



FIT 2020-01 – Financial Institutions Tax: Limitation on the Tax Base – January 2020

The purpose of this information release is to provide guidance to financial institutions tax (FIT) taxpayers following the amendment of Ohio Revised Code (R.C.) 5726.04 by Am. Sub. H.B. 166, as passed by the 133rd General Assembly. The amendment to R.C. 5726.04 limits a financial institution's total equity capital to 14% of the financial institution's total assets for tax years beginning on and after January 1, 2020.

Effective Date of the Amendment

The following information should be used in the calculation of a financial institution's FIT liability for purposes of calculating estimated tax payments and tax due on the FIT tax return for tax year 2020 and thereafter. The first FIT estimated payment affected by the tax base limitation described in this information release is due January 31, 2020.

Limitation on the Tax Base

The FIT is calculated by applying the applicable tax rates to a financial institution's total Ohio equity capital. For tax years 2014 through 2019, total Ohio equity capital is a financial institution's total equity capital apportioned by a single gross receipts factor. For tax year 2020 and thereafter, total Ohio equity capital is a financial institution's total equity capital, *limited to 14% of that financial institution's total assets for the taxable year*, apportioned by a single gross receipts factor. If 14% of a financial institution's total assets for the taxable year are greater than that financial institution's total equity capital for that taxable year, the amendment to R.C. 5726.04 will not impact that financial institution's tax liability. If 14% of the financial institution's total assets are less than the financial institution's total equity capital for that taxable year, the financial institution will not have to apportion the amount of its total equity capital that exceeds 14% of its total assets.

Total Assets Calculation

For purposes of the tax base limitation, "total assets" are the financial institution's total consolidated assets reported as of the end of the taxable year, as follows, subject to audit and adjustment by the tax commissioner:

- For a reporting person that is a bank holding company and that files a FR Y-9C, the total consolidated assets of the financial institution as reported on the FR Y-9C, including the total assets of all entities consolidated for purposes of filing the FR Y-9C;
- For a reporting person that is a bank holding company and that files a FR Y-9SP, the total consolidated assets of the financial institution as reported on the FR Y-9SP, including the total assets of all entities that would be consolidated for purposes of filing a FR Y-9C if the bank holding company were required to file a FR Y-9C. The total consolidated assets as reported on Schedule SC-M of the FR Y-9SP may be used if the total consolidated assets as reported reflect the actual amount of total consolidated assets of the financial institution;

- For a reporting person that is a bank organization and that files a call report, the total consolidated assets of the financial institution as reported on the call report, including the total assets of all entities consolidated for purposes of filing the call report;
- For all other reporting persons, the total consolidated assets of the financial institution in accordance with generally accepted accounting principles. If the financial institution consists of a single entity, the total consolidated assets will only comprise of that entity's total assets.

Examples of the Limitation on the Tax Base

The following are examples of the total equity capital limitation applicable to tax years beginning on or after January 1, 2020:

Example 1. Reporting person, A, is a large bank holding company that files a FR Y-9C. A's FR Y-9C for the period ending December 31, 2019 showed total equity capital of \$950,000,000 and total consolidated assets of \$10,500,000,000. To determine whether the limit on total equity capital will reduce the amount apportioned to Ohio for purposes of the FIT, A will multiply its total consolidated assets by 14% and then compare that amount to its total equity capital:

$$0.14 \times \$10,500,000,000 = \$1,470,000,000$$

Because 14% of A's total consolidated assets (\$1,470,000,000) is greater than A's total equity capital (\$950,000,000), the limitation on total equity capital will not impact A for tax year 2020. A will apply its apportionment factor to its total equity capital of \$950,000,000 to determine its total Ohio equity capital.

Example 2. Reporting person, B, is a small bank holding company that files a FR Y-9SP. B's FR Y-9SP for the period ending December 31, 2019 showed total equity capital of \$40,000,000 and total consolidated assets of \$250,000,000. To determine whether the limit on total equity capital will reduce the amount apportioned to Ohio for purposes of the FIT, B will multiply its total consolidated assets by 14% and then compare that amount to its total equity capital:

$$0.14 \times \$250,000,000 = \$35,000,000$$

Because 14% of B's total consolidated assets (\$35,000,000) is less than B's total equity capital (\$40,000,000), B's total equity capital for purposes of determining the FIT for tax year 2020 will be reduced to equal 14% of its total consolidated assets, or \$35,000,000. B will apply its apportionment factor to \$35,000,000 to determine its total Ohio equity capital for tax year 2020.

Please direct any questions you may have to the Business Tax Division of the Ohio Department of Taxation at 1-888-405-4039. For persons using TTY, please contact the Ohio Relay Service at 1-800-750-0750 and give the operator the Ohio Department of Taxation's telephone number.