Bank tax cuts loopholes, reduces rates

Proposal also provides unneeded help to big banks

Zach Schiller

Ohio Gov. John Kasich has proposed a new tax, called the Financial Institutions Tax, to replace existing taxes that cover banks, savings institutions, mortgage and securities brokers, payday lenders, and other financial institutions. The goal, according to Timothy S. Keen, director of the Office of Budget & Management, is to complete some unfinished business from the state's 2005 tax overhaul. He told the House Ways & Means Committee in March that it is "intended to close loopholes that increasingly threaten the viability of the existing bank tax structure, while lowering rates for most Ohio banks."[1]

Key findings

- The new tax would cut tax loopholes, a good thing, but unwisely give the extra revenue to banks
- Just a dozen of the biggest institutions are likely to benefit from a special, bigger rate cut for the largest banks
- Redistributing state taxes among banks isn't likely to do much for the Ohio economy
- Additional revenue should go to remedying the foreclosure crisis and restoring other service cuts

The bank-tax plan indeed would close key loopholes that have reduced revenue from the corporate franchise tax and favored those large, multistate institutions with the resources to take advantage of them. However, it would then transfer the gains from closing loopholes back to banks in the form of lower rates. This will deprive the state of much-needed revenue. Just a dozen of the biggest institutions are likely to benefit from a special, bigger rate cut for the largest banks—and they would get a substantial share of the rate cut. The plan also will favor the biggest multi-state institutions with a major presence in Ohio, which will benefit from a new formula for determining what share of a bank's operations is in Ohio.

Since many Ohio banks already are "flush with cash," as a representative of the industry puts it, cutting their taxes is unlikely to lead to new lending and spark the state's economy. Instead, tax rates should be maintained, and all institutions, including payday lenders, mortgage brokers and other "dealers in intangibles" should pay the same 1.3 percent rate on equity capital that banks pay now. Additional revenue that results should be used first to provide aid to combat the foreclosure crisis, and then to restore public services that were undercut in the current state budget.

The corporate franchise tax, the main tax covering banks and savings institutions, was Ohio's corporate income tax until 2005. That year, the General Assembly voted to phase out the tax for nearly all non-financial companies in favor of a tax on gross receipts, the Commercial Activity Tax

[1] Timothy S. Keen, Director of the Office of Budget & Management, Testimony to the House Ways & Means Committee, March 21, 2012.

(CAT). That left Ohio as one of just six states in the country without a general state tax on corporate profits.[2]

The franchise tax remained, however, for banks and savings institutions, which pay it based on their net worth. In Tax Year 2010, it covered 381 institutions, including 254 banks, 93 savings institutions and 34 others. Their liabilities under the tax added up to $166 million after subtracting $9 million in credits.[3] Another 1,060 companies were liable for $12 million after credits because as part of the 2005 tax overhaul, the General Assembly allowed certain affiliates of banks and insurance companies along with securitization companies to pay the franchise tax instead of the CAT.[4] Separately, another tax covers payday lenders, mortgage and securities brokers, finance companies and other "dealers in intangibles." This tax is a remnant of the days when Ohio had a wealth tax on stocks, bonds and other intangibles, and a tax on those who did a business in them. The tax on intangibles itself was ended in the 1980s, but the tax on dealers remains. It is paid at a rate of only 8 mills, or 0.8 percent, versus the franchise tax, which has a 13-mill or 1.3% rate.

In place of these taxes, the Kasich proposal would create a Financial Institutions Tax (FIT). Its main features are:

- It would apply to all financial institutions regardless of how they are organized.[5]
- Company reports to the Federal Reserve Board or other federal regulators would determine their equity capital, on which they would be taxed. These reports are to be filed on a consolidated basis, aimed at eliminating shifts in net worth between affiliates that have undercut the franchise tax.
- The amount would be determined first on what share of their overall gross receipts are in Ohio. This would be based on where customers receive the service, not where the company performs it.
- After this "Ohio equity capital" is determined, taxpayers would pay a rate of 0.8 percent; for equity over $500 million, the rate would dip to 0.25 percent. Each institution would pay a minimum $1,000.[6]
- Companies would be allowed to use seven existing tax credits against the new tax.
- It would be expected to produce $225 million a year in revenue, or the same amount as current taxes would raise, according to the taxation department.

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[2] See Zach Schiller, Policy Matters Ohio, *Report to the Ohio Budget Planning & Management Commission,* August 2010, available at www.policymattersohio.org/wp-content/uploads/2011/10/BPMC2010.pdf, and *Business Tax Revamp: A Deficit in the Making*, January 2009, available at http://bit.ly/I3aHbs.

[3] Ohio Department of Taxation, Tax Data Series, Corporate Franchise Tax, Number of Financial Institutions and Reported Tax Liability, By Type of Institution, Tax Year 2010, Table CF-5, No. 34 (2011), July 13, 2011, available at www.tax.ohio.gov/divisions/tax_analysis/tax_data_series/corporation_franchise/cf5/CF5TY10.stm

[4] Ohio Department of Taxation, Tax Data Series, Corporate Franchise Tax: Number of Corporations and Reported Tax Liability, by Tax Base and Industry, Tax Year 2010. Available at http://bit.ly/Ih1sng. These companies pay under the old formula, so a small share of them – 103 companies in Tax Year 2010 – pay based on their net income.

[5] All financial institutions would be subject to the tax, but owners of S Corporations and other "pass-through entities" that are financial institutions would get a credit on their personal income tax for their share of the amount in FIT paid by the financial institution.

[6] The current minimum for the franchise tax is $50, but rises to $1,000 for institutions with at least 300 employees or annual gross receipts of $5 million or more.

According to proponents, the proposal is revenue-neutral; it would raise the same amount of revenue that is collected now from the taxes it would replace. The taxation department has estimated that financial institutions are using "tax planning" – legal use of the tax code to avoid taxes that otherwise would be due—to avoid $30 million a year in what they would otherwise pay. "The fragmented Ohio tax structure for companies engaged in financial services, as well as certain features associated with those taxes, gives an opportunity for firms to engage in tax reduction techniques," Commissioner Joseph Testa of the Ohio Department of Taxation said in an appendix to testimony in March before the House Ways & Means Committee. "Some firms have become aggressive in an apparent quest to substantially avoid Ohio taxes."[7]

One of the biggest opportunities for such tax avoidance is the franchise-tax exemption for goodwill, appreciation and abandoned property that the taxation department has valued at $119.6 million in revenue in Fiscal Year 2012.[8] Commissioner Testa provided an example in his testimony.[9] In this instance, a bank might contribute its Ohio loan portfolio to an out-of-state subsidiary holding company that in turn contributes the portfolio to a subsidiary real estate investment trust (REIT). When the REIT pays dividends on its earnings to the holding company, it results in appreciation of the bank's investment, which will be excluded from the bank's Ohio net worth. In some cases, Testa said, this can so reduce the bank's liability that it only pays its $1,000 minimum tax.

In another example he cited, a bank transfers its Ohio loan portfolio to a subsidiary that is not a bank, but a dealer in intangibles. "This allows the bank to reduce its net worth which is taxed at 13 mills and instead have the net worth attributed to the dealer in intangibles, so it is taxed at the lower rate of 8 mills," Testa said. As the commissioner noted, the new tax would eliminate these kinds of tax avoidance by calculating the tax based on the consolidated results of the entire banking corporation.

Two previous studies of the state tax system have called for the elimination of the dealers in intangibles tax.[10] Policy Matters Ohio also previously has questioned why payday lenders and mortgage brokers should be able to pay a lower rate than banks and savings institutions, as well as possible abuses involving the goodwill and appreciation exemption.[11] Governor Kasich deserves applause for moving to end these inequities. This would broaden the base of the tax, which is generally accepted to be good tax policy.

However, he would take the additional revenue that otherwise would be forthcoming and use it to reduce rates. Instead of paying the current 1.3 percent, banks would pay just 0.8 percent, with a further reduction to just 0.25 percent for equity over $500 million. Only a small number of large institutions are likely to benefit from the 0.25 percent rate: According to taxation department

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[7] Joseph Testa, Tax Commissioner, Testimony on Tax Provisions of House Bill 487, Exhibit C, House Ways & Means Committee, March 21, 2012, p. 15.

[8] State of Ohio, The Executive Budget, Fiscal Years 2012 and 2013, Book Two: The Tax Expenditure Report, prepared by the Ohio Department of Taxation, Joe Testa, Tax Commissioner, available at http://bit.ly/Im78k5.

[9] Joseph Testa, Tax Commissioner, Testimony on Tax Provisions of House Bill 487, House Ways & Means Committee, March 21, 2012, p. 3.

[10] Bahl, Roy, ed., "Taxation and Economic Development: A Blueprint for Tax Reform in Ohio," Battelle Press, 1996, and Report of the Committee to Study State and Local Taxes, Created in Accordance with Am. Sub. Senate Bill 261 of the 124th General Assembly, March 1, 2003

[11] Schiller, Zach, *Limiting Loopholes: A Dozen Tax Breaks Ohio Can Do Without*, Policy Matters Ohio, September 2008, available at www.policymattersohio.org/limiting-loopholes-a-dozen-tax-breaks-ohio-can-do-without

simulations, there would be 12 financial institutions or groups, which could include banks, associated dealers, and associated holding companies, with Ohio equity capital of over $500 million.[12] Moreover, it is evident that small number of companies would receive a substantial portion of the overall tax reduction.[13]

The Kasich administration has estimated that a few banks that have been using loopholes and some out-of-state institutions will see their taxes go up by about $30 million annually, but that almost all other Ohio banks will see their combined total tax burden cut by approximately that amount..[14] The new tax is touted as a tax reduction for small neighborhood banks, which could see up to a 39 percent reduction in their taxes. Testa testified that, “Establishing a level playing field for all Ohio banks, especially small, neighborhood banks and cutting taxes for the vast majority of banks will free up more money for banks to reinvest in their communities and create jobs, and to focus their energies on those productive activities.”[15]

It isn’t clear who will be the biggest beneficiaries of this windfall, but it’s likely that a number of the biggest Ohio banks will get a large piece of it. The idea that cutting bank taxes will fuel more lending and a stronger economy is misplaced. And the long-term stagnation in tax revenues from Ohio banks and financial institutions suggests that the Kasich administration set the target revenue for the tax too low.

Reducing tax rates and leaving banks with more of their earnings does not equate to more loans and business activity. Ohio banks have had money to lend, but have been chary about lending it because they don’t see what they think are good prospects. Mike Adelman, vice president for state government relations of the Ohio Bankers League, testified before the Ohio House Ways & Means Committee on March 27, “A lot of banks and thrifts right now are flush with cash. The big challenge I hear about as I travel the state is the lack of demand.” Many business owners have hunkered down, Adelman asserted, and “haven’t needed to expand…that certainly is tough on a lot of banks and thrifts.”[16] While he added that the rate cuts in the proposal would position Ohio banks to lend more as the economy improved, stronger recent financial performance by Ohio banks does not support his assertion.

In fact, it is clear that Ohio banks are doing well, and are in no need of a tax cut. In a Feb. 28 press release entitled “Bumper Quarter for Ohio Banks,” the Ohio Bankers League cited data from the Federal Deposit Insurance Corp. on how net income had risen 18 percent in the fourth quarter of 2011 “as Buckeye financial institutions continue to gain strength.” It noted that loans and leases had

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[12] E-mail from Frederick Church, Ohio Department of Taxation, April 5, 2012. The simulation depends on estimates of one major unknown: What share of equity capital is in Ohio according to the new formula for doing so.

[13] The tax base will grow very substantially with the FIT. As noted above, the taxation department previously has estimated that the franchise tax exemption for goodwill, appreciation and abandoned property alone is worth $119.6 million in Fiscal Year 2012. That exemption, worth well over half of the franchise tax being collected from financial institutions, is to be eliminated. Yet the general cut in the tax rate will be less than that. This helps explain that a notable chunk of the tax savings will go to the big institutions in that lower tax bracket.

[14] Governor John Kasich, Mid-Biennium Review, Management Efficiency Plan: Bank Tax Reform, available at www.governor.ohio.gov/Portals/0/FINAL%20Bank%20Tax%20Reform.pdf

[15] Testa testimony, p. 4

[16] Adelman, Mike, answer to a question during meeting of Ohio House Ways & Means Committee, March 27, 2012

increase in 2011 "backed by strong capital levels, sharply declining problem assets and an inflow of deposits."[17]

The banking industry has grown since the mid-1990s in Ohio: Bank deposits at Ohio institutions insured by the Federal Deposit Insurance Corp. increased by more than $90 billion, or 70 percent, between 1995 and 2010; between 2000 and a decade later, deposits grew by 37 percent.[18] According to the U.S. Bureau of Economic Analysis, Ohio Gross Domestic Product from the financial subsector that includes lending, mortgage brokerage and other services grew by 88 percent between 1997 and 2009,[19] the most recent year for which data are available.

Yet the main corporate tax that banks pay, the franchise tax, has been relatively stagnant. In part because of increases in capital required by regulators, revenues from the franchise tax grew in 2010. And exact long-term comparisons are difficult to come by, in part because before 2002, taxation department data do not include tax credits shown each year as of that year.[20] But in Tax Year 2011, financial institutions were liable for only 7 percent more in franchise tax than in 2002. [21] Overall, the taxes that the FIT would replace are considerably lower in inflation-adjusted terms than they were in 1998. Figure 1 below shows how financial institutions' liabilities under the corporate franchise and dealers in intangibles taxes changed over time, compared to the BEA measure of output from that financial subsector.

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[17] Ohio Bankers League, "Bumper Quarter for Ohio Banks," Feb. 28, 2012, available at www.ohiobankersleague.com/

[18] Federal Deposit Insurance Corp., Summary of Deposits: Summary Tables Report, State Totals by Year Time Series, All FDIC-Insured Institutions, Summary of Deposits as of June 30, available at www2.fdic.gov/sod/SODSumReport.asp.

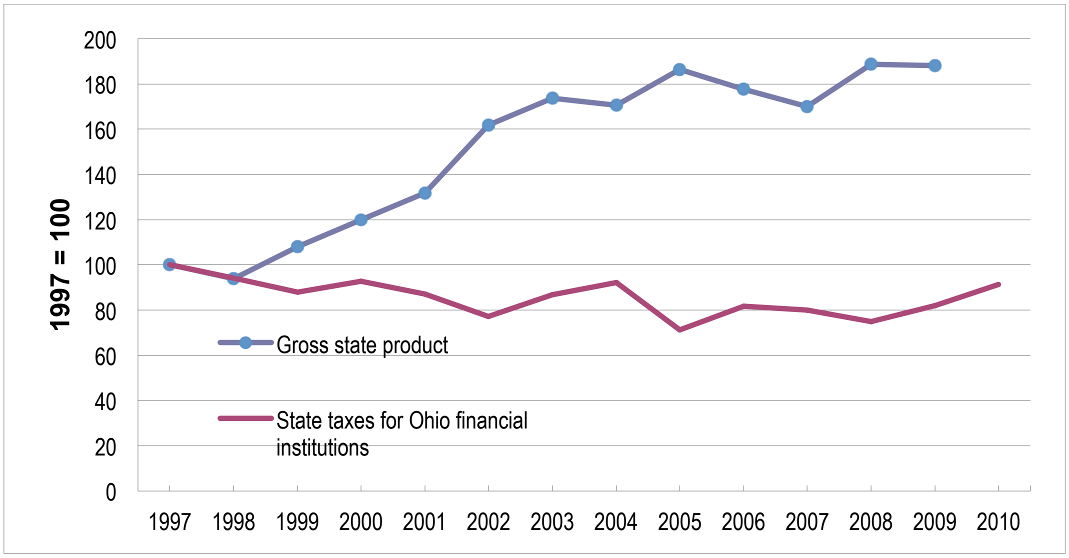
[19] U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data, GDP and Personal Income, GDP by State, Index, for Federal Reserve banks, credit intermediation and related services (subsector 151), Ohio, available at www.bea.gov/iTable/iTable.cfm?ReqID=70&step=1&isuri=1&acrdn=1

[20] Figure 1 includes figures for franchise tax after credits beginning in 2002, when such data first was reported. Data for previous years probably does not include credits, according to the taxation department, but at that time, credits were not very significant relative to the overall tax. Another factor also clouds historical comparisons to a degree: Today's franchise tax, as noted, covers 1,060 companies that are either affiliates of financial institutions or insurance companies, or securitization companies. Together, these companies were liable after credits for $12 million in 2010. Most of them will be covered by the new FIT, and the $12 million has been included in estimates of how much the new FIT will raise each year. However, most of them were lumped together with the nonfinancial companies that used to pay the franchise tax. Thus, Figure 1 does not include these companies. See also next footnote for historical detail on tax changes.

[21] Ohio Department of Taxation, Tax Data Series, Corporation Franchise Tax, available at http://bit.ly/HAM4qb and data for Tax Year 2011 supplied by the taxation department to the author. Rates of the corporate franchise tax were reduced from the previous 15 mills to 14 mills in 1999 and 13 mills in 2000, but even accounting for these reductions, tax liability wasn't much higher in 2010 than it was in the mid- to late 1990s. Meanwhile, collections under the Dealers in Intangibles Tax rose significantly beginning in 2003, when the General Assembly closed a loophole that earlier had allowed such dealers that were controlled by banks or insurance companies to avoid paying the tax.

Figure 1

Changes in gross state product and state taxes for Ohio financial institutions since 1997



Sources: Ohio Department of Taxation, U.S. Department of Commerce, and the Bureau of Economic Analysis.[22]

While the comparison in Figure 1 is a rough one, it's clear that overall, Ohio's existing taxes on financial institutions have not grown with those institutions or kept up with inflation. If bank-only liability before credits for the corporate franchise tax had grown as much as deposits between 2000 and 2010, the tax would have produced $58 million more than the $145 million that it did in 2010.

The Legislative Service Commission has noted that the new Financial Institutions Tax is expected to generate $225 million for the General Revenue Fund in Tax Year 2014, which compares with $258 million in estimated GRF revenues from corporate franchise tax and dealers in intangibles tax that is currently estimated for Fiscal Year 2012.[23] Assuming no growth in revenue between those years, that represents a revenue loss of $33 million, or 12.8 percent. According to the LSC, then, the proposal would appear to be a revenue reduction, not revenue neutral.

However, data from the taxation department show that the taxes the new FIT would replace are currently raising almost $220 million a year. This includes the franchise tax paid by banks and other financial institutions, the franchise tax paid by other companies under the 2005 tax overhaul, and the dealers in intangibles tax (see Table 1). These figures are based on taxes that are liable, not the amount collected. The end of the corporate franchise tax for nonfinancial companies in 2010 has affected collections and caused those figures to bounce up and down because of settlements of old

[22] GSP data is for calendar years. Data for corporate franchise tax is for tax years; dealers in intangibles tax is for amounts certified for collection each calendar year.
[23] Legislative Service Commission, Comparison Document, in House Finance and Appropriations, H.B. 487 of the 129th General Assembly, p. 146, available at www.lsc.state.oh.us/fiscal/mbr129/h1/tax.pdf.

obligations and refunds for taxes overpaid.[24] Thus, the taxation department considers tax liabilities to be a better measure of what is due from financial companies that would be covered by the new FIT. It added $6 million for growth in revenue until the new tax takes effect.

Table 1

Taxes to be replaced by the proposed Financial Institutions Tax

	Tax Year 2010 tax after credits	Tax Year 2011 tax after credits
Corporate Franchise Tax liability from financial institutions	$166,113,303	$167,327,578
Dealers in Intangibles tax liability	$41,732,910	$39,653,596
Corporate Franchise Tax for corporations other than financial institutions	$11,991,758	$12,000,000*
Total taxes to be replaced by FIT	$219,837,971	$218,981,174
Estimated revenue growth up to taxable year 2013		$6,000,000
Financial Institutions Tax target (rounded)		$225,000,000

Source: Ohio Department of Taxation. *Corporate Franchise Tax for non-financial institutions in 2011 is ODT estimate.

Apportionment. The bank tax would be based on how much of a bank's gross receipts were in Ohio. Under the main current formula, banks are taxed according to a three-part formula that includes the share of their property, payroll and sales (sales counts for 70 percent, the other two 15 percent each) that are in the state. This change in what is called "apportionment" is touted by proponents as a plus for the Ohio economy. "Changes in the apportionment factor will help create jobs here," said Adelman of the bankers' organization in his testimony.[25]

However, while it might seem to favor in-state banks, in fact, where this formula has been used with general corporate taxes, it most favors large, multi-state companies with most of their gross receipts in other states or countries. Nor has it necessarily led to greater manufacturing job growth.[26] And Ohio's own experience bears this out: Since adopting the Commercial Activity Tax in 2005, a tax based on gross receipts and not the three-factor formula in the corporate franchise tax it replaced, the state has lost 275,000 or 5.1 percent of its jobs, more than 7 times the rate of job loss in the nation (The nation as a whole has lost 0.7 percent of its jobs over the same time period). Given the relatively small role that state and local taxes play in economic development decisions, proclamations that they will contribute significantly to economic growth should be taken with a very large grain of salt.[27] One small indication of this came with the end of the corporate franchise tax for non-financial companies in Ohio. Some companies, unaware that the tax was phased out in 2010, have continued paying the tax.

[24] Fiscal Year 2011 franchise tax revenues of $237 million included one $27 million settlement, while refunds helped cause revenues to underperform estimates by $37 million during the first nine months of Fiscal Year 2012. Some of these one-time events involve non-financial companies no longer paying the tax on a continuing basis.
[25] Adelman testimony, March 27, 2012
[26] Mazerov, Michael, "The 'Single Sales Factor' Formula for State Corporate Taxes: A Boon to Economic Development or a Costly Giveaway?" Center on Budget and Policy Priorities, Revised September 2005, available at http://bit.ly/IsxbSg.
[27] Ibid, pp. 3-4.

If the state moves to a formula that only covers gross receipts, that will probably reduce the taxes due from some of the biggest banks with major operations in Ohio.[28] The formula used in the proposal would determine which gross receipts were in Ohio or elsewhere based on where the customer benefit is realized, not where the service is performed (similar to the concept in the Commercial Activity Tax). Thus, a company like JPMorgan Chase, which handles business from all over out of its giant Ohio operations, would only find a small share of its capital would be taxed under the Kasich plan. The payroll of its 20,500 Ohio employees[29] and property of its big operations here would not be counted in determining how much it should be taxed—even though those operations depend on police patrols, well-lighted streets, public schools and libraries, and a host of other state and local public services.

Conversely, under the existing three-part apportionment formula, a multistate bank with significant operations in the state would pay relatively more than under a receipts-only formula. There is a second, existing formula that some banks can use, which is based on the share of deposits they have in Ohio. Taxation department officials believe that the state probably lost some revenue when this deposits formula was added years ago, but have no way to know how much. A distinct minority of banks uses this formula, which requires that at least 9 percent of a bank's deposits be in Ohio, among other things.[30]

For small Ohio banks that do business only in the state, it makes no difference which formula is used, since all of their capital would be taxed in any event. This part of the proposal doesn't help small banks, it helps big ones. And while it may appear to tax big, out-of-state institutions operating in Ohio with little on-the-ground presence more heavily, it will be hard to tell unless the proposal includes reporting requirements that allow monitoring of who is paying the tax.

Tax credits. The governor's proposal permits seven tax credits under the new Financial Institutions Tax. These would include the tax credits for job creation, job retention, venture capital loan loss, historic building rehabilitation, New Markets and motion picture production, along with the credit for regulatory assessments paid to the Department of Commerce. It does not specify if credits on the existing taxes will be applicable to the FIT, but officials say that such credits will apply against one tax or another, so no one will lose a credit because of the new tax. Allowing all of these credits to be applied amounts to a lost opportunity to simplify the tax code and reduce unneeded incentives. Seven years ago, when the Commercial Activity Tax was approved, it was ballyhooed as a way to get rid of a patchwork of exemptions, deductions and credits. While it by no means did so, at least only four existing credits were allowed to be used against the new tax.

Nexus. Another issue that will bear watching is whether the new tax will be challenged by any out-of-state institutions doing business in Ohio. Under any business tax, a company must have what is

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[28] Testa noted in an exhibit to his testimony that the change in a multi-state bank's tax liability will depend on its particular circumstances. However, he said that "most firms are expected to experience a decline in overall Ohio tax liability" because lower rates and a lower apportionment ratio will more than offset the greater capital they will report. Testa testimony, Exhibit B, p.13.

[29] Ohio Department of Development, Policy Research and Strategic Planning Office, "Ohio Major Employers," March 2012, available at http://development.ohio.gov/research/documents/b2001.pdf

[30] Conversation with Christopher Hall, Ohio Department of Taxation, Tax Analysis Division, April 10, 2012. See also Ohio Department of Taxation, 2012 Ohio FT 1120FI, Ohio Corporation Franchise Tax Report Instructions for Financial Institutions, p. 14-15.

called "nexus" for a state to collect tax from it. In its analysis of the FIT, the Legislative Service Commission raised a concern about the clarity of this definition in the proposed new tax.[31] However, state taxation department officials are confident that case law will support the new tax as it's defined.

Trigger. The new tax would have a trigger under which rates would be automatically raised or lowered if the revenue raised by the tax was more than 10 percent above or below the $225 million target in Tax Year 2014. This would prevent a major overage or underage in how much the tax raises, although oddly, it is set up so the trigger mechanism would only adjust the rate back so it raised 90 percent or 110 percent of the target $225 million.

The trigger is a useful provision, since it's never certain what a new tax will raise. There is a reason to keep track of this provision closely, though. The General Assembly approved a similar trigger mechanism in 2005 when it created the Commercial Activity Tax – and then turned around two years later and eliminated the upward trigger. It also is problematic if the target amount is really set too low, since it would cut rates and keep the tax from generating what it otherwise would have. It covers just one year, and does not prevent new loopholes in the future.

Foreclosures. Communities across Ohio have been badly damaged by foreclosures. No small part of this resulted from financial institutions' aggressive use of loans with little regard to the borrowers' ability to repay them. While a host of efforts are needed to confront this crisis, foreclosure counseling efforts are shown to be effective, and need more support instead of cutbacks.[32] As Paul Bellamy, then of the Cuyahoga County Foreclosure Prevention Project, wrote almost two years ago, "by looking at how we got into the lending catastrophe we can see why we're not succeeding in getting out. It took hordes of mortgage brokers to lead us into this mess and we need an army of their counterparts (foreclosure counselors) working on the backside of the loan debacle to get us out."[33]

Attorney General Mike DeWine's office recently noted, "While an exact total of abandoned homes is not available, conservative estimates place the number of vacant and abandoned properties in Ohio in need of immediate demolition at 100,000, though that number is likely much higher."[34] This includes not just the many thousands in Cleveland, Columbus and other large cities, but vacant, abandoned buildings scattered all across Ohio. DeWine has proposed using $75 million from the 2011 mortgage settlement for demolition of blighted properties,[35] and a bipartisan bill in Congress introduced by Ohio Reps. Steven LaTourette and Marcia Fudge would raise $4 billion in bonds nationally for that purpose. Still, at $8,000 a house,[36] that won't fully cover the needs across the state.

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[31] Ohio Legislative Service Commission, Bill Analysis, H.B. 487, 129th General Assembly, As Introduced, p. 322

[32] See David Rothstein, *Home Insecurity: Foreclosures and Housing in 2012,* Policy Matters Ohio, March 2012, available at http://www.policymattersohio.org/home-insecurity-april2012

[33] Cuyahoga County Ohio Foreclosure Prevention Project Open Letter to the Industry, April 13, 2010, available at http://bit.ly/Im7F5A.

[34] Ohio Attorney General Mike DeWine's web site, "Foreclosure Settlement Quick Facts for Local Governments and Community Organizations," available at http://www.ohioattorneygeneral.gov/speakoutohio/foreclosure

[35] Another $22 million is earmarked for foreclosure assistance, prosecution of foreclosure rescue scams and consumer education.

[36] Perkins, Olivera, "Making Furniture out of Torn-Down Houses Keeps Materials out of Landfills," The Plain Dealer, March 26, 2012, available at http://www.cleveland.com/business/index.ssf/2012/03/turning_torn_down_houses_into.html

Recommendations

The proposed new Financial Institutions Tax would go a long way toward closing loopholes in taxes for Ohio financial institutions. This is an important, positive step. However, closing loopholes and creating a broader tax base to cut rates, especially for big banks, is inappropriate and unlikely to spark Ohio's economy. A better use of the revenue that would be generated is to put a dent in the state's massive foreclosure problem through support for foreclosure counseling and demolition of vacant and abandoned houses, among other things.

Additional revenue could be used to restore services that were slashed in the current state budget. Overall, Ohio's tax revenue still hasn't recovered to pre-recession levels because of $2.5 billion in annual tax cuts to businesses and individuals in the 2005 tax overhaul.[37] Cities are struggling to maintain services as they feel the impact of cuts in the budget. Schools have been cutting hundreds of teaching positions, and many anticipate growing class sizes, cuts in spending for materials and reductions in course offerings.[38] Ohio hardly can afford to cut tax rates on its banks at the expense of opportunities for its students and public services that are critical to economic success.

Maintaining current tax rates on the biggest Ohio banks, instead of lowering them as in Gov. Kasich's proposal, will allow the FIT to produce revenue that is line with the growth of Ohio's financial institutions since the 1990s. That makes sense. When JPMorgan Chase, the largest bank employer in Ohio, recently was reported to be in line for a $20 million fine for actions tied to the demise of Lehman Bros., the New York Times described that sum as "little more than a rounding error for a bank as large as JPMorgan."[39] The current 1.3 percent rate should be retained and there should be no special lower rate for big banks. As the governor has proposed, we should equalize the rates paid by banks and dealers in intangibles—but at the current 1.3 percent rate paid by banks and savings institutions, not the lower rate in the proposal. The new FIT should also include geographical reporting requirements so we can tell how much of the tax is being paid by Ohio and out-of-state banks.

Recent news reports indicate that the bank-tax plan, originally submitted as part of the Gov. Kasich's "Mid-Biennium Review" (MBR) legislation along with many other proposals, may be excised from that and considered as a separate bill. It might also be put on a slower track, so that the General Assembly does not act on it prior to its summer break.[40] That would be appropriate, as it would allow a more detailed review of a complex issue. Gov. Kasich exclaimed at the press conference announcing the bank tax and other MBR proposals, "If you think dealing with this bank tax is easy, think again." However, if and when the proposal is acted upon, legislators should go ahead and cut the loopholes. They should ensure that Ohio's biggest banks are paying an equitable amount. And additional revenue that results from a more robust tax should be used first to provide aid to combat the foreclosure crisis, and then to restore public services that were undercut in the current state budget.

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[37] See Office of Budget and Management, Monthly Financial Reports, available at http://bit.ly/HxAwmL, and Testimony of Deputy Tax Commissioner Frederick Church, "Understanding the Commercial Activity Tax in the Context of the 2005 Tax Reform Package," Legislative Study Committee on Ohio's Tax Structure, Aug. 24, 2011

[38] Patton, Wendy, Piet van Lier and Elizabeth Ginther, *The state budget and Ohio's schools,* Policy Matters Ohio, Jan. 19, 2012, available at www.policymattersohio.org/wp-content/uploads/2012/01/SchoolFinanceJan2012.pdf

[39] Alden, William, "Regulators Expected to Penalize JPMorgan Over Lehman Collapse," The New York Times, April 4, 2012, available at http://nyti.ms/Izrdmk.

[40] Gongwer Ohio News Report, "New Bank Tax Among Items Eyed for Separate Processing in Governor's MBR Package," Volume #81, Report #67, Friday, April 6, 2012

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Policy Matters Ohio is a non-profit, non-partisan research institute dedicated to researching an economy that works for all in Ohio. Policy Matters seeks to broaden the debate about economic policy by providing research on issues that matter to Ohio's working people and their families. Areas of inquiry for Policy Matters include work, wages, and benefits; education; economic development; energy policy; and tax and budget policy. Generous funding comes from the Cleveland, Ford, George Gund, Joyce, Sisters of Charity, St. Luke's, and Raymond John Wean foundations, as well as the Center on Budget and Policy Priorities, Greater Cleveland Community Shares and the Economic Policy Institute. To those who want a more prosperous, equitable, sustainable and inclusive Ohio… **Policy Matters**.

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