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STATE TAXATION OF FINANCIAL
INSTITUTIONS

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by

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STATE TAXATION OF FINANCIAL INSTITUTIONS

INTRODUCTION

The question of bank taxation has recently come to assume a position of first importance to banks, owners of other moneyed capital and to state legislatures. The national banking act (Section 5219) provides that the states may tax national banks but at no higher rate than that applied to moneyed capital, in the hands of individuals, which comes into competition with capital used by national banks. The conviction that they are subject to competition from moneyed capital that either escapes taxation or is taxed at a lower rate than bank capital has led the bankers in many states to bring suit claiming the existence of discrimination prohibited under Section 5219. Court decisions in these suits have upheld the contention of the bankers and the state tax laws have been set aside as unconstitutional.

There is no criteria either in the law, court decisions or in economics, for determining what constitutes moneyed capital in competition with banks. In the recent cases it has been sufficient for the banks to show that there existed substantial amounts of moneyed capital, employed in

the vicinity where the banks were conducting business, which was being used for purposes of investing and reinvesting in a similar manner as a substantial part of the bank's capital. Evidence was produced, sufficient to satisfy the courts, that capital was being employed to market stocks and bonds and for loans on real estate that was escaping taxation or being taxed at a lower rate than bank capital. That some such moneyed capital actually exists is evidenced by the number of times the various courts have upheld the bankers in their suits. In such widely scattered states as Virginia, Iowa, Wisconsin, Minnesota and Oregon the state laws have been held unconstitutional. These repeated decisions are not absolutely conclusive but they at least tend to show that there is some moneyed capital outside of banks which is in competition with the bank capital.

If banks are not to go untaxed entirely in the states affected by the decisions, and they are many, there are two ways to remedy the situation--one is to get an amendment to Section 5219 through Congress which will place banks in a definite class for purposes of taxation or that will define just what constitutes competitive moneyed capital. The other is for the state legislatures to adopt tax laws that the courts will uphold. Each possibility has certain advantages over the other but whichever one is finally adopted the result should settle the question on economic grounds. Any law which is written on the statute books of either the United States or of the states should be based on

economic considerations and not be just an attempt to satisfy the courts. Such a law or laws could only be temporary and would ultimately call for another settlement. Time, money and effort will be saved by adopting a legislation based upon conditions and facts as they exist. These conditions and facts are ascertainable. Nothing is to be gained and much to be lost by legislation adopted to favor a particular group or to vindicate any personal opinion as to the intelligence of the courts.

Fifty, or even fifteen years ago the conception of a bank was very definite. Congress in providing for the taxation of national banks may, and probably did, have such a definite conception in mind. It may have intended that the law should protect the national banks against unfair competition of state banks. Some such idea as this is at the base of certain criticisms of the recent decisions of the courts. Early in the history of national banks the supreme court declared unconstitutional a tax law of the state of New York which favored state banks as against national banks. The law was amended to bring these two classes of institutions under the same burden and was upheld by the courts, nothing being said of moneyed capital other than that employed by banks as such. The assumption might have been that no such capital existed. At any rate many of the state legislatures proceeded to place banks in a class by themselves for purposes of taxation. The supreme court decision

in *Merchants National Bank v. Richmond* (256 U.S. 635) in 1921 was then more or less of a shock. It was held that the existence of some \$6,250,000 of intangibles in Virginia that were reported for taxation were only taxed at ninety cents per \$100.00 while bank capital in the state to the extent of \$14,000,000 that was taxed at \$1.75 per \$100.00 constituted discrimination. These other intangibles that were taxed at a lower rate were inferred to be moneyed capital in competition with bank capital.

In an attempt to remedy the situation, Congress in 1923 amended Section 5219. Three tax alternatives were provided. The states could tax:

- A. The shares of national banks to the owners.
- B. or Include the dividends from the shares in the taxable incomes of the owners or the holders thereof,
- C. or Tax the banks on their income.

Certain conditions were laid down. These were:

A. One method was to be in lieu of all others. B. If the tax was imposed on the income of the bank, it should not be at a higher rate than that on the income of other financial corporations, nor higher than the highest rate imposed on the income of mercantile or manufacturing corporations. C. If the tax was imposed on the shares, the rate was not to be higher than that imposed on other moneyed capital in the hands of individuals coming into competition with the national banks.

An attempt was made here to define moneyed capital by providing that bonds, notes or other evidences of indebtedness in the hands of individuals not engaged in the banking business and representing merely personal investments, not made in competition with national banks, should not be considered moneyed capital, within the meaning of the law. The phrase, not made in competition with national banks, begged the question and left the situation practically as it was before the amendment.

Subsequent decisions in Iowa, Minnesota and Wisconsin upholding the position taken in Merchants National Bank v. Richmond forced to the front the necessity of an adequate solution of the problem. Some few states are not affected by the decisions but a sufficient number are to require that the problem receive serious attention.

Nothing is to be gained by arguing what Congress had in mind in adopting Section 5219 nor in assuming that banks are a definite class by themselves or in proceeding from any personal opinion as to what constitutes the proper field of commercial banking. What banks are today, what their functions are, what they do and what other businesses do the same things or part of them, are ascertainable facts. Whether we think banks are going too far afield is another question and outside the present issue.

The problem has a wider significance than the question of taxes. Taxes have merely brought to the front

the consciousness of bankers and others of the increasing competition within the field of finance. As long as banking was confined to a fairly restricted field and the competition within that field was between banks the problem of taxation was comparatively unimportant. But with the ever-widening field invaded by the banks and the rapid growth of savings and loan associations, mutual savings banks, finance corporations, investment banks, investment trusts and others in the field of finance and a concurrent overlapping of functions between these various businesses have brought about a condition unlike that which prevailed when the activities of a bank were restricted to accepting deposits and making short time loans.

The problem now is to actually determine what institutions or individuals have moneyed capital that is in competition with bank capital. This will involve a study of the functions performed by banks and a study of the functions performed by other financial institutions. If such a study should reveal competition, then, insofar as the competition exists and banks do not enjoy special privileges, they should be taken out of a special class for purposes of taxation.

The following paper does not attempt to define the exact position of each of these so-called financial institutions nor the tax which should be imposed on any of them. An attempt is made to show as far as possible with the avail-

able information, the methods of taxing these various institutions in the several states. Also an attempt to point out wherein the functions performed by these various institutions are similar or dissimilar. It is believed that the light thrown on the problem by a consideration of the methods of taxation now in use by the several states and a consideration of the functions performed by these institutions will serve as a point of departure for solving the problems of what constitutes moneyed capital and how it should be taxed.

In the first chapter the present tax situation in the several states with a few words as to the historical development is considered. A chart is appended which serves the purpose of making comparison of the methods of taxation of banks and some other corporations by states and within a given state easier. Considerable information is lacking and some detail omitted from the chart but sufficient information is included to give the general picture.

The purpose of the second chapter is to determine the question of what institutions or individuals constitute moneyed capital in competition with banks. The method used is to point out the functions performed by banks and other businesses that might conceivably be in competition with banks.

CHAPTER I. METHODS OF TAXING BANKS AND SOME OTHER BUSINESSES
IN THE SEVERAL STATES

TAXATION OF COMMERCIAL BANKS AND STOCK SAVINGS BANKS

There are four general methods of taxing banks now in use in the several states. The first and most common method is to tax the combined capital surplus and undivided profits less real estate owned at local rates. The second is the local tax on real estate owned and a state franchise tax based either on capital surplus and undivided profits or merely a flat rate upon capital stock. Third, local rates upon real estate and a state franchise tax based upon income. Fourth local rates upon capital surplus and undivided profits and a state tax at a flat rate upon capital stock.

Thirty two states tax national banks and twenty-six state banks, upon capital surplus and undivided profits less property owned, at local rates. This is apparent discrimination against one or the other kind of bank in six instances. Which banks, national or state, are discriminated against would have to be determined by the actual taxes paid as that is the important thing and not the particular

method used in determining the tax. There is no apparent reason why there should be a distinction in method between the two classes of commercial banks in these six states, unless it is that until 1923 section 5219 did not make provision for the taxing of national banks upon their income. Five of these six states do measure the franchise tax upon state banks by their net income. The class of property owned that may be deducted varies a little from state to state but in most instances is real estate used in the business. Some include furniture and fixtures, some other real estate and in one instance stock owned in company that owns the bank building.

The assessed value of the bank shares varies from 33 1/3% to 100% of book and sometimes market value. In most instances as a matter of practice such assessment is higher than that applied either to land or city real estate due to the ease of arriving at the value of the bank stock.

There are some interesting deductions allowed other than property owned. Wyoming allows a surplus deduction up to 50% of capital. Nevada surplus to 20% of capital and New Mexico 50% of capital from surplus. For instance if a bank in Wyoming has a capital of \$100,000 and surplus of \$50,000 the base of the tax would be \$100,000. If the surplus were increased to \$65,000 the base would become \$115,000. These provisions are supposed to have two effects, first to prevent the banks from being undercapitalized and second to prevent

the carrying of hidden assets, to avoid the taxes. Tennessee allows a flat deduction of \$1000 from capital, surplus and undivided profits.

Vermont and Maine fix the limits of the rates to be applied at 2% and 1.5% respectively.

This method of taxing banks dates back to the time when banks were about the only form of corporations. At first, however, only the capital stock was assessed but in some few instances where market value of the capital stock was used as a base the result was nearer to the present method than those instances where par value of the shares was the base.

Eight states have a state franchise tax for national banks and seven for state banks based upon capital, surplus and undivided profits combined with the local tax on real estate. The exception in which the state banks are not included is in the state of Connecticut where there are no state commercial banks. Florida also taxes state banks by this latter method, but taxes national banks on capital surplus and undivided profits minus real estate owned at local rates.

Three states tax all banks upon their net income, New York, Massachusetts and Wisconsin. The Wisconsin law has been held unconstitutional. In these states the banks also pay local taxes on real estate owned. Five states, Missouri, Montana, North Carolina, North Dakota, and Tennessee base the state franchise tax upon net income for state banks only. The

District of Columbia is the only political subdivision in which the banks pay no taxes except that based upon net income.

Historically the income tax, as applied to banks has not enjoyed a very wide use. In 1814 the state of Pennsylvania taxed banks at 6% upon dividends or net profit. In 1835 the tax was made progressive, varying from 8 to 11% as the dividends were under six or over eight per cent. In 1859 the income or dividend tax was extended to banks of discount, deposit and savings institutions. But in 1889 the whole system of taxing banks was discarded and the present method as shown in the appended chart was adopted. Ohio and Virginia were the only other states which began, and for some time continued to tax banks on dividends. The first tax in Ohio was in 1815 and with some variations continued until 1850 when the banks capital and contingent fund were placed under the general property tax. In Virginia the first dividend tax was imposed in 1846 but was abandoned and the present method (see appended chart) was adopted in 1871.

The fourth method of taxing banks is relatively unimportant. Alabama subjects banks to local rates on capital stock, surplus and undivided profits as does Arkansas. In addition Alabama has a state capital stock tax of \$1.00 per \$100.00 of capital. Arkansas a capital stock tax of \$1.10 per \$1,000.00 of capital.

TRUST COMPANIES

In general trust companies that do a banking business are treated as banks by the various states. In some of the New England states where they are known as Savings & Trust Companies the savings banks taxes are applied. In Maryland the trust companies pay $2\frac{1}{2}\%$ on gross income. In most of the states where the trust companies do not do a deposit and discount business they are treated as other business corporations. For instance, in Washington they pay no taxes except upon real estate owned which is a negligible amount or none at all.

SAVINGS BANKS

Stock savings banks are generally treated as banks. In those states that have mutual savings banks, the New England States, New York and Washington, they are placed in a separate class. In the New England states these mutual savings banks pay a deposits tax, in New York 1% upon their reserves and in Washington no taxes at all except upon such real estate as they own.

In the year 1852 Connecticut imposed a tax of $\frac{1}{8}$ of 1% on the deposits of savings banks. In 1857 the rate was raised to $\frac{3}{16}\%$. The rate was then raised and lowered six times between 1857 and 1878. In the latter year the rate was fixed at $\frac{1}{4}$ of 1% and has remained at that figure until

the present. Saving deposits of trust companies and national banks were brought under the tax in 1907 and 1915 respectively. Various classes of intangibles and real estate were allowed to be deducted from deposits in fixing the base until in 1901 the list of deductible items included stocks of banks, trust, insurance and bridge companies, real estate used in the business, Conn. state and local bonds, tax free federal securities and a flat deduction of \$50,000.00. The stocks and bonds were exempted on the grounds that individuals holding these intangibles are not taxable on similar holdings. Intangibles are generally taxable at 4 mills and deposits at $2\frac{1}{2}$ mills. Under this arrangement savings depositors are apparently being favored. A special commission in 1913 decided that they were but there are two reasons why they may not be. First, individuals are not taxed on mortgages and second, individuals escape much of the tax on intangibles by evasion. Conn. tries to avoid double taxation by exempting deposits of non-residents, if it can be shown they are being taxed by other states as is other property of the same class.

Other New England states have gone thru much the same process of raising and lowering rates upon deposits and increasing and decreasing the number of exemptions. However, the laws in the various states vary in detail. Rhode Island has a tax of 4 mills on deposits and reserves less deductions and no exemption is allowed for non-resident deposits. The Massachusetts rate on savings deposits is $\frac{1}{2}$ of

1% after deductions, payable semi-annually. The income from savings deposits of national banks are subject to the 6% income tax on interest received from their use. In this latter case discrimination is claimed not to exist because national banks are not subject to state regulations as to investments and guarantee funds and segregation of assets and therefore can stand a higher rate. The actual existence of this superior ability is open to serious question and in any case might be interpreted by the courts as discrimination. A possible solution might be to place them all under the income tax.

In New Hampshire the rate on savings deposits and accumulation of savings banks has been 1% after allowing for deductions, since 1869. There are a few exceptional deductions which are allowed such as banker's acceptances up to 5% of deposits and stock held in New Hampshire banks. The rate of 1% is to be gradually reduced to $\frac{1}{2}$ of 1% in 1931.(1)

Maine has a tax of $\frac{3}{4}$ of 1% of which one-half goes to the state and one-half to schools.

As a summary of the taxation of savings banks in New England it may be said that there is a low rate on deposits after allowing deductions. Both the rates and the exemptions vary from state to state. Some states also impose the tax on reserves and accumulations.

The rates in the several states are: Connecticut $\frac{1}{4}$ %, Maine $\frac{3}{4}$ %, Massachusetts $\frac{1}{2}$ %, New Hampshire $\frac{2}{3}$ % (to be reduced to $\frac{1}{2}$ %), Rhode Island $\frac{4}{10}$ % and Vermont $\frac{7}{10}$ %. Rhode Island

also taxes checking deposits of banks at $2/5\%$ for local purposes. This is the only state that taxes all deposits.

SAVINGS (BUILDING) AND LOAN ASSOCIATIONS

As a general rule savings and loan associations are exempt from all taxes except on real estate owned. In some states, although taxed, they are placed in a favored class. The following are some of the methods used by a few states which do tax these institutions. Connecticut and New Hampshire impose the savings bank rates upon deposits. Kansas and Indiana assess them on combined capital, surplus, and undivided profits as they do banks. In Ohio the shares are assessed as credits to the owners. In Maine tax is $\frac{1}{4}$ of 1% on dues returned by shareholders and $\frac{1}{2}$ of 1% on loans other than those secured by real estate or the association's own stock. In some few states these companies are subject to the income tax.

INSURANCE COMPANIES

The method of taxing insurance companies is pretty generally uniform altho some states apply lower rates to domestic companies. Gross premiums less amounts returned to the policy holders in the state to satisfy their claims is the base, the rate applied to the base ranging from 1% to $3\frac{1}{2}\%$. Rates for fire insurance companies is in several instances higher than that applied to life companies. The taxes paid

by these companies are fairly high but some states get but little revenue from some companies. For instance a few companies maintain offices in the state of Washington but sell very little insurance, their principal business being to make loans. Their revenue from these investments in the state go untaxed.

INVESTMENT AND FINANCE COMPANIES

These companies in most states are treated as corporations in general which means that they pay a small license or capital stock tax and a local tax on real estate owned. The real estate tax is negligible either if they own their offices or if the tax is included in the rent for even the largest of them require comparatively little space in comparison to the amount of business they do.

In some few instances these companies are treated as banks. Idaho, Indiana, North Dakota and Wyoming subject them to local rates on capital and surplus as they do banks. California applies the same rate to them as to banks and on the same base, namely 1.45% on capital and surplus. In Connecticut they are treated as other business corporations, paying the 2% net income tax. The same applies to Massachusetts as to Connecticut except that the rate is 2% and there is an additional tax ranging from \$5.00 to \$1,000.00 on the corporate excess. Tennessee, New York, Montana and North Dakota also apply the income tax. Pennsylvania and West

Virginia tax gross income the rates being 1% and 1/5 of 1% respectively.

INTANGIBLES IN THE HANDS OF INDIVIDUALS

Twenty states still continue the heroic effort to list all intangibles under the general property tax. Such states would probably have little trouble, from a legal viewpoint, with banks claiming discrimination. But it is common knowledge that the revenue derived from this source is small compared with the amount of such evidences of wealth in existence. Altho there may be no discrimination at law the application of the law may so result. The shares of banks are assessed at the banks and the tax collected from the banks upon full legal valuation. There is little chance for evasion and probably small effort made to take advantage of such opportunities as exist. The banks may continue to pay their taxes with little protest as long as the taxes aren't too burdensome, but when they begin to feel the pinch of severe competition or the tax rates get to be excessive there is bound to be a readjustment.

Seven of the above twenty states apply a low rate intangible tax rather than the local rates on property in general and in these states owners of banks stock are not in the same class. But the stock is assessed at the bank at a higher rate, usually the general property rate.

Eight other states apply a low rate on intangibles

in general with, in some cases, a few exemptions. For instance California exempts intangibles secured by California real estate, Maryland exempts stocks and government bonds, Missouri, South Dakota and Rhode Island, government bonds; Minnesota, stocks and bonds, and Montana exempts notes secured by mortgage.

Six states, Indiana, Michigan, Mississippi, New Hampshire, New York, and Wisconsin exempt all intangibles.

The other twenty-two states exempt some intangibles, but not all, from the general property tax. The grounds for excluding intangibles from taxes, other than the admission of the futility of trying to list them, is that to tax them constitutes double taxation. The theory being that they represent tangible property which has already been taxed. The basis for the low rate on intangibles is that the owner of such intangibles owes some support to the state in which he resides and that the intangibles may represent wealth located in another state.

From the foregoing resume of the present tax situation in the various states several important inferences may be drawn. First, as a general rule commercial banks are considered to be in a class by themselves, except in such states as have stock savings banks and trust companies which do a banking business, then these institutions are classed with banks for purposes of taxation. There are several notable exceptions to this general rule, four of the states

that apply local rates to capital, surplus and undivided profits of banks also include financial institutions in general. These states are Idaho, Indiana, North Dakota and Wyoming. California with a flat rate upon capital, surplus and undivided profits places finance institutions all in the same class. Of the states which measure the tax by income the tendency is to include all finance institutions in the same class and many of them also include other business corporations. However, it should be noted that the rate is not always the same in the same state upon all of these corporations. Further some of the states exclude national banks from the income tax. Mutual savings banks, and similar institutions, as credit unions, where they exist, seem to be set apart for special treatment. Insurance companies also constitute a special class by themselves.

It is interesting to note then that the more advanced industrial states, and some others, seem to make little or no distinction between banks and other financial institutions. Could the assumption then be that at least these states, and they constitute respectable minority, see no occasion for taxing banks and allowing other corporations to escape or be taxed at a lower rate? This would seem to add weight to the court decisions that there is moneyed capital in competition with banks and that it should be taxed as bank capital.

CHAPTER II. THE FUNCTIONS OF BANKS AND SOME OTHER BUSINESSES
WHICH MAY BE IN COMPETITION WITH BANKS

By functions of banks and other businesses we mean what does each do to make a profit for its stockholders or owners. What kind of investments are made, who are the customers, what are the sources of the funds it uses, and what other services are rendered for a price. Banks are in business to make a profit for their stockholders and other privately owned businesses have the same object. Any consideration of public service or responsibility is secondary, if at all existent with any individual owner. Banking laws are enacted to protect the creditors of banks, and the banks against their creditors, as are other laws governing other businesses for the purpose of insuring the maintenance of mutual obligations of buyer and seller, debtor and creditor. If banks are considered from the standpoint of a business for profit, as it seems they should be, then they should not be subject to any greater taxation than businesses which are in competition with them except insofar as they are granted special consideration or privileges.

Text book writers, legislators and others emphasize the public nature of a bank, its obligations as an institution entrusted with the public funds. Little consideration or

discussion is devoted to the rights to which the owners as members of the community investing their funds for a profit are entitled.

If the law sees to it that the customers of a bank either depositors or borrowers or those who pay for a special service are protected in their rights is not that sufficient? Why should a bank or its owners by the payment of taxes, contribute more than a proportionate share for the maintenance of government? Is it that banks are granted special privileges, that its owners enjoy profits which accrue to it either thru monopoly or special privileges not granted to other members of the community who have funds to invest? The very fact that there is a nationwide movement among banks to show discrimination in taxation and to prove competition with other business, is prima facie evidence that banks do not enjoy exclusive rights and privileges, none of which are granted to others. The line, which, in times past, marked a bank as a distinct and peculiar business tends to be blurred. The field tends to become more general and diffused by extensions from two directions. Banks are extending the scope of their activities into other fields beside strict commercial banking as it was formerly known. Other businesses thru growth in number and resources and pushing their activities further afield meet the banks in some fields which are common.

What then is the field of banking, what are the

functions of a bank? No exact answer can be given for an individual bank or banks in general for banks, as other business, change with the times. But for our purpose an exact definition is not essential. It will be sufficient to discuss the activities of banks and to point out where these activities, at the present time, are being encroached upon or encroach upon the activities of others.

The field of banking extends in three directions, borrowing and lending and rendering of services. In borrowing the depositors are the principal source of funds other than the stockholders. In the other directions the activities of the bank are many, lending for a short time (commercial paper), lending on longer time security, (bonds and mortgages), underwriting, buying and selling bonds, exchange accepting drafts, collecting bills and drafts, safe keeping of valuables, and trustee and administrator for individuals and corporations.

We shall consider each of these functions one at a time to discover if possible, if the carrying out of that function meets with competition, and just what is the source of such competition if it exists.

Where does a bank get the funds it loans, are they given to it or as is frequently asserted, does it manufacture them out of whole cloth? If either of these things is strictly true and no other business enjoys a similar position, then we would agree that banks occupy a peculiar profit making position and should be taxed accordingly. As a matter of fact,

are either of these methods of getting funds available to a bank.

The sources of funds for lending are two, stockholders and depositors. The first we shall pass over as a source available and in use by any business. Deposits are nominally of two kinds, time and demand. As a matter of bank practice there is little difference between the two. In ordinary times, savings or time deposits are available immediately to the depositor by applying in person, demand deposits are transferrable by check. The privilege the bank has of demanding notice before withdrawal of savings deposits is rarely used. Are these funds given to the bank or in other words does a bank use them free of charge? Such is obviously not the case with savings deposits for which it is common knowledge that the bank pays a rate of interest. Neither are demand deposits obtained without cost. Many of the demand deposits of a bank in the larger towns are obtained from correspondent banks upon which a rate of interest, usually 2%, is paid upon average daily balances. Also interest is paid to private individuals and corporations who carry balances above a certain minimum. Of course the rate of interest is lower than that paid by other business which borrow funds, but there are two reasons why this is so. First, the cost of handling the funds for the depositor and second the necessity of keeping a reserve, to make these funds available upon demand. This reserve earns the bank nothing. Altho

these things are not ordinarily considered they are none the less services which the bank renders its depositors for the use of these funds. Nothing is perhaps more illuminating of these facts than that the banks in order to break even on a small account have found it necessary to impose a service charge for accounts whose balances fall below a minimum. In other words, the small depositors account is not profitable to the bank, the expense of carrying the account exceeds the income received from its use. It might be objected that the interest paid on large balances is smaller than that paid by other businesses which borrow funds. But isn't the fact that the bank is able to obtain funds under these conditions evidence that the depositor considers his small interest return, the service he receives in the way of having his funds available immediately, and the numerous other services that the bank performs for its customers at least worth the possible return that might be available thru some other use of his funds?

Perhaps a more conclusive way to show that the bank doesn't get its funds without cost is to compare the returns per dollar invested in banking and in other business. Such a comparison is difficult due to the lack of published returns for industries as a whole. If figures were available to show the returns of businesses with a large fixed investment and other particular types of business such as fidelity, mortgage or acceptance corporations a valid comparison could be made.

As it is a few observations may be made based upon a little information that is at hand:

The average return for railroads is in the neighborhood of five percent. The average return upon capital investment of all the state banks and trust companies in Washington for the year 1926 was 4.7%(1) Seven to twenty per cent returns are reported by large numbers of fidelity mortgage and acceptance corporations in Moody's Manual of 1927. These latter returns are perhaps too high for all such companies but the figures are indicative that some of these companies are as profitable as some of the most prosperous of the banks.

If a bank received its deposits without expense or could lend funds it did not have the returns would certainly be much in excess of the 4.7% reported by the banks of Washington. If we assume that a bank can create earning assets of ten times capital and can earn 2% net upon such assets and also earn 5% on capital the return to such a bank would be 25% on capital. No such return is evident, nor such assumption warranted by the facts.

If a bank could create deposits of ten times its capital, for which it paid nothing, the result would obviously be a return much in excess of that obtained by a business which only had the use of funds obtained from owners

1. Twenty-first Annual Report of the Supervisor of Banking for the State of Washington.

or creditors. Figures are not available for comparison of the return on capital investment of a large number of other particular types of businesses. Only on such figures would it be valid to compare the returns of the banks with the returns of such businesses.

The above comparisons may not be conclusive but they are indicative that depositors in banks receive something for the use of their funds otherwise it would be necessary to assume that banks were more inefficiently operated than other businesses, that the charge to customers for the use of their funds is excessive, that the gross income is being dissipated in operating expenses. Such an assumption as the latter is entirely unwarranted by the facts. Such funds as the bank borrows in the form of deposits are paid for in competition with business in general. If such were not the case and banks obtained funds for which they didn't pay and loaned them out at interest, isn't it likely that the returns on investments in bank stock would be large enough to induce many more persons with available funds to invest in such stock. Everybody would be in the banking business.

Perhaps the above discussion makes it unnecessary to discuss the question of a bank manufacturing credit, lending purchasing power which it doesn't have, lending ten dollars with one available for payment. Such notions as there are entirely too common and given too much credence by those who gain their knowledge of bank functions and operations from reading of these things from text books and current

literature. The basis of this notion is of course bank reserves. Because a bank is only required by law to have reserves of a small percentage of the deposits it is assumed that most deposits in excess of this reserve are or can be created by lending.

Consider the case of an individual bank starting in business with paid in capital and surplus of one hundred thousand dollars. Further let it be assumed that this one hundred thousand dollars is in gold, which it would not likely be, but rather credit on some other bank or banks. How much could this bank actually lend? Certainly not more than one hundred thousand dollars if there were no depositors with the bank. In a very short time the bank's one hundred thousand would be removed thru adverse clearings and nothing could be lent beyond the one hundred thousand.

Now if the borrowers of the bank left on deposit with the bank twenty per cent of their borrowings, which is about all the bank could possibly figure on, how much could the bank lend? If the bank were in a reserve city and a member of the Federal reserve system their balance sheet would appear as follows:

<u>Assets</u>		<u>Liabilities:</u>	
Cash & Reserve	19,400.	Deposits	19,400
Loans	97,000	Capital and surplus	100,000
Stock in F.R.S.	3,000		

There is one other source of deposits that would increase the bank's lending power beyond what is shown in

the above case and that is what Phillips terms primary deposits.(1) Some of the funds lent by the bank and withdrawn would find their way back to the bank thru other depositors who had received checks from the bank's borrowers. The amount of these primary deposits seldom exceed 10% of the funds lent by the bank. So that the total amount an individual bank can lend as a result of its capital investment assuming a 10% reserve; 10% of borrowings left on deposit, and 10% primary deposits as result of borrowings, is \$121,951.20. Then an individual bank unless it gets deposits from sources other than its own lending activities can actually lend but a small amount in excess of its capital investment. The bank is no magician. It cannot "lift itself by its own bootstraps." The funds it lends must either come from depositors or stockholders, either from owners or creditors. It has been shown that all the funds a bank borrows it pays for either in service or interest. The bank is a competitor for the funds of the community against other bidders and only as it assures as great returns either in service or interest will the funds be forthcoming.

Are there any other businesses which compete with banks for these particular funds which are available for banking purposes. That is short time funds or funds which can be obtained on short notice. That there are many such

1. Phillips. Bank Credit, page 71.

businesses there can be no doubt.

Mutual saving banks are in this class. They receive time deposits which in most instances are available upon the request of the depositor. In other words virtually demand deposits. Furthermore, even tho these banks have the right to notice of withdrawal of deposits they have educated their depositors to expect their funds upon demand. These banks have grown by leaps and bounds and undoubtedly have large amounts of deposits which would be available to commercial banks either as time or demand deposits.

Also savings and loan associations, credit unions, etc., are competing with banks for funds. These saving and loan associations have built up a large business upon the funds which their stockholders, who are virtually depositors contribute. They , as mutual savings banks, cash the "stock certificate" upon demand.

These savings and loan societies, credit unions, mutual savings banks, have become powerful and numerous throughout the country, especially is this true of Savings and Loan Associations.

These institutions offer a larger return to the depositor, two and three per cent and sometimes as high as 6%, in the case of Savings and Loan Associations, than do banks. Naturally under such circumstances they make large inroads into the deposits of commercial banks and especially those with savings departments, and most of them have such

a department.

Why can these institutions pay a higher return than other banks or even than stock savings banks? Undoubtedly part of it is due to the profit that would otherwise go to the stockholder but does that account for the whole of it? It does not. Suppose that the average bank makes a net profit of 16% on its capital which is a liberal estimate. What would that amount to if it were distributed to the depositors and stockholders according to respective amounts in the business? If deposits are ten times net worth the 16% would only be a 1.45% return on deposits. What accounts for the difference between this 1.45% and the 2 to 6% which these institutions pay their depositors? Taxes certainly make up some of it. Especially in such states as Washington where banks alone are taxed, is this true. Certainly they ought to pay some tax above the meagre amount they pay on such real estate as they own.

Nothing has been said by way of explaining the extra high rate some Savings and Loan Associations pay. In some instances the rates are 8% and 10% compounded. These rates are possible because of peculiar practices which are allowed in some states. The prospective depositor (stockholder) is enticed into the "society" by the lure of large returns and the easy monthly deposits. Nothing is said of the difficulty of getting out with a whole skin. In some of these Savings and Loan Associations the stockholder must

pay in as long as six and seven years to get out what he has put in, much less the interest which is promised him. To get the interest it is necessary for his stock to be fully paid in. As a result of these practices many stockholders, who in times of stress must cash their stock, lose a part of their savings to pay a high return that is promised all but that only a few survive to receive. Luckily such institutions are becoming fewer but there are still many of them doing a thriving business in some of the states.

The competition for funds isn't so obvious in the case of insurance companies and various kinds of finance companies. Perhaps in the case of financial companies it is practically non-existent but before arriving at such a conclusion a little consideration of the source of the funds used by these companies might be considered. The stockholders contributions are small when compared with the volume of business done. The funds carry this business is obtained from two sources, the banks and the public. When the banks are used the companies own notes are given sometimes with their customers accounts or notes as security. In this case the banks furnish the funds and the finance company reaps a profit. More will be said of this in considering competition with other functions of banks. When the finance company obtains funds directly from the public either debentures or preferred stock are sold. This method has certain advantages over direct bank borrowing but when the banks are considered has the further effect of entirely eliminating for them an

entire source of revenue. The debentures of a finance company are in the nature of time deposits or stable demand deposit of a commercial bank. The public is providing funds for the finance company to do a banking business. The debentures are of short maturity, not all falling due at the same time. By having these debentures maturing from time to time and providing new ones to take their place the company is able to provide what funds they need with little expense and in what quantities they desire. A permanent deposit liability is obtained which can be provided without bank relations which might entail the necessity of providing the bank with information regarding their business and at times being embarrassed by inability to get bank accommodations. This method of financing necessitates paying a slightly higher rate than might be paid to the bank but in some instances this differential is more than offset by the other advantages.

It is impossible to say what part of the funds of insurance companies are obtained as a saving of the policy holder, or as a provision for death, accident, or ill-health. In other words whether the policy holder is buying insurance or saving his funds. Undoubtedly a large part of the total is pure savings in which the policy holder has no intention of nor feels the need of "dying to beat the insurance company." The endowment policy, industrial insurance, interest on premiums, and the borrowing on any policy are inducements to saving. Thru these policies and methods the insurance

companies obtain large amounts of funds that would otherwise seek other sources for investment.

The consideration of the nature and source of the funds used by these various businesses leaves little doubt that the banks are in competition with them for the use of these funds.

The federal statute which provides for the taxing of national banks does not take account of this phase of competition but only the use of the funds after they are provided. This omission does not make unnecessary a consideration of this side of competition that banks have to meet. To the banks this is perhaps the most serious phase of competition. Without deposits there is no banking business.

In considering the function performed by banks we are not bound by any notions as to what are considered the proper functions of banks, what things a bank should or should not do. Many persons object to the widening of the field of bank business, they are pained by what they term "drugstore" banking. They assert that banks are encroaching upon the preserves of businesses longer in the field and are competing with rather than having competitors, a rather subtle distinction. In discussing the court decisions as to what constitutes moneyed capital in competition with banks they are prone to hark back to "what congress had in mind" when it enacted Section 5219. They long for the days when banks were banks and not department stores. It seems the logical

thing to accept banks and other institutions as they are and not base our reasoning on conditions that existed when congress enacted Section 5219. The banks have the sanction of law for the various functions, as have other businesses and if banks and other businesses meet in competition it seems but just that one or more should not be discriminated against to the benefit of the remaining ones in the field.

After obtaining funds the object of a bank or any of these other businesses is to invest these funds for a profit. None of them engage in the actual business of production but rather lend their funds on security of various kinds to those who do. Assume for a moment that none of these institutions lend their funds in the same field, that there is no competition for the employment of their cash or credit, Is there any sound economic reason why funds lent to finance one operation should be penalized by a tax to divert funds from that field to another. Who is a sufficiently able judge of social welfare, desire or needs, to say that funds for what are ordinarily termed commercial loans should be taxed at a higher rate than those invested to build houses, or factories or to buy automobiles or sewing machines or to pay the doctor or the undertaker or to speculate in real estate or in oil. It seems that funds that are available for any purpose thru an institution or private business which makes a profit for its owners by lending funds to finance the activities of society should pay some part of the

expenses of government, and the part they should contribute as taxes or fees should not penalize the use of funds in a particular field.

Suppose that we are unable to grant the position taken in the above paragraph and assume, and it is an assumption, that only funds in competition with each other should be taxed at the same rate. Such an assumption would not necessarily, as some assume, mean that all the various kinds of financial institutions here discussed would pay the same tax. The amount might vary in each instance. Taxes applied to these institutions would cut down the return they can pay their depositors and reduce the favorable differential they enjoy in attracting depositors and make a fair field for all who desire to attract deposit funds.

Are there funds in competition with banks funds? Are there funds which are being invested and reinvested in the same fields as bank funds? In discussion of this question only such businesses as have substantial amounts of funds available will be considered. Information as to the amounts are available to anyone who care to look for them. Many of their balance sheets are published and others are on file with the secretary of state or other official performing the same function in the various states.

A bank lends its fund in various ways such as, commercial loans and discounts, on call at the stock exchanges, government securities, federal, state, and local bonds, notes, and certificates, bonds, and stocks of business corporations,

real estate mortgages and loans to individuals for consumption purchases. All such loans are for a profit and other institutions are doing the same thing. If they are not lending in all these fields they are lending in some of them.

Commercial loans of banks are not so liquid or short time as has been assumed. This is evidenced by the shrinkage of this item in banks balance sheets of recent years. In some balance sheets this item is still larger than any other and sometimes larger than combined investments in other fields but in many, investment in bonds, government securities and long time notes are assuming increasing importance. In years past banks have allowed businesses to carry an open line which altho its use fluctuated seasonally was never entirely cleaned up. Even now, tho a borrower is expected to liquidate his loans once a year within a short time he is again on the bank's books. This results in what is essentially a long time loan. Aside from this consideration banks are competing in this field with other businesses.

Finance companies make a profit by lending to business houses on their note with accounts receivable or stock in trade as security. The turnover by these businesses in a year is enormous. This is the type of loan that the bank makes and carries on its books as loans and discounts. It might be argued that the loans made by these finance companies are not acceptable to banks and that these companies borrow from the banks and thus bring the business to the bank indirectly. That some of the loans made by these companies

are not acceptable to banks is true but a large part of them are. What bank would turn down a large part of the paper on the books of the General Motors Acceptance Corporation, such paper as is given by dealers in general motors products or installment sales contracts secured by the endorsement of such dealer? What bank would refuse to purchase a large part of the installment contracts of a large retail dealer in any line if endorsed by such dealer. In the past banks have made loans to these dealers direct which enabled the dealers to carry their customers and the banks feel a shrinkage of loans in this field.

What bank would refuse a large part of the loans secured by customers accounts that are now on the books of the Commercial Credit Co., of Baltimore.

Accounts receivable of some of the largest industrial concerns in the country are pledged to this company. Next to cash, accounts receivable are the best security for commercial bank loans. The pledging of these accounts reduce the business these companies transact with the banks. They no longer make as great a use of the bank as a source of funds. The banks did and do make loans on such security.

A large part of the loans of finance companies never find their way to the bank but are financed by the public thru the purchase of preferred stocks and debentures which eliminates the bank entirely from that field. If the finance company borrows from the bank it is at a lower rate

than they charge their customers and the banks would obtain part of that differential if it had the opportunity of making the loan direct. That the banks are unable to get into that field is evidenced by the tendency of banks to organize separate companies to compete with these finance corporations. By the organization of such corporations the funds so invested escape taxation in most of the states. Could the question of a tax be one of the reasons why banks are unable to meet this competition directly?

Perhaps some of these companies which borrow from the banks are better customers than their customers would be, for instance the General Motors Acceptance corporation, But even so isn't the General Motors Acceptance Corporation and others doing the same kind of business, investing and re-investing funds for a profit, even as the banks are doing, And the taxes they pay in most states is nominal, a small license tax and the local tax on their typewriters and dictaphones. Also might be included the tax on the office space which is included in the rent they pay.

Investing in stocks and bonds, buying and selling for their own account or their customers isn't by any means confined to commercial banks. Insurance companies and mutual savings banks have what may, even in these times, be considered substantial amounts invested in securities. Nor are they of a type unacceptable to a bank. Most of the securities held by banks for their own account fit nicely under the requirements for savings banks and insurance companies' in-

vestments. The argument for imposing the income tax on all the income of national banks in Massachusetts is grounded upon the idea that national banks not being subject to state regulations as to investment of savings deposits can stand a higher tax. But isn't the tax an inducement for the national banks to invest in less safe, higher yield securities? Even disregarding the latter statement the banks as a matter of good banking practice actually keep their available funds in what are considered safe investments.

Banks buy and sell securities for their customers as do private investment banks, bond houses and brokers. Banks act as underwriters directly or as agent of investment bankers, yet the banks pay substantial taxes and in most states these other businesses escape with a nominal one. Who could say that the banks occupy a peculiar position in this field for which they ought to be taxed and their competitors exempted?

Are bank funds the only ones available on the call market? Some persons so assume but substantial amounts are for the account of individuals and corporations. Individuals with large balances at the bank use these balances on the call market, withdrawing them from the banks' use. There are many instances of banks lending to their customers when call rates are high, as they have been recently, to provide its customer with funds to lend on call, the bank thus taking a smaller profit to accommodate and retain the good will of its customer. Mutual savings banks in Washington expect to

get a law thru the next legislature allowing them to lend on call. A word may be said here as to the attitude of bankers toward taxing the individual who has a few dollars to invest from time to time. These individuals are not considered by the bankers, at least in the state of Washington, as competitors of the bank. They are not competitors but but customers. The bankers in their suit now pending in the state of Washington to enjoin the state from collecting the taxes and to recover back taxes intend to show only competition of capitalized institutions doing the same kind of business they do. The banks are not desirous that the casual private investor should be taxed as they are.

The McFadden Act gave the national banks the power to make five year real estate mortgage loans. The privilege has not been taken advantage of to any large extent but undoubtedly will be in the future. This type of loan makes up the bulk of the loans of savings and loan associations and a large part of the loans of insurance companies and savings institutions. Grounds for discrimination in taxation is supposed to exist because the borrowers and the providers of the funds are the same individuals in the case of savings and loan associations and mutual savings banks. The individual is saving a part of his small income to build a home and ought to be encouraged in his efforts. There is no information available either to prove or disprove this contention and it is by no means agreed that such a saver should be tax exempt

if the contention were true. Why should the person who prefers to invest his funds be taxed and he who saves for a home be encouraged and exempt from a share in the maintenance of government until such time as he virtually acquires a home? Furthermore, as was pointed out in the discussion of the source of funds for the various financial institutions, the contributors to the funds of savings and loan associations and part of those of insurance companies and all of those of mutual savings banks are virtually depositors who expect to be able to withdraw their funds on demand. When a stockholder or depositor withdraws his funds the savings and loan association or mutual savings bank doesn't ask him if he is building a home with his savings. More likely he has saved the down payment on an automobile or a radio. Altho the figures aren't available it is the opinion of persons in these various businesses from whom opinions were obtainable, that the depositors were placing their funds in the stock or on deposit for the interest and that most of the borrowers were other than those who provided the funds. A depositor or stockholder in these institutions is subject to the same requirements in obtaining a loan as is anyone else. They are certainly not favored because they are part owners. These are businesses organized for profit and such a profit to be obtained from investing and reinvesting funds and not to actually engage in production. They are financial institutions. Yet in most of the states they either escape taxation altogether or are in-

adequately taxed as compared with banks.

Banks are granted by law the right to act as trustee and as administrators and to have a safety deposit department. These functions are also those of trust companies. Yet in many states in which trust companies do not do a discount and deposit business they pay very few taxes.

In some few fields as buying and selling exchange banks enjoy a special source of profit but such fields are limited as to number and gain. To actually gauge the degree of extra taxation a bank can stand due to these few sources of income would be a difficult process. But if a bank is going to be required to pay extra taxes there should be some foundation other than assumption for levying them.

Perhaps a tax based upon income is the easiest solution and is permissible by Section 5219. But all states, under their present constitutions cannot impose an income tax. Whether a state is ready or able to impose an income tax should not deter such a state from attempting a rational solution of the tax problem. An actual determination of what constitutes moneyed capital in competition with banks should be at the base of the tax laws.

Local Rates on Cap., Surp. and Undivided Profits
Minus Ass. Val. of Real Estate

Local Tax on Real Property Plus State Franchise, Income or Cap. Stock Tax

State	Local Rates on Cap., Surp. and Undivided Profits Minus Ass. Val. of Real Estate			Local Tax on Real Property Plus State Franchise, Income or Cap. Stock Tax								
	Natl. Banks	State Banks	Trust Companies	Savings Banks	Investment Companies	Other Business Corporations	National Banks	State Banks	Trust Companies	Savings Banks	Investment Companies	Other Business Corporations
Alabama	(County ad valorem tax on all but Other Bus. Corps. based on net worth minus real estate owned.)			\$1 per \$1000 Cap.	\$1 per \$1000 Cap.							60¢ per \$1000 Cap.
Arizona	Yes	Yes										\$20 per Corp.
Arkansas				\$1.10 per \$1000 Cap. Stock	\$1.10 per \$1000 Cap. Stock		\$1.10 per \$1000 Cap. Stock					\$1.10 per \$1000 Cap. Stock
California				1.45% Cap., Surp. & Undivided Profits Minus Real Estate	As Natl. Banks	As Natl. Banks	As Natl. Banks	As Natl. Banks	As Natl. Banks			1.8% Cap., Surp. Minus Real Estate
Colorado	Yes	Yes	Yes									10¢ per \$1000 Cap. Stock
Connecticut				1% on Cap., Surp. & Und. Profits Minus Real Estate	No State Banks	As Natl. Banks	$\frac{1}{4}$ of 1% on Deposits Less Deductions	2% on Net Income				2% on Net Income
Delaware				1/5% Cap., Surp. & Und. Profits Less Real Estate	As Natl. Banks	As Natl. Banks	As Natl. Banks					\$5 to \$50 on Cap. Stock
Florida	Yes					1/5% on Cap. Surp. & Und. Profits Less Real Estate	\$10 to \$300 on Cap. Stock					
Georgia	Yes	Yes	Yes	Yes						Flat \$50		\$10 to \$1000 on Cap. Stock
Idaho	Yes	Yes	Yes	Yes	Yes							\$10 to \$150 on Cap. Stock, \$5000 Exemption
Illinois	Yes	Yes					1/20% Authorized Cap. Stock			As Trust Cos.		As Trust Cos.
Indiana	Yes	Yes	Yes	Yes	Yes							No Franchise
Iowa	Yes	Yes	Yes	Yes								
Kansas	Yes	Yes	Yes	Yes	Yes							
Kentucky	Limit 8 mills	Limit 8 Mills	Limit 2/5%	Limit 2/5%							$\frac{1}{2}$ Mill on \$1 Cap. Stock	\$10 to \$25 Cap. St. $\frac{1}{2}$ Mill on \$1 Cap. Stock
Louisiana	Yes	Yes	Yes	Yes								1/20% on Cap. Stock

State	Natl. Banks	State Banks	Trust Companies	Savings Banks	Investment Companies	Other Bus. Corps.	National Banks	State Banks	Trust Companies	Savings Banks	Investment Companies	Other Business Corporations	
Maine	1½%	1½%	1½%							5/8% on Deposits Less Deductions	\$5 to \$75 Cap. Stock	\$5 to \$75 Cap. Stock	
Maryland							1% on Cap., Surp. & Und. Profits Less Real Estate & Taxpaying Shares	As Natl. Banks	2½% on Gross Income	½% on Deposits		\$25 to \$250 on Cap. Stock	
Massachusetts							6% on Net Income	6% on Net Less Earnings from Savings Deposits	As State Banks	½% on Deposits Less Deductions	\$5 to \$1000 Corp. Excess Plus 2½% on Net Income	As Investment Cos.	
Michigan							Law Unconstitutional	5/20% on Cap. & Surp.	½% on Cap. & Surp.		¼% on Cap. & Surp.	5/20% on Cap. Stock & Surp.	
Minnesota	Yes	Yes	Yes										
Mississippi	Yes	Yes	Yes		Yes								
Missouri	Yes								1% on Net Inc.	1/20% on Cap. Surp. & Und. Profits	1/20% on Cap. Surp. & Und. Profits	Local Tax Only 1/20% on Cap. Surp. & Und. Profits	Local Tax Only 1/20% on Property Owned
Montana	Yes								1% on Net from State	Net Inc. Less \$2500 at 1%	As Trust Cos.	As Trust Cos. As Trust Cos.	
Nebraska	70% of Local Rate	As Natl Banks	As Natl Banks	As Natl Banks								\$5 to \$2500 on Cap. Stock	
Nevada	(Less Surp. to 50% of Cap.)		Yes	Yes									
New Hampshire							1% on Cap., Surp. & Und. Profits Less Real Est.	As Natl. Banks	¾% on Special Deposits plus 1% on Cap. Stock	As Trust Cos.		Flat \$5	
New Jersey							(¾% on Cap., Surp., & Und. Profits	As Natl. Banks	¾% on Special Deposits plus 1% on Cap. Stock	Exempt	1/20% on Cap. Stock	1/20-1/10% on Cap. Stock	
New York							(4½% on Net Income)	As Natl. & State Banks	1% on Cap. Surp. & Und. Profits		(4½% on Net Income)		
North Carolina	Yes							4½% on Net Inc.	1/10% on Cap. Stock		1/10% on Cap. Stock	1/10% on Cap. Stock	
North Dakota	Yes		Yes					3% on Net Inc.					
Ohio	Yes	Yes	Yes ?	Yes ?	Yes ?							3% on Net Inc. Book on Fair Value at 1/8 of 1%	
Oklahoma	Yes	Yes	Yes									50¢ per \$100 Cap. Stock	
Oregon	Yes	Yes	Yes									\$10 - \$200 on Cap. Stock	

<u>State</u>	<u>Natl. Banks</u>	<u>State Banks</u>	<u>Trust Companies</u>	<u>Savings Banks</u>	<u>Investment Companies</u>	<u>Other Business Corporations</u>	
Pennsylvania			(2/5% on Cap., Surp. & Und. Profits Less Real Estate)	1/2% on Cap. Stock	3% on Net Inc.	1% on Gross Receipts	1/20% on Cap. Stock
Rhode Island			(State 2/5% on Deposits & Stock. Local 2/5% on Stock & Checking Accts.)	2/5% on Deposits	1/40% on Cap. Stock	2/5% on Corp. Excess	
South Carolina	Yes	Yes		1/5% on Paid-in Cap. Stock	As Trust Cos.	As Trust Cos.	As Trust Cos.
South Dakota			Local 2/5% on Cap., Surp. & Und. Profits				
Tennessee	Yes					3% on Net Inc.	3% on Net Inc.
Texas	Yes	Yes	Yes				1/2 Mill on Cap. Surp. & Und. Profits
Utah	Yes	Yes	Yes			\$5 to \$750 on Cap. Stock	\$5 to \$750 on Cap. Stock
Vermont	2%	2%				\$10 to \$100 Cap. Stock	\$10 to \$100 Cap. Stock
Virginia						\$50 to \$250 on Cap. Stock	\$50 to \$250 on Cap. Stock
Washington	Yes	Yes				\$50-\$150 on Cap. Stock	\$50-\$150 on Cap. Stock
West Virginia	Yes	Yes				As Trust Cos.	As Trust Cos.
Wisconsin							
Wyoming			(Less Surp. To 50% of Cap.)	Yes			2-6% on Avg. 3-yr. Income

National Banks State Banks

Trust Companies

Savings Banks

Investment Companies

Other Business Corporations

(2/5% on Cap., Surp. & Und. Profits Less Real Estate)

(State 2/5% on Deposits & \$2.50 per \$10000 Cap. Stock. Local 2/5% on Stock & Checking Accts.)

Local 2/5% on Cap., Surp. & Und. Profits

3% on Net Inc.

1.1% on Cap., Surp. & Und. Profits Less Real Est. As Natl. Banks

7/10% on Sav. Deposits

As Natl. Banks

\$50-\$150 on Cap. Stock
1/5% on Gross Inc. \$50-\$940 on Cap. Stock

7/10% on Sav. Deposits

As Natl. Banks

Exempt As Trust Cos.

3% on Net Inc. No Franchise Tax

1% on Gross Receipts
1/40% on Cap. Stock

As Trust Cos.

3% on Net Inc.

\$5 to \$750 on Cap. Stock

\$50 to \$250 on Cap. Stock

\$50-\$150 on Cap. Stock
As Trust Cos.

1/20% on Cap. Stock
2/5% on Corp. Excess

As Trust Cos.

3% on Net Inc.
1/2 Mill on Cap. Surp. & Und. Profits

\$5 to \$750 on Cap. Stock

\$10 to \$100 Cap. Stock

\$50 to \$250 on Cap. Stock

\$50-\$150 on Cap. Stock
As Trust Cos.

2-6% on Avg. 3-yr. Income

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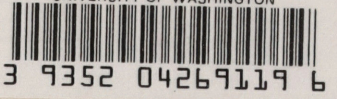
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