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HB 150 Proponent Testimony
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Good afternoon, Chairman Jordan, Vice Chairman Hillyer, Ranking Member Smith and members of the committee. Thank you for the opportunity to speak before you today.

My name is Paul Thompson and I am the President of First Federal Savings and Loan Association in Newark, Ohio. First Federal is a mutually-owned federally chartered thrift, founded in 1934, has $223 million in assets with five full-service offices. We operate in both Licking and Franklin counties, serving approximately 12,000 families (8,600 depositors and 3,400 loan customers).

I am here before you today to discuss the taxation of financial institutions in Ohio. For historical context, the tax was reformed in 2012 (it was previously known as the corporate franchise tax) to reallocate the dollars within the industry. The reform was revenue neutral to the State of Ohio.

You may recall there were some proposals that were not included in the final bill. One such provision would have encouraged, rather than penalized, capital formation. Specifically, the Ohio Bankers League had proposed the inclusion of a cap on the level of a bank or thrift's capital that would be subject to taxation.

I believe some background on financial institutions such as First Federal would be beneficial. We operate under a mutual charter. This means our institution is owned by our customers. We do not have stockholders. Accordingly, we do not issue stock nor do we pay dividends. Accumulating net worth is critical for mutuals because we can’t turn to stockholders in order to raise capital. Mutuals must build net worth through retained earnings, the only means by which they can accumulate capital. This structure is very similar to a credit union. Yet, the critical difference between mutuals and credit unions is that like banks, we are not exempt from federal and state taxation. It should be noted that Ohio has more mutual institutions operating today than any other state, except for Massachusetts. The vast majority of Ohio mutual institutions have capital levels well in excess of regulatory requirements.

By their nature, retained earnings accumulate each year and those same dollars are taxed year after year. Regardless of profitability, capital is taxed each year under the Financial Institutions Tax.

It is important to point out that financial institutions are required by banking regulators to grow capital. Capital requirements for all financial institutions are higher today than they were prior to the Great Recession, and appropriately so. Capital is a reflection of strength. Higher levels of capital act as a "shock absorber" in economically challenging times. Yet, as regulators required capital levels to increase, this translated into a tax increase because capital is the basis for the Ohio tax. The current method for taxing banks and thrifts in Ohio actually penalizes institutions with higher levels of capital. A community bank's ability to build up capital beyond what regulators would consider adequate provides an added cushion in the event of unexpected economic challenges. Building up capital can also facilitate growth through acquisition or construction of a new facility. Further and perhaps most importantly, that capital can be made available to our customers in the form of loans. Thus, the business rationale for capping the taxation of a financial institution's capital at a certain level is quite simple. Capital formation is at the root of banking and it should be encouraged, not penalized.

One piece of unfinished business from the 2012 reform is to cap the amount of capital that is subject to the tax. HB 150 was introduced by Representative Merrin, and I would like to thank him for introducing the bill. This bill contains a provision that would cap the amount of capital that is subject to the tax at 14% and would help reduce the penalty on the safest and soundest community banks in the state. The impact on the State of Ohio is a reduction in tax revenue, estimated at approximately $3 million. These dollars will be put to use fueling small business growth and hiring in our communities.

The institutions that will benefit from this bill are not the large or medium-sized financial institution, or even a large percentage of the smaller community banks. A 14% cap on the FIT helps small community banks in small towns across our great state. Most of these institutions are Mutuals. We all know what happens to communities that do not have community banks to serve its citizens, and I know many of you come from small towns.

Mr. Chairman and members of the committee, thank you for your courtesy in allowing me to appear before you. I sincerely appreciate your consideration in supporting further capital formation by capping the level of capital that would be subject to taxation. I would be happy to answer any questions you have.