Policy Matters Ohio

Press release

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Bank tax cuts loopholes, reduces rates

Proposal also provides unneeded help to big banks

Ohio Gov. John Kasich's proposed new tax on financial institutions would cut major loopholes that have allowed big, multistate banks to legally avoid what they would otherwise pay under the corporate franchise tax. That's the good news.

Unfortunately, the plan 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 favors 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.

Those are the principal conclusions of a new brief issued today by Policy Matters Ohio on the bank-tax proposal. "The proposal should be lauded for cutting major loopholes that have allowed big, multi-state banks to legally avoid taxes," said Zach Schiller, Policy Matters research director and author of the report. "However, the proposal gives too much to big banks. And rather than redistribute to banks the revenue we obtain from closing loopholes, we should use it to combat the foreclosure crisis and restore public services chopped in the current state budget."

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 new Financial Institutions Tax (FIT) would replace existing taxes that cover banks, savings institutions, mortgage and securities brokers, payday lenders, and other financial institutions.

Recommendations

The tax rate for banks should not be reduced. All financial 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 in corporate franchise tax. Additional revenue should be used to remedy the foreclosure crisis and restore public services. The new FIT should also include geographical reporting requirements so we can tell how much is paid by Ohio and out-of-state banks. We will need to watch the trigger mechanism built into the new tax, which would adjust rates if the FIT doesn't raise the expected revenue. A similar trigger was created in 2005 for the Commercial Activity Tax, but two years later, the upward trigger was eliminated.