
Press release

European Banks Face High Taxes and Fragmented Rules That Undermine Competitiveness

The Association for Financial Markets in Europe (AFME) has today published a new report, based on research by KPMG, analysing banking tax regimes across Europe (EU and UK), highlighting the significant impact of fragmented and overly burdensome tax policies on economic growth, competitiveness and investment.

James Kemp, Managing Director at AFME, said: *“A strong, internationally competitive banking sector is essential to Europe’s economic strength and tax policy is central to that. Current rules lack predictability and investment-friendly design, raising costs not just for banks but for businesses and consumers. While we recognise the complexity of tax reform across Europe, it is time to reflect on how tax policy can drive growth, competitiveness and cross-border investment”.*

The report highlights a shared challenge across Europe: European tax rates are among the highest globally. For example, banks trading in the UK face a total tax rate of 46.4%, in the Netherlands 42.2% and in Germany 38.9%. By contrast, banks in the US face a combined rate of 27.9%. Extensive evidence shows that higher taxes on banks are largely passed through to end users via higher fees, reduced lending capacity or lower returns on deposits. This ultimately affects households, retail investors and SMEs, counteracting policymakers’ aims to boost investment and financial inclusion.

Financial transaction taxes in certain Member States have reduced market activity by up to 35%, while generating less revenue than expected. Meanwhile, stamp duty on UK share transactions (at 0.5%, one of the highest rates in Europe) remains a significant deterrent to investment and capital formation.

Outdated tax legislation, inconsistent interpretations and complex compliance requirements creates further costs and uncertainty for banks.

AFME’s recommendations for policymakers include:

- **Governments should recalibrate the taxation environment for banks.** Bank specific taxes such as bank levies and windfall taxes should be reassessed to ensure that European tax regimes remain competitive globally.
- **Taxes on share trading should be reviewed in light of their negative impact on market activity and economic growth.**
- **The VAT regime for financial services should be modernised** to reflect the development of new products and technological and business changes.
- **The EU should embed tax policymaking in the Savings and Investment Union (SIU) agenda, and use the forthcoming Omnibus on Taxation to deliver meaningful simplification and reduce excessive administrative costs.**
- **UK tax policy should be aligned with the Government’s Financial Services Growth and Competitiveness Strategy.** The Government should make a commitment not to increase the bank levy or bank corporation tax surcharge for the remainder of this Parliament.

The full report, including separate recommendations for EU and UK policymakers, is available to read on AFME’s website.

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Notes:

1. The Association for Financial Markets in Europe (AFME) is the voice of the leading banks in Europe's financial markets, providing expertise across a broad range of regulatory and capital markets issues. We represent over 150 leading global and European banks and other significant market players. Our members play a vital role in Europe's financial ecosystem, underwriting around 90% of European corporate and sovereign debt, and 85% of European listed equity capital issuances. Importantly, AFME members are market makers, providing liquidity, which is essential for ensuring financial markets can function efficiently. We also represent law firms and other associate members which advise market participants and support AFME's legal and regulatory initiatives. For more information please visit the AFME website: www.afme.eu
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