

Senator Matt Dolan
Chair, Senate Finance Committee
Ohio Senate
1 Capitol Square, 1st Floor
Columbus, Ohio 43215
Delivered via email: Dolan@OhioSenate.gov



June 12, 2019

The Honorable Chairman Dolan,

The OBL is the foremost trade association for the Ohio banking industry – and is Ohio’s only organization focused on meeting the needs of *all banks and thrifts* in the Buckeye State. The non-profit association is comprised of 190 FDIC-insured financial institutions including commercial banks, savings banks, and savings and loan associations ranging in size from just over \$14 million in assets to more than \$2.5 trillion. For more than 125 years, the OBL has been the voice of the Ohio banking industry fostering a cooperation that has made it one of the strongest and most reputable financial trade associations in the country.

On behalf of our members, I write to you to discuss a number of provisions included in the current version of House Bill 166. First, we appreciate all of the Senate’s hard work on the Budget and the retention of the Business Income Deduction. However, a number of items that would negatively impact OBL members remain in HB 166.

Repeal of Credit for Pass-Through Investor’s Share of FIT

As mentioned in previous written testimony, twenty-one Ohio community banks, ranging in assets from \$40 million to \$2.7 billion, are organized as Subchapter-S Corporations (S-Corp) and thus treated as pass-through entities. These banks are in cities and small towns throughout the Buckeye State like Cincinnati, Lebanon, West Mansfield, Bluffton, Old Fort, Baltic, and many places in between.

Under current law¹, an investor in a bank that is a pass-through entity can receive a credit on the investor’s personal income taxes for the investor’s share of the FIT. The House removed this credit and we are continuing to ask that the Senate restore it in HB 166 prior to passage. Make no mistake, if this credit is eliminated, it will result in a significant tax increase on the owners and investors of community banks throughout Ohio. This could affect those community banks to the tune of five million dollars annually.² These banks are pillars of their communities and are the ones who frequently reinvest every day in local towns across Ohio.

¹ Ohio Revised Code (ORC) Section 5747.65

² Investing in Ohio’s Future. Tax Expenditure Report. The State of Ohio Executive Budget *Fiscal Years 2020-2021*. https://budget.ohio.gov/Budget/operating/doc/fy-20-21/FY%2020-21%20Tax%20Expenditure%20Report_03-12-19.pdf

Since the bank is a pass-through entity, the shareholders pay the FIT for the bank and then also pay personal income taxes on the business income flowing through to them. This provision helps to prevent double taxation as the FIT is in place of a business income tax.

FIT Cap

Also, as previously mentioned, the House included a provision long advocated for by OBL which was removed in the Senate Substitute Bill. The change would cap the FIT so that it does not apply to capital in excess of a fourteen percent ratio to assets. Currently, the FIT is paid on all of a bank's equity capital, which includes all tier one capital plus a few other items. Stated more simply, if you take all of a bank's assets minus all liabilities, what is left is the capital that a bank is taxed on. For regulatory and other purposes, this is typically discussed as a percentage of capital in relation to assets. For community banks, current regulatory guidelines state that eight percent capital is adequately capitalized, and ten percent capital is well capitalized. This provision removes a disincentive for banks to build and maintain capital and greatly helps some of the smallest, safest, and soundest banks in the state.

Conclusion

We appreciate all of the hard work that has gone into crafting House Bill 166. However, the provisions mentioned raise several serious concerns for our members that we would like to see addressed. Please feel free to contact me if you have any questions regarding our position at dboyd@ohiobankersleague.com or (614) 340-7608.

Sincerely,



Don Boyd
State Government Relations Director
& Legislative Counsel
Direct: (614) 340-7608
Email: dboyd@ohiobankersleague.com

CC: Members, Ohio Senate