

## HMT CONSULTATION - RESTRICTING TAX RELIEF FOR BANKS' COMPENSATION EXPENDITURE

### Response from Barclays

Barclays' submitted a response to this HM Treasury consultation on 4 June 2015. This document is a summary of the key points made.

- For the purposes of treating compensation payments as non-deductible for the purpose of corporation tax, Barclays' favours a definition of compensation which aligns as closely to possible with the regulatory regime.
- As there doesn't appear to be a purely regulatory definition of compensation that equates precisely with the type of compensation payments which the consultation describes, Barclays' suggests a definition based on DISP 1.3.6 of the FCA Complaints Handbook.
- Specifically, Barclays' suggests the following definition:
  - Compensation payments in respect of products which give rise to cases of the type described within DISP 1.3.6 of the FCA Complaints Handbook, where the compensation arises in respect of a substantial group of customers and is not as a result of addressing routine, operational or administrative errors.
- Our view is that this definition should identify cases of sufficient seriousness that they are viewed as recurring or systemic, such as compensation payments in respect of PPI and interest rate hedging products, but would ensure restrictions do not apply to errors that are routine, operational or administrative.
- Barclays' considers other approaches to defining compensation appropriately, but we conclude that these risk not capturing the same degree of benefit captured by close alignment to the regulatory regime.
- Because of the number of challenges to defining compensation appropriately, another alternative suggested is that HM Treasury maintains the power to specify by regulation, from time to time, that compensation in connection with particular products or activities in non-deductible.
- We also propose that any interest which is paid in connection with compensation should continue to be deductible for corporation tax purposes, that non-cash compensation should continue to be treated as deductible and that legal fees and administrative costs should also be treated as deductible.
- We agree with the proposed approach of determining the amount of expenditure which is to be non-deductible by following the accounts, denying a tax deduction for the relevant accounting provisions when made, and treating any provision as non-taxable.