



State Representative Derek Merrin
47th District

House Bill 150 – Sponsor Testimony
Financial Institutions Committee
April 3, 2019

Chairman Jordan, Vice-Chair Hillyer, Ranking Member Smith, and Committee Members, thank you for the opportunity to present testimony on the Community Bank Tax Relief Act. Community banks play a vital role in our economy – providing financial services to many Ohioans to secure mortgages, vehicles, and investment planning that shape our futures. For entrepreneurs and businesses, small banks provide necessary capital to start businesses, stabilize operations, and ignite expansion. Community banks are often located in rural areas where access to major financial services is limited. They are economic pillars to many small communities. The 168 community banks in Ohio inject competition into the banking industry providing Ohioans more choices, which leads to better rates and service.

Over the last decade, Ohio has lost 76 banks due to closures or mergers. During this period, Ohio has seen only a single new bank open. This is a worrisome indicator for Ohio's banking industry, our economy, rural areas, and overall competition. Unlike other Ohio businesses that pay the Commercial Activity Tax (CAT), banks pay the Financial Institutions Tax (FIT). The tax generates about \$200 million annually for state government. The tax based on a bank's equity capital is effectively the funds kept on hand.

The tax has three rates based on the amounts of capital. Every bank pays the same rates. However, community banks, based on their size, often pay at one rate – the highest rate. Their effective rate of taxation is higher than others that pay through all deescalating tiers. Community banks have high capitalization, which is encouraged and a sign of strong fiscal health. However, the safer and more secure they become, their tax burden increases due to the tax on increased capital. The FIT effectively penalizes banks for taking steps to be sound and secure.

House Bill 150 provides tax relief to all financial institutions, but provides a targeted 50% tax reduction to community banks. The bill removes the disincentive for banks to be highly capitalized by instituting a 14% capitalization cap – so the FIT will not apply to capitalization amounts above 14%. To help new banks start, banks will be exempted from the FIT for their first three years of operations and the application fee to charter a state bank will not exceed the federal bank charter fee, which is currently \$0.

I hope the committee shares my vision that adjusting Ohio’s tax structure on community banks will bolster the banking industry, create economic growth, spur competition, provide more choices to consumers, and be provide a fairer tax structure. Below, you will find tax brackets that help to demonstrate the Financial Institutions Tax and how HB 150 adjust rates. At this time, I welcome any questions committee members have.

Current Law

Total Ohio Equity Capital	Greater Than or Equal to \$1.3 Billion	Greater Than \$200 Million and Less Than \$1.3 Billion	\$200 Million or Less
	Tier 1	Tier 2	Tier 3
Tax Rate	0.25%	0.40%	0.80%

Community Bank Tax Relief Act

FY 2020			
Total Ohio Equity Capital	Greater Than or Equal to \$1.3 Billion	Greater Than \$200 Million and Less Than \$1.3 Billion	\$200 Million or Less
	Tier 1	Tier 2	Tier 3
Tax Rate	0.25%	0.40%	0.60%

FY 2021		
Total Ohio Equity Capital	Greater Than or Equal to \$1.3 Billion	Less Than \$1.3 Billion
	Tier 1	Tier 2
Tax Rate	0.25%	0.40%

