

Interim Joint Banking and Insurance Committee

September 25, 2018

THE PROBLEM

SERIOUS Taxation Imbalance for a Key Kentucky Industry

Kentucky is taxing its banks
at a rate that is an average of

92% higher

than it taxes any other
corporation in the state.

History of Bank Taxation Disparity

- 1995** ***St. Ledger v. Commonwealth of KY Revenue Cabinet rules bank tax model unconstitutional***
- 1996 Bank Franchise Tax enacted
(KRS 136.500 to 136.570)
- 2005 KY lowered the top **corporate** tax rate from 8.25% to 6%, without any change to bank taxation.
- 2010 Dodd-Frank increases capital requirements, sharply increasing the basis of Kentucky state taxation

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BANKING CONDITIONS – 06/30/2018

	EMPLOYEES	NIM	ROAA	ROE	CAP
National	736,311	3.53	1.35	11.58	10.40
Kentucky	12,197	3.87	1.20	10.82	11.10
		#2	#5	#5	#1
Illinois	44,184	2.50	1.11	10.99	8.86
Indiana	11,762	3.65	1.37	12.16	10.33
Missouri	24,156	3.55	1.43	13.90	10.10
Ohio	27,316	3.52	1.75	14.64	10.59
Tennessee	14,584	3.93	1.35	10.76	10.23
Virginia	13,649	3.84	1.19	8.60	10.73
West Virginia	5,077	3.65	1.15	9.35	10.04

Including State & Federal Chartered Banks

IT'S HIGHER!

11.42%

Tier 1 Leverage (median %)

By 2016 Kentucky was
taxing its banks at a rate that was
60% higher on average than on
any other corporation in the state.

As of July 1, 2018 Kentucky is now
taxing its banks at a rate that is
92% higher on average than on
any other corporation in the state.

The **92% tax gap** between our banks and other corporations is an ***average***. For many of our small banks, it's much higher:

First Community Bank of the Heartland (Hickman) **100%**

First State Financial (Middlesboro) **130%**

Bank of Cadiz (Cadiz) **200%**

Kentucky Farmers Bank (Ashland) **1000%!**

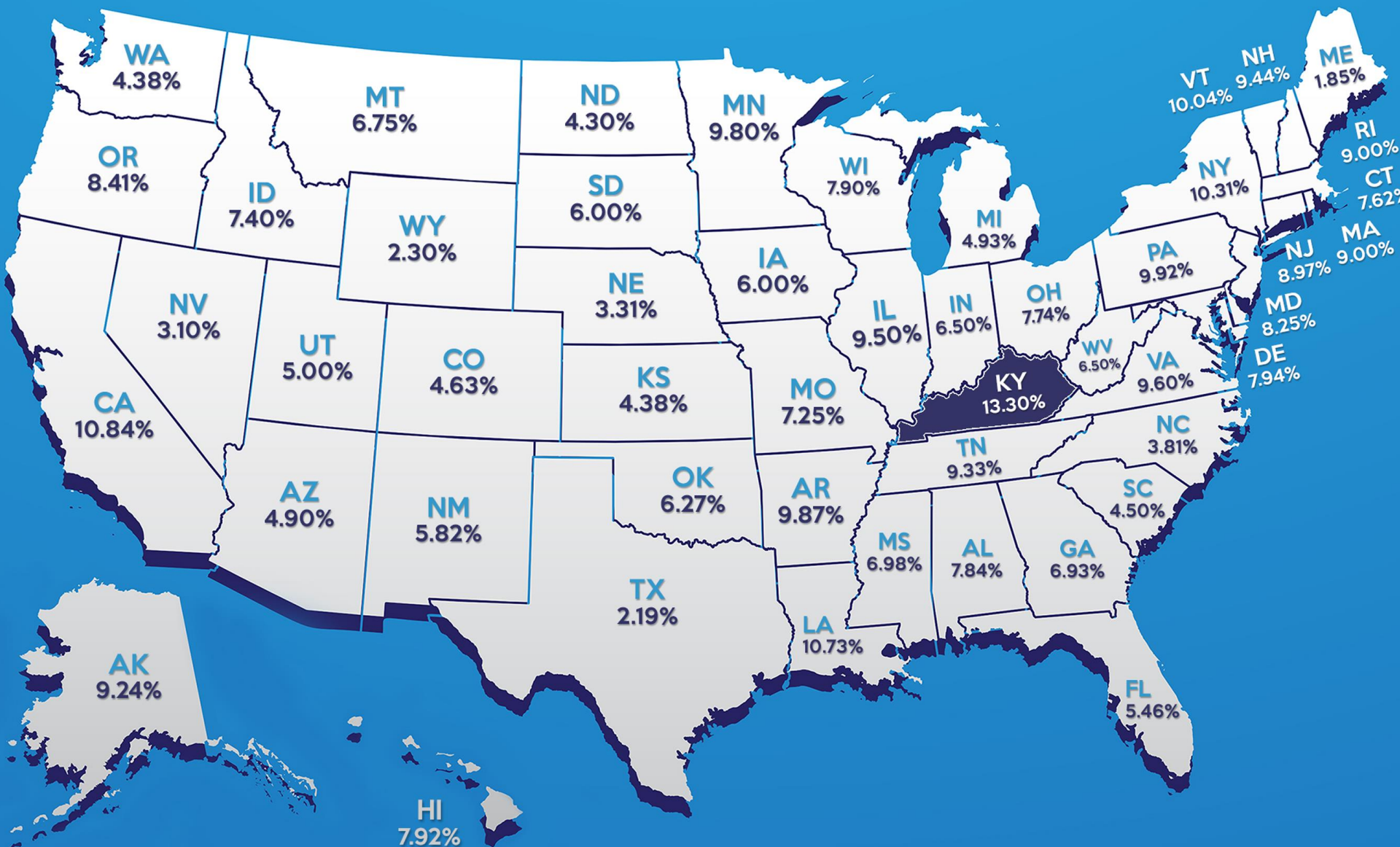
Local effects of excessive bank taxation

Excessive bank taxation hurts local communities by limiting funds available for

- new home construction;
- existing homes being bought and sold;
- business start-ups and expansions;
- **JOB CREATION!**

Excessive bank taxation directly cuts into the funds banks have historically used to support the civic life of their communities with donations to

- schools;
- hospitals;
- arts groups;
- volunteer services.



State & Local Effective Tax Rates for Banks Kentucky & Nearby States

<u>STATE</u>	<u>ETR</u>	<u>Bank Tax</u>
North Carolina	3.81%	\$13,219,022
West Virginia	6.50%	\$24,810,254
Indiana	6.50%	\$24,810,254
Missouri	7.25%	\$23,522,029
Ohio	7.74%	\$26,843,169
Tennessee	9.33%	\$32,383,767
Illinois	9.50%	\$36,261,140
Virginia	9.60%	\$33,323,458
Kentucky	13.30%	\$46,072,251

Based on State and Local Taxable Income for 59 KY Bank Sample.
Rates and amounts do not include payroll, sales, and general property taxes.

KY Bank Franchise Tax Calculation

KY-Based Banks

Bank Franchise Tax Formula

5-Year Average of Net Capital
*
100% Payroll, Property, Revenue
*
Tax Rate of 1.1%

Multi-State Banks

Bank Franchise Tax Formula

5-Year Average of Net Capital
*
Apportioned Payroll, Property, Revenue
*
Tax Rate of 1.1%

	2018	2017	2016	2015	2014
No. of Kentucky Chartered Financial Institutions	150	155	164	169	181
Kentucky Deposit Market Share – Foreign Banks	46.4%	43.5%	43.3%	44.0%	39.8%
Related Deposit Market Share Amounts (in billions)	\$36.8	\$34.4	\$33.1	\$32.9	\$28.4

Foreign Bank Acquisitions & Related Bank Equity Capital Exodus:

United Capital	\$163,505,000				
First Security	58,595,000				
Town Square Bank	55,730,000				
Farmers Deposit	17,615,000				
American Founders (Evansville Teachers Credit Union)	12,113,000				
First Capital		\$47,383,000			
Bank of Kentucky				\$218,714,000	
First Federal Savings ETown				61,942,000	
Peoples Bank of Bullitt Co				29,339,000	

Total Bank Equity Capital Exodus (2014 – 2018)	\$664,936,000				
Related Bank Franchise Tax Revenue Est. (annually)	\$7,314,296				

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