

Note: *It's not just the smaller banks that support the measure, either. The \$2.3 trillion-asset JPMorgan Chase & Co., which runs 292 branches in Ohio, favors the plan, said spokesman Jeff Lyttle. New York-based Chase paid \$71.9 million in corporate franchise, payroll and real estate taxes in Ohio last year, he said.*

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Banks say tax cut will increase lending

By Adrian Burns

<http://www.bizjournals.com/columbus/print-edition/2012/03/23/banks-predict-savings-will-increase.html>

Banks in Ohio may soon get a break on their taxes. Most banks, anyway.

As part of a broader reform effort, Gov. John Kasich has proposed a shake-up that could squeeze \$30 million a year more out of some big banks that are said to be exploiting loopholes in Ohio's tax laws. The effort would save the rest of the state's banks about 39 percent annually on their tax bills.

The plan wouldn't change the state's total tax collections, Tax Commissioner Joe Testa said, but the administration is promoting it as a way to hold onto money that rightfully belongs to the state. It also is touting the plan as leveling the field between small Ohio-based banks, megabanks and online lenders.

"This is particularly good for community banks out there in the small towns across the entire state," Testa said. "They're making loans and helping to create jobs."

The change is being praised by many bankers. A tax cut would spur more lending, said Jerry Caldwell, CEO of the \$113 million-asset Benchmark Bank in Gahanna.

"This money goes right back into Ohio," he said.

Leveling the field

Kasich's reforms seek to end the practice by some big banks of paying little in Ohio taxes, Testa said. Under the state's corporate franchise tax, which banks use even after it was phased out for most other businesses starting in 2005, banks pay a levy based on their equity – essentially assets minus liabilities.

Most Ohio banks are based in the state and do all their business here, so they pay taxes as the government intended, Testa said. But some big institutions with affiliates outside Ohio have figured ways to duck the tax.

"Most banks aren't doing it, and even many of the largest are not," Testa said. "But there are a few who have been very aggressive using these opportunities to move assets and equity essentially out of Ohio."

Those institutions are paying about \$30 million less than they should each year, Testa said.

"Since there is a \$1,000 floor on the corporate franchise tax, they become \$1,000-a-year filers," he said. "It's really incredible."

Financial institutions paid \$179.3 million in Ohio's corporate franchise tax last year.

Under the plan, the state would keep institutions from avoiding taxes by moving equity to affiliates. The state would examine a bank's business originated in Ohio and tax the bank equity that comes from that business, Testa said. He would not identify the banks employing the practice.

The change also would target online banks. Ohio's code assesses taxes for out-of-state banks based on their property, payroll and income in the state. That favors online banks that have little or no payroll or property here.

Leveraging into lending

Benchmark could see its annual state tax bill drop to about \$70,000 a year from about \$120,000, Caldwell said. Banks typically keep capital on their books representing about 10 percent of their loans. That means the \$50,000 saved could support about \$500,000 in lending each year – or \$5 million over 10 years, Caldwell said. Those loans generate interest income well beyond the original tax savings, Caldwell said.

And multiplied across Ohio's more than 200 banks, a comparable increase in lending would represent a major boost to local economies.

"The benefits are going to be huge," Caldwell said.

"You could put me in favor of that one," Dan DeLawder, CEO of the \$7.1 billion-asset Park National Corp. in Newark, said of the push to reduce bank taxes.

It's not just the smaller banks that support the measure, either. The \$2.3 trillion-asset JPMorgan Chase & Co., which runs 292 branches in Ohio, favors the plan, said spokesman Jeff Lyttle. New York-based Chase paid \$71.9 million in corporate franchise, payroll and real estate taxes in Ohio last year, he said.

"Ohio is hugely important to us. We are the largest private-sector employer in Central Ohio, and we've done business here for 200 years," Lyttle said. "What has been proposed makes good sense for Ohio."

The tax reform has yet to work its way through the Statehouse so nothing is certain, said James Thurston, a spokesman for the Ohio Bankers League.

"We are broadly supportive of the concept, which builds on a number of our recommendations, but are still reviewing the details in the bill," he said.

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