Bank Taxation

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Effective Tax Rates of the Banking Industry

Banks deploy significant capital to serve their customers and communities and, accordingly, generate book and taxable income that is subject to tax provisions in each of the jurisdictions where they operate. According to a recent EY study, the banking industry has a higher average effective tax rate (ETR) than most other industries in the U.S. For instance, the banking industry had an ETR of 19.6% in 2019—1.3% higher than the 18.3% average ETR of non-banking public companies in that year. EY further noted that ***ETRs within the banking industry are among the highest of all industries in the U.S***.

Banks Compete with Tax-Exempt Credit Unions

In many communities, banks compete with credit unions—financial institutions similar to commercial banks in many respects. Congress established credit unions in the 1930s to provide small-dollar loans to close-knit groups of people of modest means. To encourage this mission, Congress exempted credit unions from federal income taxes. Over time, however, this tax-exempt status has provided significant competitive advantages for credit unions over banks. Credit unions have drifted from their original mission, and, in building a $1 trillion industry, have outgrown their special tax-exempt status. As a result, ***the credit union tax exemption is no longer justified and should be repealed***.

Bank Taxes Hurt Consumers and the Economy

In recent years, Congress and various foreign jurisdictions have considered direct taxation on financial institutions. ABA commissioned PwC to review and comment on scholastic studies that examined the impacts of the various bank tax regimes enacted around the world. PwC observed:

- Bank taxes reduce economic growth by causing a reduction in bank assets.
- Banks tend to respond to bank taxes on liabilities by decreasing their leverage.
- The cost of bank taxes is transferred, at least in part, to borrowers in the form of increased interest rates on loans.
- Banks subject to tax reduce their lending between 2.8% and 6% more than banks not subject to the tax.
- Households may disproportionately suffer, as residential loan growth may experience more of a decline than commercial loan growth.

Bank taxes are bad policies. They hurt consumers, disincentivize lending, and hinder economic growth.

Banks are Major Participants in Community Investment Programs

Financial institutions are the primary investors for a plethora of important projects and initiatives that help consumers, underserved communities, and the economy at large—this includes Low-Income Housing Credits, New Markets Tax Credits, many “Green” credits, in addition to heavily investing in municipal bonds to help finance capital projects like building schools, highways, and sewer systems.

Looking Forward to 2025

ABA supports cohesive tax policy and rules—particularly regarding the four minimum tax regimes (GILTI, BEAT, the Corporate Alternative Minimum Tax, and the OECD’s Pillar 2 project). ***We look forward to continuing to work with Congress to ensure the minimum tax regimes are consistent, cohesive, and workable.***

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