OHIO LEGISLATIVE SERVICE COMMISSION

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Legislative Budget Office

H.B. 150
(l_133_0728-3)
133rd General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 150's Bill Analysis

Version: In House Financial Institutions

Primary Sponsor: Rep. Merrin

Local Impact Statement Procedure Required: Yes

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Highlights

- The bill exempts new banks from the financial institutions tax (FIT) for three years, resulting in a minimal revenue loss to the GRF, the Local Government Fund, and the Public Library Fund.
- The bill also limits the application fees to incorporate a state bank, but this provision is expected to have no fiscal effect.

Detailed Analysis

The bill excludes from the FIT newly created financial institutions for three years. More specifically, the bill excludes from the tax base a bank organization that first began operations in the taxable year preceding the current tax year or in either of the two immediately preceding taxable years, defining an institution that meets these criteria a "de novo bank organization." This provision is assumed to have a minimal fiscal impact. Data from the Federal Deposit Insurance Corporation indicate that the number of commercial banks in Ohio has decreased in the last ten years. Similarly, data from the Ohio Department of Commerce show a general trend decline for the number of state-chartered banks. In addition, it is probable that any new bank would have a relatively low equity capital for purposes of the FIT. *Note that the fiscal effect of this provision also assumes that bank mergers, acquisitions, or reorganizations do not give rise to the creation of a new bank for purposes of this bill*. If there is a revenue loss, it would primarily affect the GRF, which receives 96.62% of FIT revenue during the current biennium; it would also affect the Local Government Fund (1.68%) and the Public Library Fund (1.7%).

The bill also provides that the application fees charged by the Superintendent of Financial Institutions for approval to incorporate a state bank shall not exceed the application fees charged by the federal Office of the Comptroller of the Currency (OCC) for approval of a federal charter. According to the Department of Commerce, this provision may have no fiscal effect on fee revenue. The OCC charges substantially higher annual assessment fees than the Ohio Department of Commerce (DOC), but no application fee. DOC charges lower assessment fees, but also an application fee. According to an official at the agency, without the application fee, the costs for conducting the review of financial institutions will be spread across the rest of state-chartered institutions in the annual assessment.

The financial institutions tax

Continuing law levies the FIT on the basis of a financial institution's "total Ohio equity capital" (TOEC), defined to be the institution's total equity capital multiplied by the ratio of the institution's gross receipts attributed to doing business in Ohio to gross receipts generated anywhere; the gross receipts ratio described here is called the "apportionment ratio." TOEC is taxed under a three-tier rate structure: a rate of 0.8% (8 mills) applies to the first $200 million of a taxpayer's TOEC – Tier 3, a rate of 0.4% (4 mills) applies to total equity capital greater than $200 million but less than $1.3 billion – Tier 2, and a rate of 0.25% (2.5 mills) applies to TOEC greater than or equal to $1.3 billion – Tier 1. The minimum FIT tax is $1,000. In FY 2019, the FIT provided $202.4 million to the General Revenue Fund. FIT returns for a tax year are filed in October of the tax year. However, financial institutions are required to make estimated payments in January, March, and May of the tax year, generally in one-third payments, with adjustments and other reconciliations by October of the tax year. Thus, for example for changes in the bill for tax year (TY) 2020, most of the revenue impact would occur in FY 2020.

Synopsis of Fiscal Effect Changes

The substitute bill (l_133_0728-3) removed the following provisions of the As Introduced version:

1. The As Introduced version's reduction, from 0.8% to 0.6% in TY 2020 and to 0.4% in TY 2021, in the rate of the FIT that applies to an institution's first $200 million of taxable equity capital.
2. The As Introduced bill's limitation of the FIT tax base to no more than 14% of an institution's total assets (this provision was recently enacted by H.B. 166, the operating budget act for the current biennium).

These two provisions accounted for nearly all the estimated revenue losses in the As Introduced bill.

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