

Calls for Windfall Tax on Major Banks Spark Debate Amid Soaring Profits

August 1, 2025

— Categories: Economics



Download IPFS

A windfall tax on the UK's largest banks could generate over £11 billion for the Treasury, according to a new report by monetary reform think tank Positive Money. The proposal targets the exceptional profits posted by the so-called "Big Four," Barclays, NatWest, Lloyds Banking Group and HSBC, following a surge in earnings during the first half of 2025.

Positive Money's analysis projects that the four banking giants are on track to report a record-breaking £48 billion in profits this year. Combined pre-tax profits for the first six months of 2025 already stand at £24.1 billion. Barclays reported a 23 per cent rise in pre-tax profits to £5.2 billion, while NatWest posted an 18 per cent increase to £3.6 billion. Lloyds recorded £3.5 billion, and HSBC reported a fall of 26 per cent, yet still delivered £11.9 billion (\$15.8 billion) in pre-tax profit during the same period.

The think tank has suggested a 38 per cent levy on the UK retail banking profits of these institutions, applied to earnings above £800 million, which it estimates would raise £11.3 billion annually. This figure aligns with the rate set under the Energy Profits Levy, introduced in May 2022 to tax excess profits from oil and gas companies amid soaring energy prices triggered by the war in Ukraine.

Positive Money argues that banks, like energy providers, function as essential public utilities and should not be allowed to accumulate extraordinary profits unchecked. Simon Youel, the group's Head of Policy and Advocacy, stated: "Just as energy companies shouldn't be able to profiteer, neither should banks—taxing windfalls makes sense for both."

The proposal arrives as government finances remain under pressure and speculation mounts around possible revenue-raising measures in the upcoming autumn Budget. According to Youel, "The government is quietly handing over tens of billions of pounds a year to the Bank of England to cover the costs of higher interest rates, much of which is ending up in the pockets of banks' shareholders."

However, banking executives have voiced strong opposition to any form of additional taxation. NatWest Chief Executive Paul Thwaite warned Chancellor Rachel Reeves against such a move, stating: "Strong economies need strong banks." He emphasised that reinvestment of profits into businesses and customer support is critical for national economic growth.

Charlie Nunn, CEO of Lloyds Banking Group, also pushed back, arguing that higher taxes on banks would run counter to the goal of stimulating economic expansion. Barclays' CEO C.S. Venkatakrishnan echoed the sentiment, saying: "Growth is the primary objective for the UK and a higher taxation of businesses is not a path towards that growth."

Positive Money points to similar policies in Europe, particularly in Spain, where a 4.8 per cent levy on domestic retail banking income exceeding €800 million has been

implemented. The group argues that the revenue raised from a UK bank windfall tax could fund measures such as scrapping the two-child benefit cap, which costs up to £3.5 billion annually.

However, concerns about the broader economic impact of such levies persist. A 2024 report by the International Monetary Fund (IMF) reviewing Spain's fiscal policy noted that "windfall levies do not constitute a growth-friendly consolidation strategy."

The debate over taxing bank profits underscores a wider tension between fiscal responsibility and economic competitiveness. As the Government seeks to restore public finances without stifling private sector investment, policymakers will need to weigh short-term revenue gains against potential long-term effects on the financial sector and overall economic growth.