

MEMORANDUM

From: Representative Michael Peifer
To: All House Members
Subject: Clarifying the calculation of Bank and Trust Company Shares Tax

In the near future, I plan to introduce legislation to clarify the determination of a bank's book value of total bank equity capital, the basis upon which the Bank Shares Tax is levied, following the merger or acquisition of a holding company.

As many of you may know, approximately 80% of banks in our country are part of a financial or bank holding company that owns, or has a controlling interest, in one or more banks and may also control non-bank affiliates as well. Goodwill, an intangible asset, is added to the balance sheet when a bank merges with another, accounting for factors such as the merged bank's name, customer base, brand identity, employee relations and proprietary technology. Generally accepted accounting principles, more commonly referred to as "GAAP", require the surviving bank to assign any goodwill generated by the transaction to whichever of its subsidiaries that benefit from the synergies of the combination.

Recently, it was brought to my attention that a new position has been taken by the Department of Revenue in their review and examination, as well as appeals, of Bank Shares Tax returns, threatening to strip most banks of the benefits of taking the previously afforded deduction for the acquired goodwill. In speaking with industry stakeholders, it's my understanding that the goodwill deduction is being disallowed when a combination of two bank holding companies occurs followed by or simultaneous with the merger of their bank subsidiaries. Because most bank combinations occur through holding company mergers, this change in policy could deny most banks the benefits of goodwill deductions that have been claimed for many years, and not previously denied by the department.

My legislation will provide much needed certainty for our banks, many of whom serve as the cornerstones of our local communities, and clearly allow for a deduction for goodwill that is acquired from a merger or acquisition of another bank. I respectfully ask for your consideration to join me as a co-sponsor of this essential legislation.