



# TRANSFORMING OHIO FOR GROWTH

TAX CUTS. EDUCATION & WORKFORCE.  
ENERGY. MANAGEMENT EFFICIENCY.

## Bank Tax Reform

### THE MANAGEMENT EFFICIENCY PLAN: Reforming Ohio's Bank Tax System and Closing Loopholes

Job creation remains Ohio's top priority. Though Ohio's unemployment rate has dropped from 9.0 to 7.7 percent since January 2011, too many Ohioans are still unemployed. We're making progress but Ohio still has a lot of work to do. To further efforts to recreate a jobs-friendly climate in Ohio—efforts that started last year with his Jobs Budget and other policies—Gov. John Kasich initiated a comprehensive review of state government management, operations and policies in key areas.

Referring to this process as the Mid-Biennium Review (MBR), because it came half-way through Ohio's two-year budget cycle, Gov. Kasich worked with his cabinet and staff to develop new strategies that improve the management of Ohio's government agencies and health systems, improve Ohio's education and workforce development efforts, and improve Ohioans' access to low-cost, reliable energy.

The governor's bank tax reforms pick up where the 2005 CAT reforms left off.

### OHIO'S CURRENT BANK TAXES ARE UNWIELDY & RIDDLED WITH LOOPHOLES

In 2005, when Ohio reformed its business tax system in 2005, banks and other financial institutions that did not want to be subject to Ohio's newly-created Commercial Activity Tax were given the option of remaining under one of the two old tax systems, either the Corporate Franchise Tax (CFT) or the 1930s-era Dealers in Intangibles Tax. A few banks had identified loopholes in the CFT, however, which have been used by some to dramatically reduce their Ohio tax bills through deductions to their capital base. Meanwhile, the vast majority of Ohio's banks, including smaller neighborhood banks, have continued to pay their full tax liabilities.

### MODERNIZING OHIO'S BANK TAXES: CLOSING LOOPHOLES, CUTTING TAX BURDENS

To clarify Ohio's bank tax system and close these loopholes, Gov. Kasich is proposing that Ohio's two existing methods for taxing financial institutions be replaced with a single efficient system known as the Financial Institutions Tax (FIT). The FIT more accurately reflects modern banking practices, closes loopholes and reduces the overall tax burden on most banks. A few banks who have used this loophole will see their taxes go up a combined total of approximately \$30 million annually, but almost all other Ohio's banks will see their combined total tax burden cut by approximately \$30 million annually. Details include:

- Smaller neighborhood banks that are paying under the old CFT could see an effective reduction in their tax burdens of up to 39 percent.
- The total amount of a bank's Ohio equity will be taxed, without deductions. The first \$500 million will be taxed at 8 mills, and equity over \$500 million will be taxed at 2.5 mills.
- Creating a broader tax base will offset lower tax rates, making the FIT revenue-neutral;
- Establishing a level playing field for all Ohio banks, especially small, neighborhood banks, will ensure equitable corporate citizenship by banks;
- Cutting taxes for the vast majority of banks will free up more money for banks to reinvest into their communities and create jobs.

**BOTTOM LINE:** An unforeseen loophole in Ohio's bank tax system is costing Ohioans \$30 million per year. By replacing Ohio's current, two-prong bank tax system with a single, simple system, a few banks will now pay their fair share, and almost every other bank will see their taxes go down a combined total of \$30 million annually.

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