of £328,400 each.

Analysis of other HMRC data suggests that about 59% of those in this income category of earners will have employment income as their main source of income (as opposed to self employed, investment or pension income, for example)¹⁶.

As a result this suggests that approximately 81,000 people will have incomes (after offset of allowances and reliefs which may be substantial) of more than £262,000 a year that primarily come from employment, with total combined incomes of a little over £48 billion. But additional HMRC data¹⁷ suggests that while earnings from work are the primary source of income for this group, about 17% of the income of those in this bracket may be from investments. It is therefore prudent for our analysis to take account of this possibility, suggesting that the total income of this group from employment after tax reliefs may be rounded to the nearest billion about £40 billion. This is likely to understate the actual salaries paid considerably since this figure provides an assessment of income *after* the offset of all allowances and reliefs.

Given around 36% of the sample work in banking and finance this means that approximately 29,000 people in this group will work in banking and have total incomes of approximately £14.4 billion between them, at an average salary of £496,551 each. *The total of all payments in excess of £262,000 to this group is then likely to be £6.8 billion a year.*¹⁸

The potential gains

The mainstream rate of corporation tax in 2011 is 26%. Not all banks pay tax at the headline rate of tax (for reasons discussed in *The Missing Billions* published by the TUC in 2008¹⁹), but all of their expenditure effectively receives relief at this marginal rate of tax. In other words, if their profits were to rise by £1 million then it would be reasonable to expect their tax bill to rise by £260,000, even if their overall tax rate may be something quite different. In that case the marginal tax relief they enjoy on deducting the income of those earnings over £262,000

from their tax bill is likely to be £1.76 billion in total a year. If employer's national insurance contributions were taken into consideration and disallowed for corporation tax on salary payments above £262,000 as well the amount of tax relief denied would be higher still but due to uncertainties in the rate of national insurance that might be applied to such earnings (depending on varying possible pension schemes that might be involved) this additional sum has not been estimated. Such a restriction in relief for national insurance costs, and a restriction stopping employers shifting payments towards benefits in kind to get round the restricted allowance might, however, be appropriate.

The TUC is therefore proposing that tax relief should be withdrawn immediately from pay of more than £262,000 a year in the banking and finance sectors. This change might raise £1.76 billion a year. This restriction in corporation tax relief is proposed in addition to the TUC's support for an ongoing bank levy on bank bonuses.

We also believe that consideration should be given to withdrawing that relief across the economy as a whole, which could raise almost £5 billion in tax a year.

¹ Please note that the original data creators, depositors or copyright holders, the funders of the Data Collections and the UK Data Archive bear no responsibility for their further analysis or interpretation in this report.

² http://blogs.wsj.com/source/2011/12/06/abi-scores-on-bank-bonuses/?mod=google_news_blog

³ Ibid.

⁴ Astbury Marsden: Compensation Survey 2011, Banking Infrastructure London
http://www.astburymarsden.com/documents/London%20Compensation%20Survey%202011_Banking%20Infrastructure%20small.pdf (Astbury)

⁵ Morgan McKinley: London Employment Monitor November 2011
<http://www.morganmckinley.com/sites/default/files/mm/ac/LondonEmploymentMonitorDecember11.pdf> (Morgan)

⁶ Morgan McKinley (Ibid).

⁷ Astbury Marsden (Ibid).

⁸ Ibid.

⁹ Morgan McKinley (Ibid).

¹⁰ Morgan McKinley (Ibid).

¹¹ Astbury Marsden (Ibid).

¹² Astbury Marsden (Ibid).

¹³ <http://www.telegraph.co.uk/finance/economics/8909797/Average-salary-falls-3pc-in-face-of-high-inflation.html>

¹⁴ <http://www.esds.ac.uk/government/lfs/>. Office for National Statistics. Social and Vital Statistics Division and Northern Ireland Statistics and Research Agency. Central Survey Unit, Labour Force Survey 1975 — 2011 Colchester, Essex: UK Data Archive

¹⁵ http://www.hmrc.gov.uk/stats/income_tax/table2-5.pdf

¹⁶ http://www.hmrc.gov.uk/stats/income_distribution/3-4table-jan2010.pdf

¹⁷ http://www.hmrc.gov.uk/stats/income_distribution/3-5table-jan2010.pdf

¹⁸ While this is estimated data, all data of this sort (on which decisions are made by the Government and others) is estimated in a similar fashion. In addition, as we note above, we believe that based on the available data our estimate is conservative.

¹⁹ <http://www.tuc.org.uk/touchstone/Missingbillions/1missingbillions.pdf>