

SESSION OF 1998

## EXPLANATORY NOTE ON SENATE BILL NO. 6

As Amended by Conference Committee

### **Brief\***

S.B. 6 would enact a new statute under which Financial Institution Privilege Tax taxpayers may be required to file consolidated returns or combined reports with any subsidiaries which own, hold, or manage all or part of the taxpayers' securities portfolio. The consolidated return would be determined without regard to transactions between the companies involving securities income, but including as income all earnings on the securities held by the subsidiary.

The Secretary of Revenue would be authorized to allocate or distribute gross income, deductions, credits, or allowances when necessary to prevent the evasion of taxes or to clearly reflect income of the taxpayer.

The base rate for banks would be reduced from 4.25 to 2.25 percent, and the base rate for savings and loan associations would be reduced from 4.50 to 2.25 percent.

The new provisions would be applicable to all taxable years commencing after December 31, 1997.

### **Background**

Many financial institutions have formed investment subsidiaries, as authorized under state and federal law, to hold their federal securities. The income on the federal securities thus is not shown on the financial institution's privilege tax return, but on the subsidiary's tax return. Since the subsidiaries file under the corporation income tax, the income on the federal securities is

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.ink.org/public/legislative/fulltext-bill.html>.

exempt from state taxation. Such income when earned by a financial institution is subject to the Financial Institutions Privilege Tax. Financial Institutions Privilege Tax is measured by, but not upon, all income of financial institutions, including earnings on federal securities. So far, all of the subsidiaries have been formed by banks.

In November, the Consensus Revenue Estimating Group reduced the estimate for the Financial Institutions Privilege Tax by \$18.0 million in FY 1998 and by another \$10.0 million in FY 1999 to reflect the establishment of investment subsidiaries. These estimates were reaffirmed in April.

Enactment of this bill is estimated to increase Financial Institutions Privilege Tax revenues by \$16.3 million in FY 1999.