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SOCIAL ACCEPTANCE OF PROFITABILITY OF POLISH BANKS IN THE CONTEXT OF INTRODUCTION OF THE BANK TAX

Summary

In the opinion of general public Polish commercial banks earn too much from their activities as compared to the contributions they pay to the state budget. The banking sector is a very important part of the Polish economy and the dynamics of assets belonging to financial institutions within the last 25 years were from two to three times higher than the dynamics of Polish GDP¹. Thus, development of the financial sector especially in the pre-crisis period was considerably faster than development of the real sphere. Tax regulations in force used to be very favourable for the banking sector. Financial services were exempted from VAT. However, as of 1 February 2016 a new tax commonly referred to as bank tax, was introduced. The rate of the tax was set on the level of 0.44% of a bank's assets value. Introduction of this tax on one hand aroused many controversies and fears with respect to potential consequences for the stability of the financial sector but on the other, related opinion polls showed a great deal of public approval. This is a completely new argument in the discussion over advantages and disadvantages of the new tax. The author of the paper argues that introduction of a tax which enjoys public support will contribute to the increase in public trust in financial sector. The aim of the paper is to present social acceptance of profits generated by the Polish banking sector in the context of public needs whose satisfaction relies on the efficiency of the state budget. The research methods applied by the author include opinion surveys and deduction method.

Key words: bank tax, profitability of banks, social responsibility

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¹The National Bank of Poland, *Rozwój systemu finansowego w Polsce w 2014 r.*, Warszawa 2015, p. 23.

Introduction

The results of opinion polls conducted by the Polish Public Opinion Research Centre (CBOS) in recent years show that almost two thirds of respondents put their trust in banks, one in six declares lack of trust and the same proportion has no uniform opinion about the credibility of banks. Among the most frequently worded negative opinions was the issue of honesty. Three quarters of respondents thought that banks used excessive margins and usury as opposed to 12% who claimed this is not true.² Another Polish research centre TNS Polska in a survey conducted at the end of March 2015 discovered that nearly a third of Poles thought that the market of banking services in Poland was changing for the better, in contrast to 17% who claimed that the changes occurring in the sector are not favourable for the banks and their customers. All in all, banks are viewed positively by 42% of Polish people. Equally good result was for the last time achieved in March 2008, shortly before the first news about new financial crisis started to come to Poland from the USA. Currently a positive opinion about banks is expressed by 4% less respondents than in the previous year. At the same time the percentage of people who think negatively about banks increased from 10% to 13%.³ Despite the fact that credit institutions management is a well-known scientific field and it is proved that efficiency of this management is closely related to a variety of activities (to name just a few: liquidity management, assets and liabilities management, off-balance sheets assets and liabilities management, risk management, interest rates, reserves and equity management), the success of the whole enterprises is based on continuous upheaval of high credibility and good reputation on the market.

A lot of factors impact the level of trust to credit institutions. Social acceptability of fiscal regulations governing them is an important constituent of the trust. In order to verify this thesis the paper presents results of a survey conducted in Bielsko-Biała – a city with county rights. The survey aimed at assessment of functioning of commercial banks in three main aspects:

²http://cbos.pl/spiskom.pol/2012/k_145_12.pdf of 6 May 2016.

³ <https://zbp.pl/wydarzenia/archiwum/komentarze/2015/maj/polacy-podtrzymuja-pozytywna-ocene-sektora-bankowego> of 6 May 2016.

- their profitability,
- amount of tax paid to the state budget,
- terms and conditions of the financial services offered.

1. Taxation of bank activity in Poland in comparison to other countries

A fundamental function of each tax is its *fiscal* function securing inflow of financial resources into the state budget. Apart from fiscal function there are three more equally important functions: *distributive*, *information* and *stimulating*. The last function is of special significance in the process of bank related tax changes as such changes condition further development and functioning of the sector. Simultaneously, the level of development of the banking sector influences the quality and costs of banking services which, in turn, condition the behaviour patterns of customers. The stimulating function is based on diversification of tax rates and, additionally, on other fiscal burdens such as for instance the bank tax. Fiscal changes which are currently introduced into the banking sector, which belongs to the public trust realm, have a direct impact on the real as well as social sphere. The future consequences of these changes may not be fully foreseen at the moment.

The solutions regarding taxation of banks are truly diversified across the globe. After the financial crisis of 2007-2008 many countries, especially in the European Union, amended their tax policy with respect to banks or introduced completely new taxes⁴. Such steps were the consequence of the financial aid that the EU member states had to offer to the banking sector. The European Commission calculates that the aid amounted to about 16,5% of the EU GDP⁵. No wonder then that the EU countries wished to reclaim the incurred costs. The characteristics of taxes levied on banks in the European Union in the post crisis period are presented in Table 1.

⁴The tax system in force in the pre-crisis economy was preferential for the banking sector, see more in: M. Kenn, *The Taxation and Regulation of Banks*, IMF Working Paper 2011, no WP/11/206, p. 3, <https://www.imf.org/external/pubs/ft/wp/2011/wp11206.pdf>

⁵ EC, *Crisis Management*, Key Policy Issues.

Tab. 1. Characteristics of additional taxes levied on banks in EU countries.

Country	Year of implementation	Form of taxation	Tax revenue
Austria	2011	Liabilities excluding equity and insured deposits and some other liabilities	Central budget, Stabilisation Fund (2012-2017)
Belgium	2012	Liabilities excluding equity and insured deposits	Stabilisation Fund
Finland	2013	Risk-weighted assets	Central budget
France	2011	Minimum Capital Requirement (tax exemption 500 million EUR)	Central budget
Germany	2011	Liabilities and derivatives excluding equity and insured deposits	Stabilisation Fund
Slovakia	2012	Liabilities excluding equity and subordinated debt and long-term intracompany liabilities	Stabilisation Fund
Sweden	2009	Liabilities excluding equity, subordinated and intracompany liabilities	Stabilisation Fund
Hungary	2010	Assets excluding interbank and corporate loans	Central budget

Source: own elaboration based on: L. Pawłowicz, Stanowisko Instytutu Badań nad Gospodarką Rynkową wobec opodatkowania banków w Polsce, www.ibn.gr.pl

The above mentioned taxes introduced in the EU countries were aimed at increasing financial resources within their stabilisation funds so they were a typical anti-crisis instrument⁶. Hungary applied a slightly different approach according to which monetary inflows from the new tax become a source financing state expenditure.

Financial inflows from the bank tax to the central budget do not mean that the obtained financial resources will not become an anti-crisis instrument (e.g. France, Finland or Austria). In Poland the resources accumulated in the Bank Guarantee Fund are counted, as of 1st September 2015, into the public finance. This is connected with the

⁶It is confirmed by the name of the tax introduced in the USA in 2010: *Financial Crisis Responsibility Fee*.

amendment to the Act on Public Finance of 22nd July 2015 which put the Bank Guarantee Fund under stabilizing expenditure rule.

It should also be emphasized that on the international arena a number of steps have been taken in order to create new regulations which would serve as foundations for financial markets, enable a bigger range of supervision activities and help rebuild trust for financial institutions. Taking into account doubtful effects of the activities undertaken so far by the governments of countries to improve the situation on their domestic markets, the postulate of introduction of yet another bank tax (e.g. FTT⁷) and creation of a banking union consisting of three pillars is voiced louder and louder⁸.

Development of a balanced, coherent and transparent approach to a separate taxation of financial sector is necessary from the perspective of achieving the general aim of respecting the rule of fair competition, reduction of cases of its violation and providing reliable protection of financial stability. It is of particular importance in the European Union where introduction of various systems of bank tax could hinder the process of financial integration through fragmentation on fiscal, regulatory and supervisory level⁹.

2. Methodology and results of studies

The survey was conducted on a randomly selected group of respondents from the city of Bielsko-Biała, located in the southern part of the Silesian Voivodeship, with population of 173.013 citizens (as of 31 December 2014) The city occupies 22nd place in terms of population in Poland¹⁰. The author distributed 400 copies of the questionnaire. Such

⁷ Financial Transaction Tax.

⁸ First pillar, which in fact already exists is based on uniform rules of savings protection up to 100 thousand Euro in the UE (single deposit guarantee scheme – SDGS), the second aims at strengthening of the European Central Bank, which is supposed to supervise all banks whose assets exceed 30 billion EUR (single supervisory mechanism – SSM). Efficient supervision, the third pillar, should embrace possibility of closing down an endangered bank (single resolution mechanism –SRM).

⁹ https://www.bankingsupervision.europa.eu/ecb/legal/pdf/pl_con_2016_1_f_sign.pdf of 5 June 2016.

¹⁰ <http://stat.gov.pl/obszary-tematyczne/ludnosc/ludnosc/ludnosc-stan-i-struktura-ludno-sci-oraz-ruch-naturalny-w-przekroju-terytorialnym-stan-w-dniu-31-xii-2014-r-,6,18.html> of 7 June 2016.

a number guarantees statistical inference with 95% level of trust with the assumed statistical error below 5%. Demographic variables such as: place of residence, sex, age, education, number of people in the household, monthly gross revenue, professional status, place of professional activity, and marital status in study were chosen randomly. The demographic structure of the research sample is shown in Table 2.

Table 2. Demographic structure of research sample.

Criterion	Groups	Number	Percent structure
All respondents		400	100%
Sex	man	213	53%
	woman	187	47%
Age	below 19 years	17	4%
	20-30 years	56	14%
	31-40 years	79	20%
	41-50 years	13	28%
	51-60 years	66	16%
	61-70 years	42	10%
	over 71 years	27	8%
Place of residence	Bielsko-Biała	389	98%
	outside Bielsko-Biała	11	2%
Education	higher education	134	33%
	secondary education	163	41%
	vocational education	58	15%
	basic education	45	11%
Number of people in the household	1	67	17%
	2	89	22%
	3	167	42%
	over	77	19%
Monthly gross revenue	below 1850 PLN	21	5%
	1.851 -3.500 PLN	127	32%
	3.501 -5.500 PLN	159	40%
	5.501 -7.500 PLN	44	11%
	7.501 -9.500 PLN	31	8%
	over 9500 PLN	18	4%

Social acceptance of profitability of polish banks...

Criterion	Groups	Number	Percent structure
Professional Status	student	67	17%
	manual worker	127	32%
	administrative employee	114	28%
	pensioner	74	18%
	unemployed	6	1,75%
	manager, director	2	0,5%
	freelancer	5	1,75%
	company owner	3	0,5%
	house keeper	1	0,25%
	other	1	0,25%
Marital Status	single	36	9%
	living with partner	112	28%
	married	221	55%
	divorced, in separation	16	4%
	widow, widower	15	4%

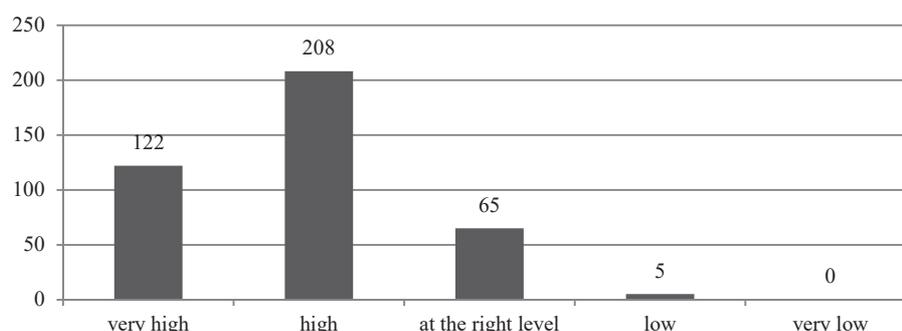
Source: own elaboration.

The respondents were asked to answer ten questions on functioning of commercial banks in Poland and directions of their development with respect to the following aspects:

- their profitability,
- amount of tax paid to the state budget
- terms and conditions of the financial services offered.

The survey was conducted between 8th and 14th February 2016. The results are shown below in the form of graphs and commentary from the author.

Graph 1. How do you evaluate financial results achieved by Polish commercial banks?

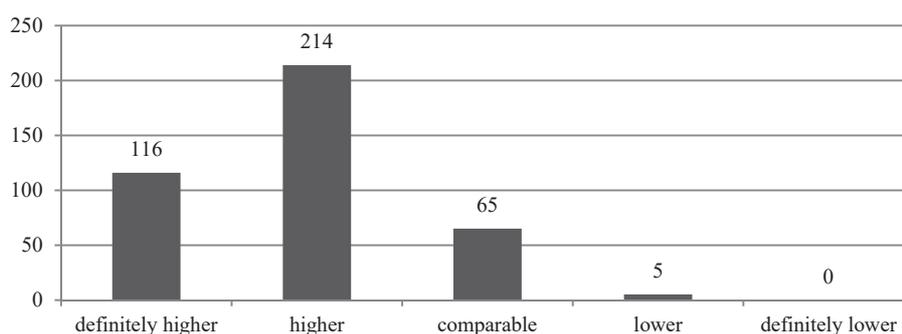


Source: own elaboration based on results of the survey.

More than half of respondents thought that financial results achieved by Polish commercial banks were *high*, 30% thought they were *very high*. Only 2% of respondents expressed a view that the results were *low* and none said they were *very low*. Due to a very large group of respondents who evaluated the financial results of Polish banks as *high*, *very high* and *at the right level*, the analysis of demographic variables was conducted only for those respondents who were of opposite opinion. It turned out that the respondents who valued the incomes of banks as *low* were men aged 31-40 and 41-50 with higher education and monthly net income over 5.501 PLN. They described their professional status as manager, director (2 persons), freelancer (2 persons) and 1 student. In the author's view these people probably possessed knowledge of actual financial results achieved by banks and their role in the economic growth. It is possible that these people were employees of the banking sector. Data show that net financial profit realized by the banking sector from January to September 2015 amounted to 11.423 million PLN and was 1.548 million PLN (11.9%) lower than a year before. Worse results were observed in case of 455 entities in possession of 76.4% of the sector's assets, while 16 entities generated a joint loss of 208 million PLN. The consequence of deterioration of financial results in the banking sector was worsening of basic efficiency ratios such as for example increase of the cost ratio (from 50.39 in the period January-September 2015 to 54.21 in the same period 2016), lowering of the interest margin

(from 2.90 to 2.53), decrease in ROA (from 1.18 to 0.98) and ROE (from 10.98 to 9.09)¹¹.

Graph 2. How do you judge financial results of Polish commercial banks in comparison to other enterprises?



Source: own elaboration based on results of the survey.

The answers provided by respondents show that more than 82% of them believe that financial results of Polish commercial banks are *higher* or *definitely higher* when compared to companies from other sectors. However, this widely held belief of high profitability of banks, which was true about the pre-crisis economy, does not find reflection in today's reality. During the 2008-2009 crisis, ROE for the banking sector was similar to other sectors in the economy¹².

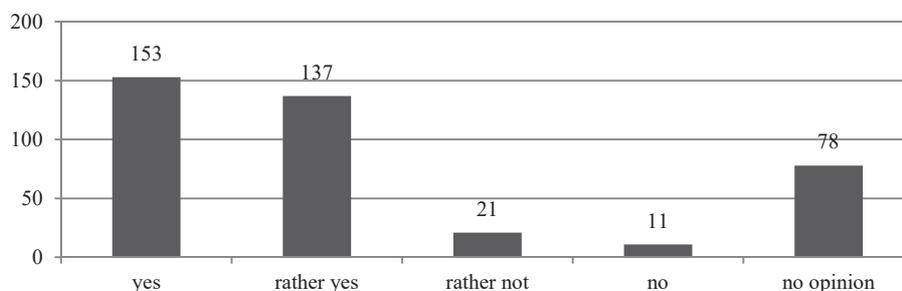
Also interest income with respect to average assets in the Polish banking sector in the period 2008-2014 decreased from 3.3% to 2.5%, and net commission income in the same period fell from 1.2% to 0.9%. This situation was partly compensated by reduction in operating costs from 3.0% to 2%¹³.

¹¹http://www.knf.gov.pl/Images/RAPORT_O_SYTUACJI_BANKOW_III_2015_tcm75-43906.pdf

¹² Report of Deloitte and Research Institute for Market Economy, *Rentowność sektora bankowego w Polsce*, Warszawa-Gdańsk 2015, [after:] L. Pawłowicz, *Stanowisko Instytutu Badań nad Gospodarką Rynkową wobec opodatkowania banków w Polsce*, p. 2., www.ibngr.pl/.../Stanowisko_IBnGR_wobec_opodatkowania_bankow

¹³ Based on the data from the National Bank of Poland and the Financial Supervisory Authority.

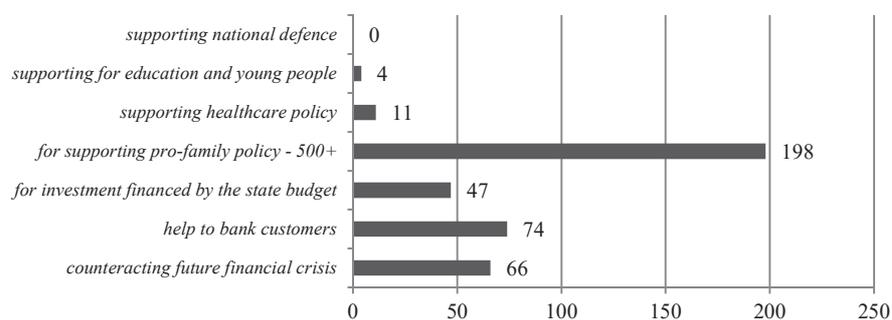
Graph 3. Do you think it's a good idea to introduce bank tax in Poland?



Source: own elaboration based on results of the survey.

The majority of respondents (more than 72%) supported the idea of introduction of bank tax. The respondents who answered *yes* or *rather yes* to this question were predominantly women, respondents with secondary education, professional training or basic education with monthly salary of 1.851-3.500 PLN and 3.501-7.500 PLN, of professional status of a manual worker, administrative employee and pensioner. On the other end, the respondents who were against introduction of bank tax were people with higher education, single or living with a partner with net income above 7.501 PLN. Respondents who did not express their for or against opinion were married and had one or more children. Majority of people with *no opinion* lived outside Bielsko–Biała.

Graph 4. How should the money from bank tax be spent?



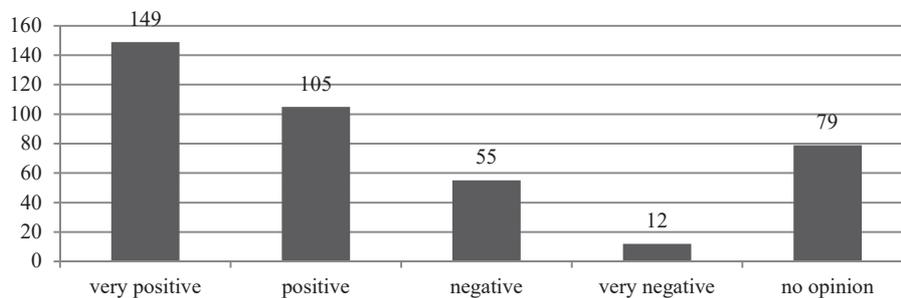
Source: own elaboration based on results of the survey.

Almost half of respondents said the money from the bank tax should be spent on pro-family policy. The supporters of this solutions were predominantly women (over 70%), people aged 31-40 (over 55%) and 41-50 (over 58%), people with higher education (over 52%), people with secondary school education (almost 65%), married people (over 85%).

Nevertheless, considerably large proportion of respondents would spend the money to support stability of the banking sector (66 respondents favoured the option related to counteracting future financial crises, 74 chose help for bank customers). This group consisted of company owners, managers and students.

Women were more often in favour of supporting pro-family policy with the money generated through the bank tax, men would rather see this money go on counteracting future financial crises and help to bank customers. Only 15 people would spend this money on healthcare or education.

Graph 5. Does financing the Family 500+ programme from the bank tax seem a good idea for you?

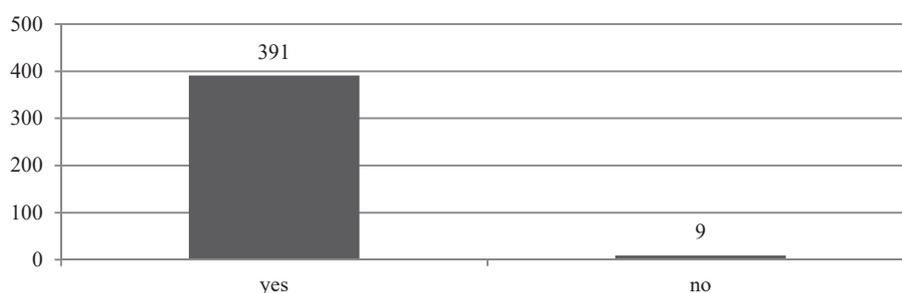


Source: own elaboration based on results of the survey.

More than 63% of respondents rated the idea of financing the Family 500+ programme from bank tax as *positive* or *very positive*; less than 20% had *no opinion*. Payments of 500+ programme from this particular source of financing may contribute to growth in trust for the banking sector; and trust is an indispensable factor for the stability of the sector and its development. Most enthusiastic about this solution were women (more than 65% of *very positive* answers), young respondents (16 out of 17 respondents from the age group below 19), respondents with elementary and vocational education, but also 98 out of 134 respondents with higher education. What is interesting, respondents *very positive* and

positive about financing Family 500+ programme being financed from the bank tax were found in all income categories. It stems from the fact that this particular social benefit is aimed at satisfaction of all kinds of children's needs and is hoped to positively impact the birth rate in Poland¹⁴.

Graph 6. Do you use financial services in credit institutions?



Source: own elaboration based on results of the survey.

Almost all respondents to the survey (97.7%) declared they were using bank services. Only 9 respondents declared otherwise, they were either pensioners, persons out of work or housekeepers. What is important, 7 of them rated the idea of financing Family 500+ programme from bank tax as *very positive* and the remaining 2 as *positive*.

The next question in the survey related to the kinds of banking services the respondents use in their respective banks. The respondents ticked the following options:

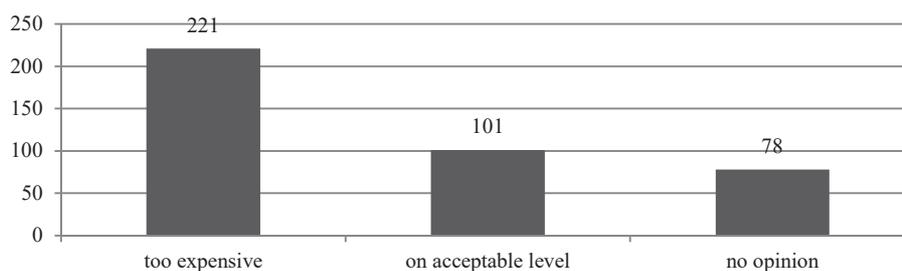
- deposits – 121 respondents,
- loans and credits – 162 respondents,
- savings and settlement accounts – 365 respondents,
- other services – 6 respondents.

The most popular bank service turned out to be the savings and settlement account. Loan and credit users usually had *positive* (42 respondents) and *very positive* (65 respondents) opinion about introduction of the bank tax. Among respondents with deposits the prevailing opinion about the bank tax was that it should be used to

¹⁴Currently the fertility rate for Poland is 1.3 per woman (in 1983, for example, it used to be 2.42).

counteract future financial crises (36 respondents) and to help customers of banks (27 respondents).

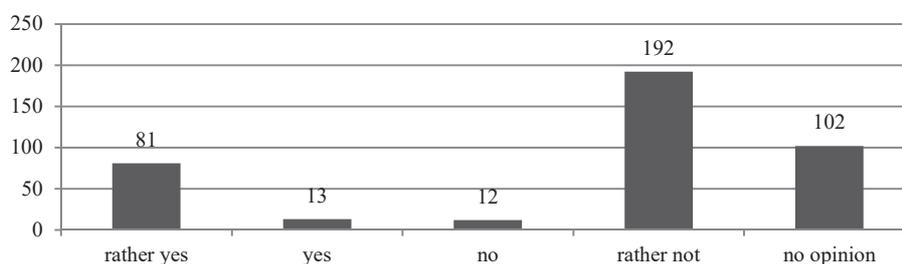
Graph 7. In your opinion, financial terms and conditions of bank services are:



Source: own elaboration based on results of the survey.

More than 55% of respondents pointed out that fees and charges for bank services are too expensive. Nevertheless, according to a survey carried out by CBOS, almost all respondents (cash card users) were satisfied with their respective banks (93%), while one third (31%) declared high level of satisfaction with the bank services they used. Only few respondents expressed dissatisfaction with their bank or had no opinion about the bank in which they had their bank account¹⁵. It should be noted that almost 20% of respondents had no opinion about financial conditions offered by their bank for the services rendered. This may suggest that raising bank charges and fees will probably not translate into mass migrations of clients to other banks.

Graph 8. Do you trust Polish banking sector?

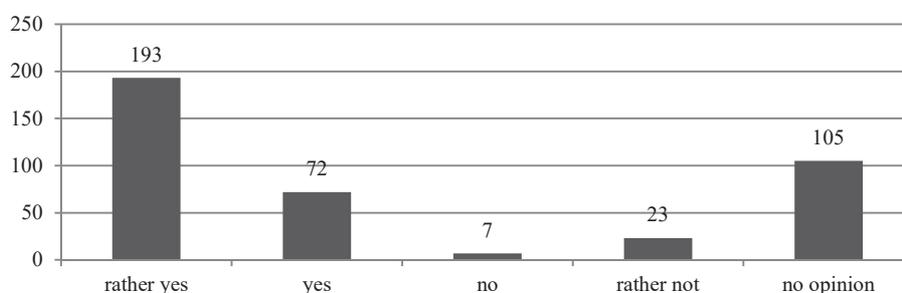


Source: own elaboration based on results of the survey.

¹⁵http://www.cbos.pl/SPISKOM.POL/2012/K_139_12.PDF

Answers to this question show low level of trust the respondents put in the Polish banking sector. Those who replied *rather yes* or *yes* (94 persons) to the question *Do you trust Polish banking sector?* are more or less the same people who earlier evaluated the financial results of banks as *very high* (37 people) and *high* (48 people). More than 25% of respondents had *no opinion* whether they trust the Polish banking sector or not and 80% of respondents from this group earlier rated the financial results of banks as *high* and *very high*.

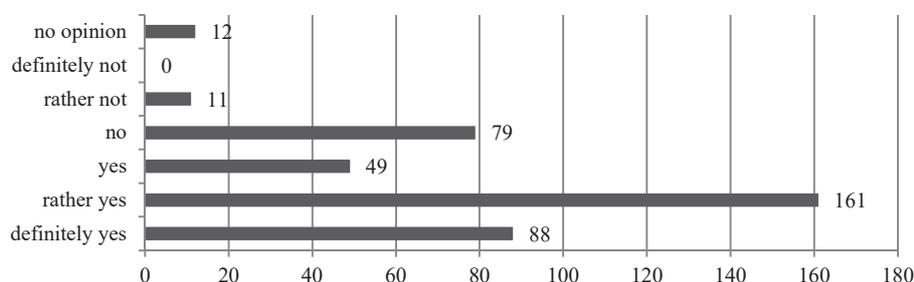
Graph 9. Do you trust your financial institution?



Source: own elaboration based on results of the survey.

The respondents seemed to put much more trust in their own financial institution rather than in the financial sector as a whole. However, considerably large number of people who expressed no opinion is worth reflecting upon.

Graph 10. Is introduction of bank tax in your opinion an action contributing to improvement of social and economic situation in our country?



Source: own elaboration based on results of the survey.

Almost 75% of respondents pointed out that introduction of the bank tax is an action contributing to improvement of social and economic conditions in our country. Positive verification of the introduced changes may help rebuild the trust people put in financial institutions which through their activities started to feed the state budget with financial resources which are spent as social expenditure. Justification to Act on Tax on Certain Financial Institutions states that raising VAT by 1% (as of 1 January 2011) increased the fiscal burden of taxpayers by a sum close to estimated state budget revenue by virtue of the tax. Further the justification reads that changes to VAT explain such mode of introducing changes to enable greater participation of the financial sector in fiscal burden as it happens in other European countries.

Conclusions

The research that has been conducted so far shows that introduction of the bank tax in Poland has been positively received by the general public. There are two main reasons for this: first, the banks are viewed as institutions generating unproportionally high revenues as compared to other sectors of the economy, it is also worth highlighting that banks' own equity is represented by foreign shareholding; the second reason, revenue from the bank tax is used to finance a pro-family programme Family500+. A number of experts fears that additional burdens imposed on banks may trigger lowering of their credit growth what, in turn, could slow down the economy. However, for ordinary people, what has been confirmed by research, the changes mean something completely different. They mean restricting the preferential treatment towards bank activity and real support for pro-family policy in Poland. Early statistics based on data from EU-SILC 2013¹⁶ show that Family500+ may reduce the level of poverty by about 5%, and the risk of poverty among children under the age of 17 (it is expected to decrease from 23.3% in 2013 to about 11%). On top of that, opinion polls show that the main obstacle to having more children is lack of stable financial situation in Polish families. The program Family 500+ is hoped to have a positive impact on the birth rate in Poland¹⁷. Therefore, introduction of the bank tax proved

¹⁶ EU Statistics on Income and Living Conditions.

¹⁷ <https://www.mpips.gov.pl/wsparcie-dla-rodzin-z-dziecmi/rodzina-500-plus/dokumen-ty-i-opracowania/wplyw-programu-rodzina-500-plus-na-zagrozenie-ubostwem/>

to gain wide social acceptance and at the same time it may contribute to the increase of public trust to the financial sector.

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