

FOR IMMEDIATE RELEASE:  
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STATEMENT OF SENATOR DOLE  
HEARING ON TAXATION OF BANKS,  
SAVINGS AND LOANS, AND CREDIT UNIONS

TODAY'S HEARING IS AN INITIAL EFFORT TO ASK--AND HOPEFULLY ANSWER-- THE QUESTION WHETHER COMMERCIAL BANKS, THRIFT INSTITUTIONS, AND CREDIT UNIONS ARE BEARING THEIR FAIR SHARE OF THE INCOME TAX BURDEN.

I FRANKLY ADMIT THAT I DO NOT KNOW WHETHER THE TAX PREFERENCES, AND OTHER TAX PROVISIONS, USED BY MANY OF THESE FINANCIAL INSTITUTIONS ARE UNWARRANTED, INEFFICIENT, OR TOO GENEROUS. THAT IS WHY I AM INTERESTED IN HEARING THE TESTIMONY OF OUR DISTINGUISHED WITNESSES TODAY.

THERE ARE CERTAIN FACTS THAT ARE INESCAPABLE, HOWEVER.

O FIRST, COMMERCIAL BANKS ENJOY AN USUALLY LOW EFFECTIVE TAX RATE ON THEIR U.S. INCOME. IN 1981, A SAMPLE OF TWENTY LARGE COMMERCIAL BANKS STUDIED BY THE STAFF OF THE JOINT COMMITTEE ENJOYED AN AVERAGE EFFECTIVE TAX RATE OF 2.3 PERCENT. IN CONTRAST, THE AVERAGE EFFECTIVE TAX RATE FOR INDIVIDUALS WAS IN THE RANGE OF 20 PERCENT, AND MANY INDUSTRIES HAD EFFECTIVE TAX RATES HIGHER THAN THIRTY OR FORTY PERCENT. IN ALL FAIRNESS, I SHOULD POINT OUT THAT MANY LARGE CORPORATIONS APPEAR TO ENJOY EFFECTIVE TAX RATES LOWER THAN THE STATUTORY CORPORATE TAX RATE OF 46 PERCENT. BUT EVEN AMONG OTHER LARGE CORPORATIONS, COMMERCIAL BANKS ENJOY AN EXALTED POSITION. IN TERMS OF THEIR ABILITY TO REDUCE THEIR EFFECTIVE TAX BURDEN.

O SECOND, FINANCIAL INSTITUTIONS ENJOY SPECIAL TAX PREFERENCES THAT ARE NOT SHARED BY OTHER INDUSTRIES. BANKS, FOR EXAMPLE, ARE GENERALLY PERMITTED TO DEDUCT INTEREST PAID TO CARRY TAX-EXEMPT SECURITIES, A PRIVILEGE NOT ENJOYED BY OTHER TAXPAYERS. SAVINGS AND LOANS ENJOY SPECIAL LOAN LOSS PROVISIONS, AND CREDIT UNIONS ENJOY COMPLETE EXEMPTION FROM FEDERAL INCOME TAXATION, REGARDLESS OF WHETHER THEIR INCOME IS DISTRIBUTED AS DIVIDENDS. THAT MEANS THAT A CREDIT UNION IS NOT ONLY BETTER OFF THAN A BUSINESS CORPORATION SUBJECT TO THE CORPORATE INCOME TAX; CREDIT UNIONS ARE ALSO BETTER OFF THAN CONSUMER COOPERATIVES WHO CAN AVOID INCOME TAXATION ONLY IF THEY DISTRIBUTE ALL OF THEIR CURRENT INCOME TO THEIR MEMBERS. WHILE MANY CREDIT UNIONS ARE SMALL, THEIR ABILITY TO ACCUMULATE INCOME FREE OF TAX HAS UNDOUBTEDLY CONTRIBUTED TO THEIR RAPID GROWTH. IN 1981, FOR EXAMPLE, THE TEN LARGEST CREDIT UNIONS EACH HAD ASSETS GREATER THAN \$200 MILLION, AND THE TWO LARGEST CREDIT UNIONS, THE NAVY FEDERAL CREDIT UNION, AND THE PENTAGON FEDERAL CREDIT UNION, HAD ASSETS OF \$949 MILLION AND \$554 MILLION RESPECTIVELY.

### REVIEWING TAX PREFERENCES

MANY OF THE SPECIAL PROVISIONS AND TAX PREFERENCES ENJOYED BY FINANCIAL INSTITUTIONS UNDOUBTEDLY HAD SOME JUSTIFICATION WHEN THEY WERE FIRST PLACED IN THE LAW. BUT CONGRESS HAS A RESPONSIBILITY TO REEXAMINE THESE PREFERENCES, AND DETERMINE

WHETHER THEY CAN NOW BE JUSTIFIED, IN LIGHT OF THE MUCH HIGHER EFFECTIVE TAX RATES BORNE BY MOST OTHER BUSINESS AND INDIVIDUALS.

IN CONDUCTING SUCH A REVIEW, THE ANSWERS ARE BY NO MEANS PREORDAINED. IT IS CLEAR THAT THE OWNERSHIP OF TAX-EXEMPT BONDS IS A VERY SIGNIFICANT FACTOR CONTRIBUTING TO THE LOW TAX RATES OF MANY COMMERCIAL BANKS. BUT OUR COMMITTEE MAY WELL DECIDE THAT THE PREFERENCES THAT GIVE BANKS A SPECIAL INCENTIVE TO INVEST IN TAX EXEMPT BONDS SHOULD BE RETAINED, DESPITE THE INEFFICIENCY, AND WINDFALLS FOR BOND HOLDERS, THAT HAVE BEEN ASSOCIATED WITH THIS METHOD OF ASSISTING STATES AND LOCAL GOVERNMENTS.

ON THE OTHER HAND, A RECENT ARTICLE IN THE WEEKLY BOND BUYER SUGGESTED THAT CERTAIN CHANGES IN THE TAXATION OF COMMERCIAL BANKS, SUCH AS THE ENACTMENT OF A CORPORATE SURCHARGE SIMILAR TO THAT PROPOSED BY PRESIDENT REAGAN, COULD IMPROVE THE MARKET FOR TAX-EXEMPT BONDS, BY MAKING THEM MORE ATTRACTIVE TO THE BANKS.

ACCORDING TO THE ANALYSIS OF GERALD ROBERTS, VICE PRESIDENT OF THE SECURITIES FIRM OF SMITH BARNEY HARRIS UPHAM & CO., INC., AN INCREASE IN THE STATUTORY TAX RATE FOR BANKS, FROM 46 PERCENT TO 51 PERCENT, WOULD RESULT IN A 94 BASIS POINT INCREASE IN THE AFTER-TAX YIELD OF MUNICIPAL BONDS. CHANGES OF THIS NATURE, THIS SECURITIES EXPERT HAS SAID, COULD NOT ONLY RAISE REVENUE, BUT ALSO IMPROVE THE ATTRACTIVENESS OF MUNICIPAL BONDS, TO THE BENEFIT OF THE ISSUING GOVERNMENTS. CLEARLY, OUR COMMITTEE MUST NOT ONLY REVIEW ISSUES CAREFULLY, BUT CONSIDER A VARIETY OF

ALTERNATIVE APPROACHES, IF WE CONCLUDE THAT CHANGES IN THE TAX LAW ARE WARRANTED.

REVIEW OF USER TAXES FOR FINANCIAL INSTITUTIONS

ONE ISSUE THE COMMITTEE MAY REVIEW, IS WHETHER INCOME TAXATION IS THE BEST METHOD OF INSURING THAT FINANCIAL INSTITUTIONS PAY THEIR FAIR SHARE OF THE FEDERAL TAX BURDEN, ESPECIALLY WHEN THE FEDERAL GOVERNMENT IS CALLED UPON TO BEAR THE COST OF CERTAIN GOVERNMENTAL PROGRAMS AND ACTIVITIES OF PARTICULAR BENEFIT TO THE FINANCIAL INDUSTRY.

IN THE RECENT POST-ELECTION SESSION OF THE 97TH CONGRESS, THE SURFACE TRANSPORTATION ASSISTANCE ACT OF 1982 INCREASED THE USER TAXES ON GASOLINE, CERTAIN TIRES, AND CERTAIN TRUCKS, TO CONTRIBUTE TO THE IMPORTANT NATIONAL TASK OF REPAIRING OUR NATION'S HIGHWAYS AND BRIDGES. IT MAY BE APPROPRIATE FOR THE COMMITTEE TO REVIEW THE POSSIBILITY OF IMPOSING SIMILAR USER TAXES, IN ADDITION TO THE INCOME TAX, TO SUPPORT GOVERNMENTAL PROGRAMS OF SIGNIFICANCE TO THE FINANCIAL INDUSTRY.

CONGRESS WILL SOON BE CONSIDERING THE ADMINISTRATION'S REQUEST TO INCREASE OUR QUOTA AUTHORITY WITH THE INTERNATIONAL MONETARY FUND BY \$8.5 BILLION. I DO NOT BELIEVE THAT THIS PROPOSAL IS A BAIL-OUT FOR THE BANKS, AS SOME HAVE SUGGESTED. BY THE SAME TOKEN, I DO NOT BELIEVE THAT LAST DECEMBER'S HIGHWAY

REPAIR BILL WAS A BAIL OUT FOR THE NATION'S DRIVERS, TRUCKERS, AND OTHER HIGHWAY USERS. PERHAPS IT WOULD BE APPROPRIATE, HOWEVER, TO CONSIDER ASKING THE NATION'S COMMERCIAL BANKS TO PAY A USER TAX, POSSIBLY AN EXCISE TAX RELATED TO THE SIZE OF THEIR DEPOSITS, TO CONTRIBUTE A GREATER SHARE TO THE COST OF PARTICIPATING IN THE INTERNATIONAL MONETARY FUND. ALTHOUGH I AM A STRONG SUPPORTER OF OUR CONTINUED PARTICIPATION IN THE IMF, I WAS SURPRISED TO DISCOVER THE RELATIONSHIP BETWEEN THE COST OF OUR PARTICIPATION, AND THE AMOUNT OF TAXES PAID BY COMMERCIAL BANKS. ACCORDING TO THE TREASURY DEPARTMENT, OUR PARTICIPATION IN THE IMF COST THE TREASURY AN AVERAGE OF \$107 MILLION EACH YEAR, OVER THE LAST 13 YEARS. BUT IN 1982 OUR PARTICIPATION COST \$528 MILLION, AND IN 1981, IT COST \$1.5 BILILION. THESE RECENT COST FIGURES MAY BE EXTRAORDINARY, AND MAY NOT INDICATE A TREND OF GROWING COST. BUT IT IS NOTEWORTHY THAT OUR PARTICIPATION IN THE IMF IN 1981, COST THE FEDERAL GOVERNMENT MORE THAN THE ENTIRE AMOUNT OF FEDERAL INCOME TAXES PAID BY ALL COMMERCIAL BANKS IN 1980, THE MOST RECENT YEAR FOR WHICH STATISTICS ARE AVAILABLE.

NO USER TAX SHOULD BE A SUBSTITUTE FOR A FAIR INCOME TAX. AND CERTAINLY, NO TAX SHOULD BE CONSIDERED THAT WOULD DISCOURAGE THE FUTURE FOREIGN LENDING WHICH IS NEEDED TO HELP RESOLVE THE CURRENT INTERNATIONAL DEBT PROBLEM. BUT THE POSSIBILITY OF EXTENDING THE USER TAX CONCEPT FROM TRUCKERS TO BANKERS SHOULD BE EXPLORED. I BELIEVE THIS IS PARTICULARLY APPROPRIATE SINCE THE STUDY PREPARED BY THE STAFF OF THE JOINT COMMITTEE ON TAXATION

6

INDICATES THAT WHILE A GROUP OF THE 20 LARGEST BANKS PAID ONLY  
2.3 PERCENT OF THEIR INCOME IN TAXES, A GROUP OF THE LARGEST  
TRUCKING COMPANIES PAID OVER 46 PERCENT OF THEIR INCOME IN TAXES.

I LOOK FORWARD TO HEARING THE TESTIMONY OF OUR DISTINGUISHED  
WITNESSES.