Iowa's Franchise Tax Credit

Tax Credits Program Evaluation Study

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By
Man Jia

Tax Research and Program Analysis Section
Iowa Department of Revenue

Preface

During the 2005 Legislative Session the Iowa Department of Revenue received an appropriation to establish the Tax Credits Tracking and Analysis Program to track tax credit awards and claims. In addition, the Department was directed to perform periodic evaluations of tax credit programs. This is the second evaluation study completed for this administrative tax credit.

This study and other evaluations of Iowa tax credits can be found on the Tax Credits Tracking and Analysis Program web page on the Iowa Department of Revenue website.

Angela Gullickson and Amy Rehder Harris reviewed this report.

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Executive Summary

Financial institutions in Iowa, regardless of entity type, are subject to the Iowa franchise tax for the privilege of doing business within the state. In Iowa, the income of financial institutions organized as S corporations is subject to two layers of taxation: at the entity level, the income is subject to the Iowa franchise tax, and at the shareholder level, the income is subject to the Iowa individual income tax or corporation income tax. In 1970 when the Iowa franchise tax was enacted, 45 percent of the revenue went to cities and counties in which the institutions were located. In 1997, federal law changed allowing financial institutions to organize as S corporations. To hold cities and counties revenue harmless, financial institutions organized as S corporations continued to be subject to the franchise tax. The Iowa Franchise Tax Credit was introduced in tax year 1997 for shareholders of financial institutions that are organized as S corporations to avoid double taxation. Therefore, this tax credit serves an administrative purpose. Starting in fiscal year 2015, this tax credit was expanded to members of limited liability companies (LLCs).

The amount of the tax credit is equal to the minimum of (1) the shareholder's pro rata share of the Iowa franchise tax paid by the financial institution or (2) the shareholder's Iowa income tax on the portion of income passed through from the financial institution. The tax credit is nonrefundable and cannot be carried forward. The tax credit can be claimed against individual income, fiduciary income, or corporation income.

The major findings of this study are the following:

How Other States Tax Financial Institutions

- Out of the 50 states and District of Colombia, only Wyoming does not impose a tax on financial institutions. A majority of states subject financial institutions to the corporation income tax.

- A total of 21 states (including Iowa) levy a separate tax on financial institutions allowing for the taxation of income from federal securities. Fifteen states levy that tax on financial institutions organized as S corporations.

- Along with Iowa, Ohio, Missouri, and Nebraska use an administrative tax credit to avoid the double taxation of shareholders of financial institutions organized as S corporations.

Profile of Iowa Franchise Tax Taxpayers

- A total of 448 unique entities filed Iowa Franchise Tax returns in tax year 2014 remitting a net $43.6 million in revenue (according to franchise tax return data). The top five entities with the highest tax obligations paid over 25 percent of total franchise tax revenues. The 10 largest banks in the United States (by assets) paid less than 10 percent of Iowa franchise tax; over 90 percent of franchise tax receipts are paid by smaller banks.

- In tax year 2014, earnings of government securities accounted for 4.6 percent of gross taxable income for Iowa franchise tax taxpayers. An estimated $2.6 million of franchise tax revenues were generated from earnings of federal securities which are taxable by States under a nondiscriminatory franchise tax like the Iowa tax.

- In tax year 2014, around 220 institutions were organized as S corporations, with the vast majority specialized in agricultural financing. Their franchise tax payment accounted for 58.3 percent of the statewide franchise tax revenues.

Iowa Franchise Tax Revenues and Franchise Tax Credit Claims

- On average, $32.0 million in net franchise tax revenues are collected each tax year and $15.5 million in Franchise Tax Credits are claimed against individual and corporation income tax revenues each tax year. Therefore, 48.5 percent of franchise tax revenues are effectively returned to shareholders through the Franchise Tax Credit claims each year.

- An average of $1.5 million Franchise Tax Credits expire each tax year between tax years 2006 and 2014. This suggests that subjecting S corporations to the franchise tax and offsetting double taxation through the Franchise Tax Credit results in $1.5 million of additional revenues compared to the alternative of exempting S corporations from the franchise tax.

- Iowa residents claimed nearly 80 percent of Franchise Tax Credit claims with 4.7 percent of their available tax credits expiring. Nonresident financial institution shareholders claimed 20 percent of the tax credits, but 18.5 percent of their available tax credits expired.

- Franchise Tax Credit claimants, all shareholders in financial institutions, tend to have higher income than all taxpayers. Claimants with Iowa adjusted gross income over $1 million claimed 51.0 percent of tax credits in tax year 2013.

Potential Changes to the Franchise Tax Credit

- The need for subjecting S corporations to the franchise tax and thus the existence of the Franchise Tax Credit, to hold local governments harmless when federal law first allowed financial institutions to be organized as S corporations, was eliminated when all franchise tax revenues were directed to the General Fund beginning in fiscal year 2013.

- Exempting financial institutions organized as S corporations from the franchise tax would eliminate the Franchise Tax Credit, simplifying tax administration. It is estimated that the General Fund would lose $1.5 million annually because the lost franchise tax revenues currently remitted by S corporations would exceed the reduction of tax credits claimed by at least the amount of tax credits that expire each year.

- Another potential change is to repeal the Iowa franchise tax and subject financial institutions organized as C corporations to the Iowa corporation income tax. Making this change would reduce the tax base by removing earnings from federal securities from taxable income. But financial institutions organized as C corporations would face higher tax rates than the current flat franchise tax rate of 5 percent since the progressive corporation income tax schedule ranges from 6 percent to 12 percent. C corporation financial institutions would be able to electronically file their tax returns while the franchise tax remains a paper system.

I. Introduction

Financial institutions conducting business in Iowa, regardless of entity type, are subject to the Iowa franchise tax for the privilege of doing business in Iowa. In response to the 1997 federal law change which allowed financial institutions to be organized as S corporations and to pass through income or losses to their shareholders, the Iowa Franchise Tax Credit was introduced in tax year 1997 to avoid double taxation of S corporation shareholders. Therefore, the Iowa Franchise Tax Credit serves an administrative purpose, unlike many other tax credits which are intended to either induce preferred behaviors (e.g., the Biodiesel Blended Fuel Tax Credit to encourage retail sales of biodiesel blended fuel formulated above a certain level) or to subsidize certain activities (e.g., the Iowa Child and Dependent Care Tax Credit aiming to provide low-income taxpayers tax relief to offset their child care costs).

In fiscal year 2015, net franchise tax revenues (equal to tax receipts less refunds) were $36.2 million, which accounted for approximately 0.5 percent of total General Fund revenues. In FY 2016, the franchise tax accounted for approximately 0.7 percent ($46.0 million) of total General Fund revenues. Five other tax types (individual income tax, sales and use tax, corporation income tax, insurance premium tax, and inheritance tax) contributed more to the General Fund. In tax year 2013, taxpayers claimed $17.4 million in Franchise Tax Credits against individual or corporation income tax liability for franchise tax paid in that same tax year. Comparing those Franchise Tax Credit claims to net fiscal year 2014 franchise tax revenues ($32.2 million) suggests that 53.9 percent of net franchise tax revenues were deducted from income tax revenue.

The main goal of this evaluation study is to examine claims to the Iowa Franchise Tax Credit (Section V), including how much of the tax credits are claimed, how much expires, and who is claiming the tax credit. To provide background information, this study also discusses how Iowa and other states tax financial institutions in Section II and Section III respectively. Further information about on Iowa franchise tax returns is discussed in Section IV. Two potential changes that would eliminate the need for this tax credit are discussed in Section VI. Section VII concludes this study.

II. How Iowa Taxes Financial Institutions

Since the latter half of the 19th century, federal law has prohibited states from imposing taxes on federal securities or interest paid on those securities (31 U.S. Code Section 3124(a)), but there is an exception for nondiscriminatory state franchise taxes.[1]

[1] 31 U.S. Code Section 3124(a) provides that “Stocks and obligations of the United States government are exempt from taxation by a State or political subdivision of a State. The exemption applies to each form of taxation that would require the obligation, the interest on the obligation, or both, to be considered in computing a tax, except —(1) a nondiscriminatory franchise tax or another nonproperty tax instead of a franchise tax, imposed on a corporation; and (2) an estate or inheritance tax.”

Prior to 1970, financial institutions in Iowa were taxed on the value of their capital stock and all surplus profits were taxed as moneys and credits. The revenue was divided among the State General Fund, cities, and counties according to the location of financial institutions.

Since 1970, Iowa has taxed financial institutions operating within Iowa using a franchise tax for the "privilege of doing business in the state." Financial institutions are generally exempt from Iowa's corporation income tax. Financial institutions subject to Iowa franchise tax are defined in IA Code Section 422.61 as "state banks, national banking associations, trust companies, federally and state chartered savings and loan associations, financial institutions chartered by the Federal Home Loan Bank Board and production credit associations". Credit unions are not included.[2] The franchise tax rate has fluctuated from a high of 8 percent when it was first enacted in 1970 to a low of 5 percent, where it has been since 1980. This tax is administered by the Iowa Department of Revenue. For tax years on or after January 1, 1987, Iowa also imposes an alternative minimum tax on franchise taxpayers equal to three percent of Iowa tax preferences.

When the franchise tax was enacted in 1970, the cities and counties did not want to lose the revenues they had previously received from the taxation of banks under the moneys and credits tax, so the Legislature distributed the franchise revenue on a percentage basis among the State General Fund (55%), cities (27%), and counties (18%). Starting in fiscal year 1997, the first $8.8 million of franchise tax revenues was distributed to the cities (60 percent) and counties (40 percent) where the financial institutions were located. The remaining revenues were deposited into the General Fund. In fiscal year 2005 until the end of fiscal year 2012, all franchise tax revenues went into the General Fund except for $7 million which was directed annually to the Community Attraction and Tourism Fund. That diversion was repealed during the 2011 Legislative Session; since fiscal year 2013, all franchise tax revenues are deposited in the General Fund.

A. Iowa Franchise Tax

Financial institutions must file a franchise tax return (Form IA 1120F) on or before the last day of the fourth month following the end of the financial institution's taxable year or on or before the 45th day after the federal return is due, whichever date is later.

A financial institution doing business in Iowa calculates the Iowa franchise tax in four major steps: determining net income, apportioning income to Iowa, computing regular tax and the Iowa alternate minimum tax (AMT), and subtracting tax credits. The calculation is not dependent upon the financial institution's type of business organization.

The first step is calculating the Iowa net income subject to franchise tax. A financial institution starts with federal net income prior to the net operating loss and makes major

[2] Credit unions in Iowa are subject to the Moneys and Credits Tax, which is imposed by the county board of supervisors and collected by the County Treasurer (see IA Code Section 533.329).

adjustments as follows (see IA Code Section 422.61(3) for more details on certain special additions and subtractions): (1) All interest and dividends from securities of federal, state, and local political subdivisions are required to be added back.[3] Federal law prohibits states from imposing taxes on federal securities or interest on them (31 U.S. Code Section 3124(a)), but there is an exception for nondiscriminatory state franchise taxes; (2) Iowa franchise tax expenses on the federal return and other additions from Schedule A (reporting other additions) are also required to be added back; (3) Other reductions from Schedule D (reporting nonbusiness income) are subtracted. The resulting amount is total income subject to apportionment.

There are a few critical differences in determining total income subject to apportionment between financial institutions and general corporations. First, federal deductibility (which means the deduction from taxable income of federal tax paid or accrued during the tax year net of any federal refund received) is not allowed for franchise tax, while 50 percent federal deductibility is allowed for Iowa corporation income tax. Second, interest and dividends from the U.S. government, and its agencies and possessions, are subject to the Iowa franchise tax. However, this category of income is exempt from Iowa corporation income tax. These two differences result in a broader tax base for the franchise tax than the for the Iowa corporation income tax. Third, interest expenses allocable to tax-exempt interest and interest on debt incurred to carry certain tax-exempt obligations are deductible under the Iowa franchise tax, but are not generally deductible for other corporations under the Iowa corporation income tax.

The second step is allocating and apportioning the net income to Iowa to determine Iowa taxable income (see 701 IA Administrative Rule 59.28(2)). Financial institutions apportion income to Iowa on IA Franchise Schedule 59F. A financial institution calculates a business activity ratio (BAR), which is derived by comparing the financial institution's business gross receipts attributable to Iowa to its total gross receipts within and without Iowa. The BAR is multiplied by the financial institution's total gross receipts to arrive at Iowa taxable income.

The third step, calculating the regular tax and the alternative minimum tax (AMT), starts with Iowa taxable income from the second step. Regular franchise tax simply equals apportioned taxable income times the franchise tax rate, currently a flat five percent. The tentative AMT (see IA Code Section 422.60) is computed by multiplying AMT income, which is a broader measure of income, by three percent using the IA Form 4626F. The AMT equals the difference between tentative AMT and regular tax, thus it is imposed only to the extent it exceeds the financial institution's regular tax liability. Adding regular tax and AMT together calculates the total Iowa tax.

The fourth step is applying any available tax credits against the calculated tax from the third step. The Iowa franchise tax is reduced by available tax credits reported on the IA

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[3] For interest and dividends, form IA 1120F instruction requires filers to enter total interest and dividends from the evidences of indebtedness and from securities of state and other political subdivisions exempt from Federal income tax. Also the form requires entering interest and dividends received, from obligations of United States possessions which were purchased after January 1, 1991.

148 Tax Credits Schedule (which are provided in the same manner, and with the same limitations, as the equivalent corporation income tax credits). The tax credits allowed to be claimed against Iowa franchise tax are as follows: (1) Iowa Alternative Minimum Tax Credit equal to AMT paid in prior tax periods, (2) Historic Preservation and Cultural and Entertainment District Tax Credit which is a transferable tax credit for rehabilitation of buildings in Iowa, (3) Investment Tax Credit awarded to businesses newly locating or expanding in Iowa, (4) Endow Iowa Tax Credit offered for donations to one of many certified Iowa endowment funds, (5) Wind Energy Production Tax Credits which are transferable tax credits for energy generated by eligible wind facilities, (6) Renewable Energy Tax Credits which are transferable tax credits for renewable energy production, (7) Corporation Tax Credit for Third Party Sales Tax for certain sales taxes paid by a third-party developer awarded to businesses newly locating or expanding in Iowa, (8) Iowa Fund of Funds Tax Credit which is a transferable tax credit awarded to investors if investments in the Iowa Fund of Funds fail to meet expected returns, (9) Redevelopment Tax Credit which is a transferable credit for investment in brownfield or grayfield properties in Iowa, (10) Innovation Fund Tax Credit is a transferable tax credit offered for investments in certified innovation funds in Iowa, (11) Solar Energy System Tax Credit for installation costs of solar systems on the bank building, (12) Venture Capital Tax Credit for Qualifying Business offered for investments in certain start-up companies in Iowa, and (13) Workforce Housing Investment Tax Credit which is a transferable credit awarded for investments in new or rehabilitated housing in Iowa.

B. Iowa Franchise Tax Credit

The Iowa Franchise Tax Credit was introduced for tax years beginning on or after January 1, 1997 in response to the federal tax change regarding financial institutions (defined in Section 581 of the Internal Revenue Code). With the passage of the Small Business Job Protection Act of 1996, federal law was changed effective for tax year 1997 to allow financial institutions to be organized as S corporations, which are entities that elect to pass income, losses, deductions, and credits through to their shareholders.[4] Previously, financial institutions had to be organized as C corporations. This change allowed shareholders to report income from the financial institutions on their federal individual income tax returns, instead of the financial institution being subject directly to federal corporation income tax.

As noted above, at that time a share of Iowa franchise tax revenues were distributed to cities and counties, and there was concern that franchise tax revenues would drop substantially if a large number of Iowa financial institutions reorganized as S corporations for Iowa tax purposes. The Iowa Legislature required all financial institutions to still remit the Iowa franchise tax regardless of organizational structure. Since the shareholders of financial institutions organized as S corporations would also

[4] Shareholders of S corporations report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates. This allows S corporations to avoid double taxation on the corporation income. To qualify to make the S corporation election, the corporation's shares must be held by resident or citizen individuals or certain qualifying trusts. S corporations are distinguished from C corporations, which are generally taxed separately from their owners.

have to report their share of the financial institution's income on their Iowa individual, fiduciary, or corporation income tax returns, the Franchise Tax Credit was created to avoid double taxation for these shareholders (IA Code Sections 422.11 and 422.33(8)).

Therefore, the original motivation for creating the Franchise Tax Credit was to hold cities and counties harmless when federal law governing financial institutions was changed. Once franchise tax receipts started not to be distributed to local governments in fiscal year 2005, the need for levying the franchise tax on S corporations and requiring shareholders to claim the Franchise Tax Credit was eliminated, creating the potential to reduce administrative costs in the Iowa tax system. However, rather than eliminating the franchise tax and Franchise Tax Credit for S corporations and their shareholders, beginning July 1, 2004 the Franchise Tax Credit was expanded to members of an eligible limited liability company (LLC). Just like an S corporation, the limited liability company would file the franchise tax return, and members of the limited liability company would be eligible to take the Franchise Tax Credit. This study focuses on S corporations because the Franchise Tax Credit is predominantly claimed by S corporation shareholders.

The Franchise Tax Credit, which can be claimed against individual income tax, fiduciary, and corporation income tax, equals the smaller amount between the shareholder's pro rata share of the Iowa franchise tax paid by the financial institution and the tax calculated on the income passed through from the financial institution. The tax credit is nonrefundable and any unused credit may not be carried forward; it is not transferable. The processing and review of tax credit claims is handled by the Department of Revenue as part of its normal examination and audit programs. The tax credit amount is computed on form IA 147. Since tax year 2006, in order to claim the tax credit, taxpayers must also complete the IA 148 Tax Credits Schedule.

III. How Other States Tax Financial Institutions

Out of the 50 states and District of Colombia, only Wyoming does not impose a tax on financial institutions (or any other corporation). The majority of states tax financial institutions the same as other corporations.[5] A total of 21 states (including Iowa) levy some form of a tax separately on financial institutions compared to other corporations, in many cases as a result of the provisions of federal law limiting the right of the states to tax interest earned on federal securities under the income tax. It is worth noting that in recent years a few states have repealed the separate tax on financial institutions and have started taxing financial institutions the same way as other corporations, while no state has switched in the opposite direction. For instance, North Dakota replaced the Financial Institution Tax beginning in tax year 2013. Likewise, North Carolina repealed its privilege tax for banks beginning July 1, 2016.

[5] Although in some states financial institutions are taxed under the same tax regime as general corporations, states may have different requirements, such as taxable income apportionment method, on financial institutions to calculate their tax.

The rates and methods of taxation vary greatly from state to state as does the definition of “financial institution” (see Table 1).[6] In many cases, both the franchise tax and corporation income tax are based on a percentage of state net income or state taxable income. Some states have a flat tax rate and others have a graduated tax rate schedule. Still others use a different base altogether, i.e. apportioned taxable margin, a percent of monthly deposits, or net taxable capital.

All of Iowa’s neighboring states tax financial institutions in some manner. Minnesota and Wisconsin impose a flat corporation income tax on financial institutions at rates of 9.8 percent and 7.9 percent, respectively. Illinois levies a business income tax based on net income (5.25 percent for corporations and 3.75 percent for trusts and estates) and a personal property replacement income tax based on net income (2.5 percent for corporations and 1.5 percent for partnerships, trusts, and S corporations). Missouri, Nebraska, and South Dakota impose a tax on their financial institutions separately from any general corporation income tax. Missouri’s Financial Institutions Tax is 7 percent of net income. Nebraska’s Financial Institution Tax is $0.47 per $1,000 of average deposits (calculated quarterly), but limited to 3.81 percent of the institution's net financial income. South Dakota imposes a Bank Franchise Tax with a tax rate that decreases from 6 percent for the first $400 million in net income to 0.25 percent on income above $1.2 billion.

A. States with Separate Financial Institutions Tax

Including Iowa, 21 states levy a tax separately on financial institutions. In general, four scenarios are seen in these states.

First, eleven states tax financial institutions the same regardless of entity type. No tax credit or other arrangement is provided to return tax paid by pass-through entities. For instance, Delaware levies a Bank Franchise Tax or an Alternate Franchise Tax on S corporations. Another example is Maine, where a franchise tax is imposed on all financial institutions with Maine income, even if it is organized as a pass-through entity.

Second, four states exempt S corporation financial institutions from the entity-level state tax. For example, Indiana’s financial institutions that are organized as S corporations are exempt from the Financial Institution Tax. Likewise, Kansas exempts financial institutions from the state Privilege Tax and Kentucky exempts financial institutions from Bank Franchise Tax or Loan Association Capital Stock Tax, when the financial institution is organized as an S corporation.

Third, two states tax financial institutions organized as S corporations at lower tax rates compared to financial institutions organized as C corporations. California levies a Bank and Financial Corporation Tax at 10.84 percent for C corporations and 3.50 percent for S corporations. Massachusetts also provides different tax schedules for financial institutions organized as S corporations and C corporations with lower tax rates for the former.

[6] See Serether, Eberle, and Colavito (2011) for further discussion of complexity of comparing taxes on financial institution across states.

Fourth, four states require that financial institutions organized as S corporations and C corporations pay the entity-level state tax in the same manner, but exempt income passed through from S corporation financial institutions to their shareholders through tax credits. These states include Iowa and two neighbors, Nebraska and Missouri, along with Ohio.

B. States with Administrative Tax Credits

Nebraska provides a nonrefundable Financial Institution Tax Credit to shareholders of financial institutions organized as S corporations to claim against Nebraska individual income tax (see R.R.S. Neb. Section 77-2715.07(5)(b)). The amount of the tax credit for shareholders equals their ownership percentage multiplied by the amount of the Financial Institution Tax paid. The calculated tax credit amount is reported as a nonrefundable tax credit on Nebraska individual income tax returns. No carry back or carry forward is allowed.

When Ohio enacted the Financial Institution Tax for financial institutions in tax year 2014, Ohio also provided a refundable tax credit against personal income tax for individuals, estates or trusts who own a pass-through interest in a financial institution that paid the Financial Institution Tax (see Ohio Code 5747.65). The tax credit equals the owner’s share of the lesser of the Financial Institution Tax due or paid in a taxable year. If the amount of the tax credit exceeds the aggregate amount of tax otherwise due after deduction of all other credits, the taxpayer is entitled to a refund of the excess.

Missouri provides a Bank Tax Credit to shareholders of S corporations that are banks, bank holding companies, savings and loan associations, and credit institutions (see Section 148.112.1). The tax credit amount equals the shareholder’s pro rata share of the Financial Institutions Tax paid by the S corporation. If the tax credit amount exceeds the shareholder’s Missouri income tax liability, the remaining tax credit may be carried forward up to five years.

IV. Profile of Iowa Franchise Tax Taxpayers

This section uses information reported by financial institutions on their franchise tax returns to describe the profile of Iowa franchise tax taxpayers and also to address two questions. First, how large is the tax levied on earnings of federal government securities? It is interesting to know this because the intention of imposing a franchise tax on financial institutions instead of using an income tax the same as C corporations is to tax the earnings from federal securities. Second, how many Iowa Franchise Tax taxpayers are organized as S corporations? Knowing this is useful to estimate the impact of potentially eliminating the franchise tax for financial institutions organized as pass-through entities and thus eliminating the need for the Franchise Tax Credit. Due to data limitations, this study is not able to completely answer these two questions. However, this section discusses information relevant to these questions using available data.

All Iowa financial institutions are required to file Form IA 1120F to remit franchise tax. Unlike many other tax types that allow for electronic filing in conjunction with the Internal Revenue Service, because the franchise tax is not levied at the federal level, those returns can only be filed on paper. The most recent complete tax year is 2014. In the IA 1120F return data, 448 financial institutions reported a total of $43.6 million of franchise tax paid after subtracting tax credits (the thirteen tax credits that can be claimed against franchise tax discussed in Section II, not the Franchise Tax Credit claimed by shareholders), with the median tax paid of $55,330. Prior to subtracting tax credits, franchise tax liability totaled $57.5 million. The top five entities with the highest tax liability (after subtracting tax credits) accounted for over 25 percent of the total franchise tax revenues. Nevertheless, the 10 largest banks in the United States by assets according to SNL Financial (such as JP Morgan Chase, Bank of America, and Wells Fargo) paid less than 10 percent of total Iowa franchise tax payments. Over 90 percent of franchise tax receipts were paid by smaller banks.

On Line 2 of Form IA 1120F, taxpayers are required to report "Interest and Dividends exempt from Federal Income Tax", which includes both earnings from state securities and earnings from federal securities.[7] Although earnings on all federal securities are taxable to Iowa, the interest earnings reported could include income attributable to other states. Therefore, total earnings from federal securities reported by Iowa financial institutions could be less than the interest and dividends reported on Line 2.

In addition, two external data sources can provide background information about the size of Iowa financial institutions' earnings from federal securities. According to the Iowa Division of Banking, overall Iowa state chartered banks in calendar year 2014 earned $217.9 million from interest and dividends of securities (excluding mortgage backed securities), $63.3 million (17.9%) of which was earned from federal securities. According to the Federal Deposit Insurance Corporation (FDIC), in calendar year 2014 FDIC-insured commercial banks and savings institutions with main offices located in Iowa earned a total of $464.4 million from securities (excluding mortgage backed securities), 15.6 percent ($72.3 million) of which was interest paid on federal securities.[8]

Nearly 90 percent of financial institutions (400 of the 448) reported having positive earnings from federal and state government securities on Line 2 of their returns. The reported amount (including non-Iowa sources) totaled $4.8 billion for tax year 2014, with a median of $461,581. Total gross income reported by financial institutions, calculated as the sum of the first four lines on the return, totaled $104.7 billion for tax year 2014

[7] IA 1120F, Line 2 instructions say, "enter total interest and dividends from the following sources: evidences of indebtedness, securities of state and other political subdivisions exempt from federal income tax, obligations of United States possessions purchased after January 1, 1991."

[8] Not all financial institutions reported by the FDIC as having main offices located in Iowa filed a tax year 2014 Iowa franchise tax return; conversely, some financial institutions reported as having no offices in Iowa did file an Iowa franchise tax return. Therefore, the FDIC data is an approximation of Iowa franchise taxpayers.

with a median gross income of $2.1 million.[9] Thus, in the aggregate before apportionment, total income from federal and state securities comprised 4.6 percent of total gross income. This implies that the ability to tax earnings from federal securities under the franchise tax resulted in an estimated $2.6 million in additional tax revenues in tax year 2014.[10] This is an upper bound because an indeterminate share of the income reported from government securities is from state obligations.

Based on the tax credits financial institutions have recently claimed on their returns, financial institutions are found to be frequent purchasers of transferable tax credits. In recent years, some banks have purchased a large amount of refundable tax credits, resulting in large franchise tax refunds.

To address the second question of what share of financial institutions that filed tax returns are S corporations cannot be answered with tax return data because Form IA 1120F does not require taxpayers to report their entity types. Therefore, a few sources of information are combined to identify whether each financial institution is organized as an S corporation or C corporation, including financial institutions identified by shareholders claiming Franchise Tax Credits on the IA 148, or the Form IA 147 used to calculate the Franchise Tax Credit. In addition, the federal Schedule E, where shareholders report pass-through entity income or losses and identify those S corporations was used. In many cases, shareholders reported the pass-through as a holding company while the franchise tax was paid by a financial institution owned by the holding company; therefore, it was also necessary to use public financial reports of banks to identify entity types of franchise taxpayers. Using these data, 220 financial institutions that filed returns were identified as S corporations, accounting for nearly half of all franchise tax filers for tax year 2014. The vast majority of financial institutions organized as S corporations were found to specialize in agricultural financing (according to their financial reports). Note that this is an approximation for the number of S corporations because the data from different sources are not able to be matched perfectly. The S corporation financial institutions reported a total of $25.4 million in franchise tax liability (net of tax credits), 58.3 percent of the franchise tax owed by all the financial institutions. Recall that $20.3 million in Franchise Tax Credits was claimed by shareholders in tax year 2014.

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[9] The first four lines of IA 1120F are as follows: Line 1. Net Income from Federal Return before Net Operating Loss, Line 2. Interest and Dividends exempt from Federal Income Tax, Line 3. Iowa Franchise tax expensed on Federal Return, and Line 4. Other Additions from Schedule A.

[10] The calculation is as follows: $104.7 billion gross taxable income (sum of the first four lines) resulted in $57.5 million in franchise tax liability prior to tax credits (the reason for using tax liability prior to tax credits is to remove any distortion from claims to transferred tax credits), which is a 0.055 percent ratio of tax to gross income. Utilizing this ratio, income net of the $4.8 billion in reported earnings from government securities, would produce $54.9 million tax liability. Therefore, eliminating earnings from government securities from taxable income would reduce revenue an estimated $2.6 million in tax year 2014 (numbers may not add up because of rounding). Note that the data available do not include the ratio of Iowa source income to all source income, because Line 8 on the Form IA 1120F is not captured.

V. Iowa Franchise Tax Revenues and Franchise Tax Credit Claims

On average, Iowa collected $32.0 million in net franchise tax revenues (receipts net of refunds; refunds typically reflect overpayments or refundable tax credit claims) each fiscal year from 2007 through 2015 (see Table 2). Franchise Tax Credit claims, made on individual, fiduciary, and corporation income tax returns are aggregated on a tax year basis and compared to net fiscal year franchise tax revenues to assess how much franchise tax revenue is essentially credited back to shareholders. On average, 48.5 percent ($15.5 million) of net franchise tax revenues are claimed as Franchise Tax Credits by shareholders of financial institutions organized as S corporations.

Tax credit claims data are only available beginning in tax year 2006 when the IA 148 Tax Credits Schedule was introduced. An average of 2,360 taxpayers claimed the Franchise Tax Credit each tax year (see Table 3). Between individual/fiduciary and corporation income tax returns, the effect of the Franchise Tax Credit on corporation income tax revenue is minimal, with an average of only seven claims each tax year.

Because the Iowa Franchise Tax Credit is nonrefundable and cannot be carried forward to subsequent tax years, if the credits are not fully used, the unused credits expire. Recall that the Franchise Tax Credit by definition cannot exceed the tax liability owed on the taxpayer's financial institution income. The Franchise Tax Credit could exceed total Iowa tax liability if the taxpayer has losses from other Iowa income sources or other tax credit claims that reduce Iowa tax liability below the Franchise Tax Credit. Taxpayers report any expired tax credit amount on the IA 148, but taxpayers were found to have the tendency not to report the expired amount, suggesting that the expired amount from form IA 148 is a lower bound of the actual expired amount. Based on the available data, on average 8.7 percent of available tax credits, ($1.5 million) expire each tax year (see Table 3). The share of available tax credits that are reported as expired each tax year has generally been declining over time from 11.0 percent in tax year 2006 to 7.5 percent in tax year 2013.

The Franchise Tax Credit can be claimed by both resident and nonresident shareholders of S-corporation financial institutions. Around 80 percent of the tax credits claims and dollars are claimed by residents (see Table 4). The average share of expired tax credits to total available tax credits for residents is 4.7 percent, but 18.5 percent for nonresidents'. The expired share for nonresidents appears to be driving the general decline in expired credit share, dropping from 25.1 percent in tax year 2006 to 18.9 percent in tax year 2013.

The Franchise Tax Credit is claimed by taxpayers across the income distribution, but the claims are concentrated in high-income taxpayers. Using tax year 2013 as an example, total and average claims increase with adjusted gross income (AGI) (see Table 5). Unlike the distribution for all taxpayers, where 83 percent of taxpayers are concentrated in the lowest income group with income less than $50,000, Franchise Tax Credit claimants are more concentrated in higher income groups. This is not surprising since the tax credit claimants are shareholders of financial institutions. The income group with the greatest total amount of claims is households with AGI over $1 million. This group of taxpayers accounted for 6.3 percent of the number credit claimants but over one half (51.0%) of total credit claims.

VI. Potential Changes to the Franchise Tax Credit

As mentioned in Section II, the original motivation to create the Franchise Tax Credit was likely to hold local governments revenue harmless when federal law changed. Once all franchise tax receipts were deposited in the State General Fund, the need to require S corporation financial institutions to still pay the Iowa franchise tax and offer shareholders the Franchise Tax Credit was eliminated. Therefore, this section discusses two potential administrative changes to the franchise tax that would eliminate the Franchise Tax Credit.

The first potential change is to exempt S corporation financial institutions from the Iowa franchise tax and eliminate the Franchise Tax Credit. This would result in a drop in franchise tax revenues as nearly half of the financial institutions would become exempt, but offsetting that revenue loss would be the elimination of claims to the Franchise Tax Credit against individual and corporation income taxes. The sum of available Franchise Tax Credits should equal the franchise tax paid by all S corporation financial institutions. If a large amount of credits expire each year, then this change would result in a net revenue loss. Based on the available data, it is estimated that General Fund revenues would fall by $1.5 million annually, equal to the averaged expired tax credit amount each year (see Table 3). However, this number is a lower bound because of the tendency of taxpayers not to report expired credits.

The major advantage of this change is to simplify tax filing for financial institution shareholders by eliminating the Franchise Tax Credit and tax administration for the Department of Revenue. Franchise tax processing and compliance of would be cut at least one half since S corporation financial institutions accounted for around one half of all franchise taxpayers. Currently, franchise tax processing and compliance cost to the Department of Revenue an estimated $10,000 per year. In addition, Franchise Tax Credit compliance efforts, estimated to cost $6,000 per year, would also be eliminated. Therefore administrative cost savings under this change are $11,000 per year (with half of the franchise tax processing and compliance cost reduced and whole Franchise Tax Credit cost eliminated).

The second potential change is to eliminate the Iowa franchise tax for all financial institutions, and thus the Franchise Tax Credit, and instead subject the C corporation financial institutions to the Iowa corporation income tax. This would again have the estimated revenue reductions noted above that result from expired Franchise Tax Credits. In addition, because earnings from federal securities are not allowed to be taxed under State income taxes, tax base would be reduced. Financial institutions would also be allowed for a 50 percent federal deductibility as other corporations. By contrast, there is an effect working in the opposite direction to increase General Fund revenues: under the corporation income tax, the financial institutions would face a graduated tax schedule with rates from 6 percent to 12 percent, which is higher than the five percent franchise tax rate.

The administrative advantage of the second change is to simplify the tax system by eliminating a tax type including the annual updates to the six dedicated tax forms (the annual cost of updating tax forms is estimated to be approximately $5,000). The overall administrative cost would be reduced by over $21,000 each year.[11] The franchise tax return can only be filed on paper, an inefficient filing method. In contrast, corporation income tax returns can be filed electronically. Under this change, C corporation financial institutions would be able to file their Iowa tax returns electronically, largely eliminating all processing costs for these taxpayers' returns. Compliance would be incorporated with other corporation income tax efforts. Also, compliance for the Franchise Tax Credit would be eliminated.

VII. Conclusion

The Franchise Tax Credit was created as a mechanism to avoid double taxation for shareholders of financial institutions organized as S corporations. Claims to the credit average $15.5 million per tax year, offsetting an estimated 48.5 percent of net franchise tax revenues collected per fiscal year. An average of 80 percent of Franchise Tax Credits is claimed by shareholders of S corporation financial institutions that are Iowa residents. Nonresident shareholders making claims report nearly 20 percent of their tax credits expired, accounting for a large share of the overall 8.7 percent of credits ($1.5 million) expiring each year.

[11] The administrative cost reduction includes the following categories: total franchise tax processing and compliance cost $10,000, franchise tax form updating costs $5,000, and Franchise Tax Credit compliance cost $6,000.

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Iowa’s Franchise Tax Credit

Tax Credits Program Evaluation Study

Tables and Figures

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Table 1. Financial Institution Taxes Across the United States

State	Method of Taxation	Rate	Affected Institutions	Category of Taxation
Alabama	Financial Institution Excise Tax	6.5% of net income (regardless of entity type)	National banking associations, banks, banking associations, trust companies, industrial or other loan companies, or building and loan associations.	(1) Separate tax, S corporations are taxed the same as C corporations.
Alaska	Corporation Income Tax	Graduated rates ranging from 2% to 9.4% of taxable income.	Any corporation that is doing business in the state.	(0) Same as general corporations.
Arizona	Corporation Income Tax	6.968% (starting with federal taxable income).	Any corporation or bank that is doing business in the state.	(0) Same as general corporations.
Arkansas	Corporation Income Tax	Graduated rates ranging from 1% to 6.5% of net taxable income.	Any corporation that is doing business in the state.	(0) Same as general corporations.
California	Bank and Financial Corporation Tax	10.84% for C corporations or 3.5% for S corporations (2% above the year's general corporation tax rate).	Banks or financial corporations.	(3) Separate tax, S corporations are taxed at lower rates than C corporations.
Colorado	Corporation Income Tax	4.63% of Corporation income.	Any corporation that is doing business in the state.	(0) Same as general corporations.
Connecticut	Corporation Income Tax	7.5% on net income.	Business entities that are generally considered to be engaged in the business of lending money, extending credit, or otherwise dealing in money capital.	(0) Same as general corporations.
Delaware	Bank Franchise Tax	The standard franchise tax rates for taxable income are: 8.7% no greater than \$20 million; 6.7% \$20 - \$25 million; 4.7% \$25 - \$30 million; 2.7% \$30 - \$650 million; and 1.7% greater than \$650 million. There is also an alternative franchise tax available: 7.0% not greater than \$50 million; 5.0% \$50 - \$100 million; 3.0% \$100 - \$500 million;1.0% \$500 - \$1.3 billion; 0.5% greater than \$1.3 billion.	Banks, trust companies, federal savings banks, and building and loan associations. Credit unions are not included.	(1) Separate tax, S corporations are taxed the same as C corporations.
Florida	Corporation Income Tax	The higher between the 5.5% of net income and the 3.3% of the AMT taxable income under Florida alternative minimum tax.	Any corporation that is doing business in the state.	(0) Same as general corporations.
Georgia	Corporation Income Tax	6.0% of taxable net income.	Any corporation that is doing business in the state.	(0) Same as general corporations.
Hawaii	Franchise Tax	7.92% of net income.	National banking associations, banks, corporations doing a banking business, foreign banks, federal savings and loan associations, building and loan associations, financial services loan companies, financial holding companies, mortgage loan companies, subsidiary corporations, trust companies, financial corporations, small business investment companies, and development companies.	(1) Separate tax, S corporations are taxed the same as C corporations.

Table 1 (Continued). Financial Institution Taxes Across the United States

State	Method of Taxation	Rate	Affected Institutions	Category of Taxation
Idaho	Corporation Income Tax	7.4% of taxable income (with a minimum tax of $20).	Any corporation that is doing business in the state.	(0) Same as general corporations.
Illinois	Business Income Tax and Personal Property Replacement Tax	Business income tax based on net income (5.25% for corporations and 3.75% for trusts and estates) and a personal property replacement income tax based on net income (2.5% for corporations and 1.5% for Partnerships, trusts, and S corporations).	Any corporation that is doing business in the state.	(0) Same as general corporations.
Indiana	Financial Institution Tax	8.5% of adjusted gross income for taxable year 2013 or earlier. However, it is reduced into 8.0% for TY 2014, 7.5% for TY 2015, 7.0% for TY 2016, 6.5% for TY2017 and 2018, 6.25% for TY 2019, 6.0% for TY 2020, 5.5% for TY 2021, 5.0% for TY 2022, and 4.9% for TY 2023 and after.	Any corporation transacting the business of a financial institution, including a holding company, a regulated financial corporation, a subsidiary of a holding company or regulated financial corporation, or any other corporation carrying on the business of a financial institution.	(2) Separate tax, S corporations are exempt from this tax.
Iowa	Franchise Tax	5% of taxable income.	State banks, national banking associations, trust companies, federally and state chartered savings and loan associations, financial institutions chartered by the Federal Home Loan Bank Board and production credit associations. Credit unions are not included.	(4) Separate tax, S corporations are subject to this tax and their shareholders are eligible to claim an administrative tax credit.
Kansas	Privilege Tax	2.25% of net income and a surtax of 2.125% of net income in excess of $25,000.	State and national banks, trust companies, and savings and loan associations. Credit unions are not included.	(2) Separate tax, S corporations are exempt from this tax.
Kentucky	Bank Franchise Tax or Loan Association Capital Stock Tax	1.1% of the net capital (or a minimum $300) averaged over a 5 year span that is apportioned to Kentucky. Loan association capital stock tax is a tax of one dollar ($1) for each one thousand dollars ($1,000) paid in on its capital stock.	"Banks" include State banks (except banker's banks), national banking associations, and any agency or branch of a foreign depository. "Savings and loan associations" include every federally or state chartered savings and loan association, savings bank, and other similar institution authorized to transact business in this state, with property and payroll within and without this state.	(2) Separate tax, S corporations are exempt from these taxes.
Louisiana	Corporation Income Tax and Corporation Franchise Tax	Corporation Income Tax: Graduated rates ranging from 4% to 8% of net income. Corporation Franchise Tax: $1.50 for each $1,000 or major fraction thereof up to $300,000 of capital employed in Louisiana, and $3 for each $1,000 or major fraction thereof in excess of $300,000 of capital employed in Louisiana. The initial corporation franchise tax is $10.	Any corporation that is doing business in the state.	(0) Same as general corporations.
Maine	Franchise Tax	A taxpayer has two options: Option 1 - A tax on Maine income and Maine assets equal to the sum of 1% of the financial institution's Maine net income plus 0.008% of its Maine assets. Option 2 - A tax on Maine assets only, equal to 0.039% of the financial institution's Maine assets.	Bank, bank holding company, thrift institution, savings association, insured institution, savings bank holding company, qualified savings bank, insured depository institution, appropriate federal banking agency or qualified family partnership, or any other financial institution authorized to do business in the state. Credit unions are not included.	(1) Separate tax, S corporations are taxed the same as C corporations.
Maryland	Corporation Income Tax	8.25% of taxable income.	Any corporation that is doing business in the state.	(0) Same as general corporations.
Massachusetts	Financial Institution Excise Tax	9% of taxable net income (with a minimum $456). S corporations with receipts less than $6 million do not pay Financial Institution Excise Tax; S corporations with receipts $6-9 million pay 2.57% on income allocated or apportioned to Massachusetts; S corporations with receipts $9 million or over pay 3.85%.	Banks, trust companies, federal or state savings and loan associations, similar business type holding companies, and other corporations in substantial competition with financial institutions in the state the derive more than 50% of gross income from loan origination, lending activities, or credit card activities. Credit unions are not included.	(3) Separate tax, S corporations are taxed at lower rates than C corporations.

Table 1 (Continued). Financial Institution Taxes Across the United States

State	Method of Taxation	Rate	Affected Institutions	Category of Taxation
Michigan	Business Tax for Financial Institutions	0.29% on net capital. Net capital is the institution's equity capital minus the average daily book value of U.S. and Michigan obligations calculated over a period of 5 tax years.	Bank holding company, a national bank, state chartered bank, an office of thrift supervision chartered bank or thrift institution, or a savings and loan holding company other than a diversified savings and loan holding company or a federally chartered Farm Credit System institution.	(1) Separate tax, S corporations are taxed the same as C corporations.
Minnesota	Corporation Franchise Tax	9.8% of taxable income.	Any corporation that is doing business in the state.	(0) Same as general corporations.
Mississippi	Corporation Income and Franchise Tax	Graduate rates for corporation income tax: 3% on the first $5,000 of taxable income; 4% on the next $5,000 of taxable income; 5% on remaining taxable income. The franchise tax rate is $2.50 per $1,000 of capital invested in the state.	Any corporation that is doing business in the state.	(0) Same as general corporations.
Missouri	Financial Institutions Tax	7% of net income (by 2016 the Corporation Franchise Tax and a tax on assets have been phased out).	Banks and trust companies, credit institutions, savings and loan associations, and credit unions. Banks and trust companies are also subject to a tax on assets computed the same, but instead of, the corporate franchise tax (Section 147.010). Farmers' Cooperative Credit Association members are subject to a tax of 2 percent on the taxable portion of dividends paid.	(4) Separate tax, S corporations are subject to this tax and their shareholders are eligible to claim an administrative tax credit.
Montana	Corporation License Tax	6.75% of net income.	Any corporation that is doing business in the state.	(0) Same as general corporations.
Nebraska	Financial Institution Tax	$0.47 per $1,000 of average deposits (calculated quarterly), but limited to 3.81% of the institution's net financial income.	Any bank, building and loan association, cooperative credit association, credit union, industrial loan and investment company, savings and loan association, savings bank chartered or qualified to do business in Nebraska, or any subsidiary of the entities listed above. Federal credit unions are not included.	(4) Separate tax, S corporations are subject to this tax and their shareholders are eligible to claim an administrative tax credit.
Nevada	Modified Business Tax - Financial Institutions	2% of the gross wages less employee health care benefits paid by the employer and certain wages paid to qualified veterans.	Banks, lending institutions, credit card companies, investment companies. Does not include federal credit unions.	(1) Separate tax, S corporations are taxed the same as C corporations.
New Hampshire	Business Enterprise Tax or Business Profits Tax	The Business Enterprise Tax rate was 0.75% before December 31, 2016. It will be reduced gradually to 0.675% by the end of 2018, contingent upon combined unrestricted general and education trust fund revenues. The Business Profits Tax rate was 8.5% before December 31, 2016. It will be reduced gradually to 7.9% by the end of 2018, contingent upon combined unrestricted general and education trust fund revenues.	All business organizations.	(0) Same as general corporations.

Table 1 (Continued). Financial Institution Taxes Across the United States

State	Method of Taxation	Rate	Affected Institutions	Category of Taxation
New Jersey	Corporation Business Tax	9% on adjusted entire net income or on the portion allocable to New Jersey. The rate is 7.5% for all corporations with entire net income of $100,000 or less. The rate is 6.5% for all corporations with entire net income of $50,000 or less.	Any domestic or foreign corporation, joint-stock company or association and any business conducted by a trustee or trustees wherein interest or ownership is evidenced by a certificate of interest or ownership or similar written instrument is subject to tax.	(0) Same as general corporations.
New Mexico	Corporation Income Tax and Franchise Tax	For TY 2017, New Mexico will move to a two-rate structure, 4.8% below $500,000 and 6.2% over $500,000. TY 2018 marginal tax rate will be 5.9% over $500,000. Franchise tax is $50 per year or partial year.	Any corporation that is doing business in the state.	(0) Same as general corporations.
New York	General Business Corporation Franchise Tax (Starting TY 2015)	Effective for TY 2015 and after (Corporate tax Reform 2015), this tax is paid on the highest of the following three bases: Business income base (tax rates 0.00), Business capital base, and a fixed dollar minimum tax base (and, in some cases, an updated Metropolitan Transportation Business Tax), then plus the Metropolitan transportation business tax.	Every corporation doing business in the State.	(0) Same as general corporations.
North Carolina	Corporation Income Tax and Franchise Tax	(Effective July 1, 2016, Privilege Tax is repealed.) The corporation income tax rate was 5.0% of net income attributed to North Carolina for TY 2015, 4% for TY 2016, and 3% for TY 2017.The franchise tax rate is $1.50 per $1,000.00 of capital stock, surplus, and undivided profits or other alternative tax schedule. The minimum franchise tax is $35.00 with no maximum except for a qualified holding company (with $75,000 maximum tax).	Every corporation doing business in the State.	(0) Same as general corporations.
North Dakota	Corporation Income Tax	(The 6.5% of taxable income Financial Institution Tax was repealed effective December 31, 2012.) corporation income tax beginning January 1, 2013: 1.48% of taxable income not over $25,000, 3.55% for $25,000-$50,000 ,4.31% for over $50,000.	Every corporation engaged in business or having sources of income in North Dakota.	(0) Same as general corporations.
Ohio	Financial Institutions Tax	Effective January 1, 2014, 0.8% on the first $200 million; 0.4% $200 million - $1.3 billion; 0.25% equal to or greater than $1.3 billion. The minimum is $1,000 regardless of tax liability. (The Corporation Franchise Tax was repealed for TY 2014 and after.)	Bank organizations, which are defined to include the same classes of institutions previously subject to the corporation franchise tax; Holding companies of bank organizations, except for diversified savings and loan holding companies and grandfathered unitary savings and loan holding companies or an entity that was a grandfathered unitary savings and loan holding company on January 1, 2012 (with some exclusions); or Nonbank financial organizations, which are defined to include persons, other than bank organizations or holding companies, that are engaged in business primarily as small dollar lenders. Credit unions are not included.	(4) Separate tax, S corporations are subject to this tax and their shareholders are eligible to claim an administrative tax credit.

Table 1 (Continued). Financial Institution Taxes Across the United States

State	Method of Taxation	Rate	Affected Institutions	Category of Taxation
Oklahoma	Corporation Income Tax and Franchise Tax	Corporation Income Tax : 6% of State taxable income. Franchise Tax: Corporations are taxed $1.25 for each $1,000 of capital invested or used in Oklahoma. Foreign corporations are additionally assessed $100 per year.	All corporations that do business in the State.	(0) Same as general corporations.
Oregon	Corporation Excise Tax or Income Tax	For excise tax, pay the higher between a minimum tax and calculated tax. For tax years beginning January 1, 2013 and later, calculated tax is 6.6% of taxable income if taxable income is $1 million or less; marginal rate is 7.6% for Oregon taxable income more than $1 million. For income tax, pay calculated tax (as mentioned) only and there is no minimum tax for income tax.	Every corporation doing business in Oregon pays corporate excise tax. Corporations not doing business in Oregon, but with income from an Oregon source, pays corporate income tax.	(0) Same as general corporations.
Pennsylvania	Bank and Trust Company Shares Tax	0.89% of the book value of shares, calculated by a six-year moving average using the total number of shares divided into the book values of capital stock paid in, surplus and undivided profits.	Every bank and trust company conducting business in Pennsylvania that has capital stock. Credit unions are not included.	(2) Separate tax, S corporations are exempt from this tax (but are subject to the 9.99% corporate net income tax only to the extent of built-in-gains).
Pennsylvania	Bank and Trust Company Shares Tax	0.89% of the book value of shares, calculated by a six-year moving average using the total number of shares divided into the book values of capital stock paid in, surplus and undivided profits.	Every bank and trust company conducting business in Pennsylvania that has capital stock. Credit unions are not included.	(2) Separate tax, S corporations are exempt from this tax (but are subject to the 9.99% corporate net income tax only to the extent of built-in-gains).
Rhode Island	Banking Institution Excise Tax and Business Corporation Tax	Banking Institution Excise Tax is 9% of RI taxable income with a minimum at $100. (Franchise tax was repealed for tax years beginning on or after January 1, 2015.) For TY 2016 and after, Business Corporation Tax is 7% of net income with the minimum for C corporations at $450 and $450 for S corporations.	State banks, federal savings banks, trust companies, national banking associations, mutual savings banks, building and loan associations, and loan and investment companies. Does not include credit unions or passive investment companies for bank excise tax. (Credit unions are subject to the bank deposits tax and Business Corporation Tax. Bank Deposits Tax is 0.0625% if taxable deposits $150 million or less; 0.0695% if taxable deposits above $150 million.)	(1) Separate tax, S corporations are taxed the same as C corporations.
South Carolina	Bank Tax	4.5% of entire net income.	Any person engaged in a banking business, except cash depositories.	(1) Separate tax, S corporations are taxed the same as C corporations.
South Dakota	Bank Franchise Tax	As income rises, the tax rate decreases from 6% for the first $400 million in net income to 0.25% above $1.2 billion.	Banks, banking institutions, savings and loan associations, mutual savings banks, or trust companies, and any person in the business of buying loans, notes, or other evidence of debt but not including brokers.	(1) Separate tax, S corporations are taxed the same as C corporations.
Tennessee	Franchise and Excise Tax (general corp also pay this)	Excise tax is 6.5% of Tennessee taxable income. Franchise tax is 0.25% of the greater of the net worth or real and tangible property in Tennessee (the minimum Franchise tax is $100).	Any person doing business in Tennessee, including every corporation, subchapter S corporation, Limited Liability Company, professional limited liability company, registered limited liability partnership, professional registered limited liability partnership, limited partnership, cooperative, joint-stock association, business trust, regulated investment company, real estate investment trust, state-chartered or national bank, or state chartered or federally chartered savings and loan association.	(0) Same as general corporations.

Table 1 (continued). Financial Institution Taxes Across the United States

State	Method of Taxation	Rate	Affected Institutions	Category of Taxation
Texas	Franchise Tax	0.75% for most entities; or 0.375% for entities primarily engaged in retail or wholesale trade; 0.331% for EZ Computation Report. $20 million revenue threshold.	Partnerships, corporations, LLCs, business trusts, professional associations, business associations, joint ventures and other legal entities, but does not apply to sole proprietorships.	(0) Same as general corporations.
Utah	Corporation Franchise or Income Tax	5% of net income, with a $100 minimum tax.	Any corporation that is doing business in the state.	(0) Same as general corporations.
Vermont	Bank Franchise Tax	0.0096% of monthly deposits held within the bank (0.1152% annual basis).	National banks, federal association, state financial institution, Vermont financial institution. Credit unions or federally chartered banks are not included.	(1) Separate tax, S corporations are taxed the same as C corporations.
Virginia	Bank Franchise Tax	$1 of tax per $100 of net taxable capital. prorated tax rates except for new banks. ($1-$.25 per $100 of net taxable capital for new banks that have not been in business for a full year before the January 1 date for valuing the taxable capital.) Any city, county, or town may impose a tax not to exceed 80 percent of the state rate of taxation.	Banks, banking associations, savings banks, trust companies, and joint stock land banks.	(1) Separate tax, S corporations are taxed the same as C corporations.
Washington	Business and Occupation Tax	Tax is levied on gross income and rate depends on income sources: 0.471% for Retailing, 0.484% for Wholesaling, and 1.5% for Service & Other Activities.	All businesses located or doing business in the state.	(0) Same as general corporations.
West Virginia	Corporation Income Tax	6.5% of net income (the franchise tax on net equity was phased out entirely in the beginning of TY 2015).	Any corporation or bank that is doing business in the state.	(0) Same as general corporations.
Wisconsin	Corporation Income Tax or Franchise Tax	7.9% on net income (same rate and same general rules for determining net income for both taxes).	Any corporation or bank that is doing business in the state.	(0) Same as general corporations.
Wyoming	There is no corporation income or separate tax imposed on financial institutions in this state.			(0) Same as general corporations.
District of Columbia	Corporation Income Tax	Starting TY 2015, 9.4% of net income (and a minimum tax). Subject to available funding and inclusion in subsequent budgets, the tax rate may be further reduced incrementally to as low as 8.25%.	Any corporation or financial institution that is doing business in the District.	(0) Same as general corporations.

Source: tax forms and instructions from state tax agencies
Notes: information as of October 1, 2016.
Nevada, South Dakota, Washington, and Wyoming do not have general corporation income taxes.

Table 2. Net Franchise Tax Revenues by Fiscal Year and Franchise Tax Credit Claims by Tax Year

FY	Net Franchise Tax Revenues (Million $)	TY	Franchise Tax Credit Claims (Million $)	Percent of Revenues Claimed as Credits
2007	$31.9	2006	$11.5	35.9%
2008	$33.7	2007	$12.4	36.8%
2009	$28.2	2008	$11.9	42.2%
2010	$26.9	2009	$12.4	45.9%
2011	$31.5	2010	$16.0	50.9%
2012	$29.7	2011	$16.9	56.7%
2013	$37.5	2012	$20.8	55.5%
2014	$32.2	2013	$17.4	53.9%
2015	$36.2	2014*	$20.3	56.2%
Average	**$32.0**		**$15.5**	**48.5%**

*Incomplete Tax Year

Source: State I3 revenue and refund accounts and IA 148 Tax Credits Schedule
Net franchise tax revenues equal receipts net of refunds.

Table 3. Franchise Tax Credits Available, Claimed, and Expired by Tax Year, 2006-2014

Tax Year	Franchise Tax Credits Available		Tax Credit Claimed		Tax Credits Expired		Share of Expired in Total Available Amount
	Number of Taxpayers	Total Amount (Million $)	Number of Taxpayers	Total Amount (Million $)	Number of Taxpayers	Total Amount (Million $)	
2006	2,062	$12.9	2,022	$11.5	401	$1.4	11.0%
2007	2,331	$13.9	2,281	$12.4	465	$1.5	10.6%
2008	2,399	$14.3	2,329	$11.9	550	$2.4	16.6%
2009	2,440	$14.0	2,326	$12.4	541	$1.6	11.7%
2010	2,427	$17.4	2,347	$16.0	487	$1.4	8.1%
2011	2,445	$18.6	2,362	$16.9	525	$1.8	9.6%
2012	2,522	$22.1	2,491	$20.9	390	$1.3	5.7%
2013	2,653	$18.8	2,614	$17.4	519	$1.4	7.5%
2014*	1,962	$20.9	1,962	$20.3	228	$0.5	2.4%
Average	2,360	$17.0	2,304	$15.5	456	$1.5	8.7%

*Incomplete Tax Year

Source: IA 148 Tax Credits Schedule

Number of claims is based on individual taxpayers. In particular, a married couple filing separately and both claiming the tax credit are counted as two claims. Taxpayers are found to have a tendency not to report expired credits.

Table 4. Franchise Tax Credit Claims by Resident Status and Tax Year, 2006-2014

Tax Year	Residents				Nonresidents			
	Number of Taxpayers	Share of Claimants	Share of Expired in Total Available Amount	Share of Expired in Total Available Amount	Number of Taxpayers	Share of Claimants	Share of Claim Dollars	Share of Expired in Total Available Amount
2006	1,611	80.6%	76.2%	4.0%	387	19.4%	23.8%	25.1%
2007	1,823	80.8%	77.5%	8.3%	434	19.2%	22.5%	17.0%
2008	1,896	81.9%	78.1%	7.4%	420	18.1%	21.9%	25.3%
2009	1,915	83.0%	78.5%	6.2%	393	17.0%	21.5%	23.8%
2010	1,888	81.3%	78.2%	3.0%	434	18.7%	21.8%	17.2%
2011	1,889	81.1%	80.8%	5.3%	439	18.9%	19.2%	20.0%
2012	1,693	79.1%	78.3%	3.9%	448	20.9%	21.7%	11.3%
2013	2,099	81.5%	80.6%	3.4%	478	18.5%	19.4%	18.9%
2014*	1,531	79.6%	77.7%	0.7%	392	20.4%	22.3%	8.2%
Average	1,816	81.0%	78.4%	4.7%	425	19.0%	21.6%	18.5%

*Incomplete Tax Year

Source: IA 148 Tax Credits Schedule and Iowa individual tax returns

Number of claims is based on individual taxpayers. In particular, a married couple filing separately and both claiming the tax credit are counted as two claims. Taxpayers are found to have a tendency not to report expired credits.

Excludes claims made on fiduciary and corporation returns, which lowers the number of taxpayers in this table relative to Table 3.

Table 5. Franchise Tax Credit Claims by Income Group, Tax Year 2013

	Franchise Tax Credit Claimants					All Taxpayers in Iowa	
Iowa Adjusted Gross Income for Individual Taxpayers	Number of Claimants	Distribution of Claimants	Total Claim Amount (Million $)	Distribution of Total Claims	Average Claim ($)	Number of All Taxpayers	Distribution of All Taxpayers
Less than $50,000	513	19.9%	$0.2	1.3%	$411	2,567,417	83.0%
$50,001 to $100,000	591	22.9%	$0.6	3.4%	$949	381,932	12.3%
$100,001 to $150,000	339	13.1%	$0.6	3.9%	$1,880	70,676	2.3%
$150,001 to $200,000	238	9.2%	$0.6	3.9%	$2,711	24,948	0.8%
$200,001 to $250,000	157	6.1%	$0.6	3.6%	$3,777	12,721	0.4%
$250,001 to $500,000	373	14.5%	$2.4	14.4%	$6,366	21,205	0.7%
$500,001 to $1,000,000	205	8.0%	$3.1	18.5%	$14,929	8,402	0.3%
$1,000,001 or over	162	6.3%	$8.4	51.0%	$51,981	6,747	0.2%
Total	2,578	100.0%	$16.5	100.0%	$6,402	3,094,048	100.0%

Source: IA 148 Tax Credits Schedule and Iowa individual tax returns
Number of claimants is based on individual taxpayers. In particular, a married couple filing separately and both claiming the tax credit are counted as two claims.
Data exclude claims made on fiduciary and corporation returns, which lowers the number of taxpayers in this table relative to Table 3.