

Committee Name:
Joint Committee on Finance – Budget Hearings (JCF_BH)

Appointments

99hr_JCF_BH_Appoint_pt00

Clearinghouse Rules

99hr_JCF_BH_CRule_99-

Committee Hearings

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Committee Reports

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Executive Sessions

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Hearing Records

99hr_ab0000

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Misc.

99hr_JCF_BH__Misc_More_pt08

Record of Committee Proceedings

99hr_JCF_BH_RCP_pt00

Banks



STATE REPRESENTATIVE

DAVID WARD

37th Assembly District

The attached is provided
for your information.
Please let me know if I can be
of further assistance.

I have attached the testimony from two
of my constituents, Sherry Quamme
and Diane Veith, as well as
that of the Community Bankers of
Wisconsin. None of them were able
to testify at the public hearing in
Madison; however, they asked me to
be sure their testimony was still
included in the record. Thanks, Dave

P.O. Box 8953, Madison, WI 53708

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Bankers



Community Bankers of Wisconsin

7818 Big Sky Drive, Suite 104
Madison, WI 53719
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**Public Hearing of the
Joint Committee on Finance**

**SB 45/AB 133 – State Budget – Combined Reporting
Thursday, April 15, 1999**

**Testimony of Daryll Lund, President & CEO
Community Bankers of Wisconsin**

Chairpersons Burke and Gard and members of the committee, my name is Daryll Lund, President & CEO of the Community Bankers of Wisconsin (CBW). CBW is a statewide trade association representing the interests of 220 community based financial institutions.

The average size of our bank members is \$76 million in assets. These banks are typically located on Main Street in the heart of the community and are vital to the growth and prosperity of those Wisconsin communities. Community banks reinvest local deposits back into the community in the form of loans. Many of these loans help create jobs in small businesses, farming, manufacturing and housing. Wisconsin community banks have reinvested, on average, 95% of their loan portfolio in their own communities and almost 100% of their total loan portfolio here in Wisconsin.

I appear before you today to testify in opposition to the combined reporting proposal contained within the state budget.

Some of the key points I would like to make are as follows:

- 1. If enacted combined reporting will negatively impact the competitiveness of Wisconsin community banks.**

Wisconsin community banks face an increasingly competitive marketplace. Community banks today compete against larger multi-state banks, brokerage firms, mutual fund companies, finance companies, credit unions and Internet banks. Some of these competitors enjoy regulatory and income tax advantages over

community banks. State boundaries are also being dissolved. Enacting combined reporting in Wisconsin will enable out of state financial institutions to have a competitive advantage over Wisconsin community banks when doing business in our state.

We will be sharing with you information which supports this point.

2. If enacted combined reporting will likely accelerate the mergers within the community banking industry.

Wisconsin currently has approximately 360 banks compared to 644 banks in 1980. Several factors have led to this decline including increased competition, economies of scale and increased pressure to achieve earnings performance objectives. One of the major impacts of combined reporting will be a reduction in the earnings performance of many community banks. If combined reporting is enacted the overall stock value of the bank is diminished because stock is sold today as a multiple of earnings. The reduction in earnings may result in pressure from the shareholders to sell the bank.

We will be sharing with you information which supports this point.

3. If enacted combined reporting will make Wisconsin a less attractive state to have a bank headquarters.

I mentioned earlier in my testimony that in today's financial services marketplace state boundaries are being dissolved. Interstate banking and branching has contributed to this fact. Multi-state financial institutions consider basing their headquarters in the state that provides the most beneficial tax and regulatory environment. Community banks that are on the state border will also have to make a decision on whether Wisconsin is the best state to be headquartered. Overall community banks are more restricted in their ability to move interstate since they manage almost no out-of-state activities. Wisconsin loses jobs and tax revenues if even one bank decides to move their headquarters out of state.

For these reasons the Community Bankers of Wisconsin encourages your opposition to the combined reporting proposal. Thank you.

Bank Industry's Current Tax Burden Ranking With Our Neighbors

Tax Expense from 1997 FDIC Call Reports, by State

All Banks	Iowa	Wisconsin	Illinois	Michigan	Minnesota
Total Commercial Banks	453	361	784	163	520
Total Employees (full-time equivalents)	15,858	23,993	72,960	42,907	41,300
Net income for commercial banks from 1997, millions	581	840	2,685	1,645	1,926
Income Taxes	258	381	1,228	852	1,083
Net income before taxes	839	1,221	3,913	2,497	3,009
Tax burden as percent of Net income before taxes	30.75%	31.20%	31.38%	34.12%	35.99%
Tax burden if \$44 million* is added, net of federal savings		33.58%	→		

Banks Under \$100 million	Illinois	Iowa	Wisconsin	Minnesota	Michigan
Commercial Banks under \$100 million	502	376	244	426	89
Employees (full-time equivalents)	8,925	5,891	4,845	7,016	2,611
Net income for commercial banks from 1997, millions	234	178	131	188	44
Income Taxes	85	70	53	86	22
Net income before taxes	319	248	184	274	66
Tax burden as percent of Net income before taxes	26.65%	28.23%	28.80%	31.39%	33.33%

How much of the \$44 million would come out of banks under \$100 million?
Where would this move our ranking for smaller banks?

Banks \$100 million to \$1 billion	Illinois	Iowa	Wisconsin	Michigan	Minnesota
Commercial Banks \$100 million to \$1 billion	261	72	110	65	89
Employees (full-time equivalents)	23,344	5,435	9,769	6,754	7,171
Net income for commercial banks from 1997, millions	784	184	330	169	244
Income Taxes	323	76	150	81	125
Net income before taxes	1,107	260	480	250	369
Tax burden as percent of Net income before taxes	29.18%	29.23%	31.25%	32.40%	33.88%

In this category, Wisconsin is already a couple percentage points above Illinois and Iowa.
Where would our ranking move in this category?

Banks \$1 billion and over	Wisconsin	Illinois	Iowa	Michigan	Minnesota
Commercial Banks \$1 billion and over	7	21	5	9	5
Employees (full-time equivalents)	9,379	40,691	4,532	33,542	27,113
Net income for commercial banks from 1997, millions	379	1,667	219	1,432	1,494
Income Taxes	178	821	111	749	872
Net income before taxes	557	2,488	330	2,181	2,366
Tax burden as percent of Net income before taxes	31.96%	33.00%	33.64%	34.34%	36.86%

* Per Department of Revenue estimates

Wisconsin Bank Tax Laws Compared to Neighbors

Neighboring States	Do they tax interest from federal obligations?	What tax rate do they apply to banks?	For multi-state banks, how do they apportion income?
Iowa	Yes	5% (less than half the top rate on regular corporations, 12%)	single-factor on receipts
Illinois	No	7.18% combined rate (net income excludes US interest)	single-factor on receipts
Michigan	No	2.3%	single-factor on receipts
Minnesota	Yes	9.8%	70-15-15, heavily-weighted on receipts
Wisconsin	Yes, but current law allows many banks to offset this by moving investments to out-of-state related corporations. The proposed changes would encourage multi-state banks to source more of their operations outside Wisconsin.	7.9% on all income including US interest	A planned Technical Amendment to the Budget Bill would codify a single-factor apportionment for financial institutions. Multi-state banks will still be able to apportion income outside Wisconsin, but community banks would be taxed at Wisconsin's high rates on 100% of their income.

The reasons given for the corporate tax reform provisions are to **restore competitive balance with our neighboring states** and to **join the majority of states** and the emerging pattern of corporate taxation in the industrial midwest.

Wisconsin is in the minority of states that tax U.S. interest, even though they recently won a case on the right to do so. Other than Minnesota, all of our neighbors have more favorable state tax rates on banks. This change (combined reporting with no Treasury exclusion or rate reduction) would put **Wisconsin banks at a competitive disadvantage** with our neighbors. Please don't forget Wisconsin banks while you are restoring the competitive balance with our neighboring states.

Impact to Value of Business

Actual Bank Example

	Gross Receipts	Percentage	Taxable Income	Tax
In Wisconsin	\$ 6,856,938	84.11%	\$ 492,672	\$ 39,906
Outside Wisconsin	1,295,436	15.89%	1,264,229	-
	<u>\$ 8,152,374</u>	<u>100.00%</u>	<u>\$ 1,756,901</u>	<u>\$ 39,906</u>

Wisconsin tax rate	7.9%
Proposed tax	\$ 138,795
Current tax	<u>39,906</u>
Tax increase from combined reporting	<u>\$ 98,889</u>
Stock valuation PE ratio	20
Decrease in value of Bank to current shareholders	\$ 1,977,780



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