In this year’s budget papers , Treasury estimated that the bank levy will collect about A$1.5 billion in each of the next four years for the government. But this is actually a conservative estimate.

Labor has argued there will be a A$2 billion dollar hole in the bank tax revenue. This is based on the disclosure to the ASX of four of the five affected banks, on what they will likely pay government.

But the banks' numbers assume there won't be change to any decisions in response to the bank levy. Research shows this is highly unlikely, as bank customers have worn the cost for bank taxes like this, imposed after the global financial crisis in the UK.

In fact, if the economy keeps growing as many have predicted, and banks grow too, then the amount of revenue the government collects from the levy may even be bigger than Treasury estimates.

What we know about the bank levy

When it comes to what revenue the government can get from the bank levy, both the taxable sum, and the tax rate applied, determine what gets collected.

The budget papers specify the taxable sum as including "items such as corporate bonds, commercial paper, certificates of deposit, and Tier 2 capital instruments" but not "Tier 1 capital and deposits of individuals, businesses and other entities protected by the Financial Claims Scheme". The bank levy will be an annualised rate of 0.06%, applicable for all licensed entity liabilities of at least A$100 billion from July 1, 2017. Small banks and foreign banks are exempt.

Although it is possible the bank levy would not be a deductible expense in calculating corporate income, precedent and statements by government indicate the levy will be deductible. Special taxes on the mining industry (including royalties and the petroleum resource rent tax), state payroll, land taxes, stamp duties and indirect taxes such as petroleum excise are all deductions in the calculation of taxable corporate income.

Errors in the assumptions about banks

Labor and banks also assume that the bank levy is a deduction in assessing corporate income. The preliminary data made public by four of the five affected banks indicates the gross revenue gain of the bank levy, less the reduction in corporate tax, will be less than the budget numbers.

That is, the net revenue reflects a 0.042% levy rather than the 0.06% rate. This also assumes shareholders will bear all of the net additional taxation.

But it also assumes the banks will not change any decisions. This is both a simplistic and an unlikely scenario.

In essence, the bank levy is a selective indirect tax on one of the inputs used by the large banks to provide financial services to their customers.

A more likely scenario is that the banks will seek to, and succeed in, passing forward most of the new indirect tax to their customers as a combination of higher interest rates and fees. From past experience, banks pass forward higher Reserve Bank of Australia (RBA) interest rates, just as they pass forward lower rates.

Given that the affected five banks account for over 80% of the market, together with the reluctance of most Australian business and household customers to switch banks, there is a high probability that most of the levy will be passed forward as higher bank interest rates and fees.

Should the banks pass forward most of the levy to their customers, the increase in bank revenue will match the increase of bank costs caused by the levy. That is, taxable corporate income will remain about the same. Then, the overall government revenue gain is given by the gross 0.06% bank levy.

The bank levy could even collect more

If the output and incomes of the five banks to pay the levy expand over the next four years, then we would expect additional revenue to be collected by government to increase over time. The budget papers, the RBA, international agencies and private sector economists all forecast economic growth. It's unlikely that the big five banks would not also experience economic growth.

So the budget paper forecast that the bank levy revenue collection of about A$1.5 billion a year for each of the next four years, has to be on the conservative side.

The revenue estimates for the levy are forecasts or projections compiled in a world of uncertainty. So a lot is still up for debate, including not only the design of the levy but the future path of the economy in general and for the large banks in particular.

Details and assumptions underlying government estimates of the revenue from the bank levy are unclear. It would be an unusual precedent not to allow the levy to be a deduction in calculating corporate income tax, and so reducing the net revenue gain. But the implicit assumption of the bank released numbers of no decision changes by the banks is unrealistic.

If banks, as businesses in general, pass forward to customers much of an input tax, a large part of the first-round fall in corporate income, is offset by higher revenue. Government forward estimates of additional government tax revenue collected by the levy likely are on the conservative side.

John Freebairn owns shares in two of the large banks directly affected by the levy.

Read more http://theconversation.com/the-government-will-likely-get-more-from-the-bank-levy-than-labor-or-the-big-four-think-78452