Act 52 of 2013 Bank Shares Tax Reform Report

The Pennsylvania Department of Revenue

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Act 52 of 2013 Bank Shares Tax Reform Report

Executive Summary

The Act of July 9, 2013 (P.L. 270, No. 52) requires a detailed report to determine whether the changes to the Bank and Trust Company Shares Tax therein sufficiently addressed the significant changes in the structure and regulatory environment within the banking industry and provided predictable tax revenues. To that end, the Pennsylvania Department of Revenue, working jointly with the Department of Banking and Securities and representatives from the banking industry in this commonwealth, has produced this document.

Act 52 ("the Act") made the following major changes to the Bank and Trust Company Shares Tax:

- Reduced the tax rate from 1.25 percent to 0.89 percent
- Changed the tax base from "total equity capital" to "total bank equity capital"
- Eliminated the use of a six-year average of total equity capital to calculate the tax base
- Based apportionment solely on receipts
- Amended the receipts factor to heavily favor customer-based sourcing, rather than sourcing based on the state where the service originated
- Expanded the extent to which out-of-state bank and trust companies doing business in Pennsylvania are subject to tax

The Commonwealth of Pennsylvania is a diverse banking state with a number of community banks, savings banks, regional banks, large banks with a statewide presence, out-of-state banks with branches in the commonwealth, and many credit unions. Recent history has seen significant changes within the regulatory and structural environment in which these institutions exist. Increased capital requirements and evolving customer needs have put pressures on the industry and created a need to adapt.

Within Pennsylvania, these institutions are subject to several different taxes depending on the type of financial activity and ownership structure of the institution. The Act amended the Bank and Trust Company Shares Tax (Bank Shares Tax), but it has brought to light the need for greater scrutiny of what types of entities should be subject to which tax. For instance, some large stock institutions with similar structure and practices as banks may be subject to the Mutual Thrift Institutions Tax when this tax was originally intended for mutually owned, non-stock thrifts. For most institutions, the tax liability under the Mutual Thrift Institutions Tax is less than it would be under the Bank Shares Tax. Also of note, credit unions are not currently subject to an income or stock-based tax in the commonwealth.

Other issues identified in this report include the need for clarification of the goodwill deduction in the Act and a need for clarification of the apportionment of investment and trading receipts. There is also a disparity between the tax base and the apportionment factor calculation used to determine the Bank Shares Tax, and a need for clarification regarding the tax treatment of banks with no physical presence in Pennsylvania and less than $100,000 of receipts from Pennsylvania sources. The report also finds that the overall effective rate in Pennsylvania remains higher than in competing and contiguous states, but makes no recommendations regarding additional tax revenue.

Included in this report are the following technical recommendations:

1. Clarify the current apportionment language allowing Method 1 apportionment for banks with receipts from trading assets/activities and not investment assets/activities.
2. Clarify whether the deduction for goodwill is also allowed against the tax base, and not just in calculating the deduction for United States obligations.
3. Correct the mismatch of definitions between the tax base (consolidated reports of condition) and apportionment (separate company federal tax figures). The mismatch creates legal and reporting issues and opens opportunities for tax planning.
4. Repeal Tax Reform Code section 701.4(3)(xiii)(E) allowing for separate apportionment for different types of investment and trading receipts.
5. Eliminate the requirement that banks have $100,000 in Pennsylvania sourced receipts in order to be subject to Bank Shares Tax. Under current law it is possible that such banks could be subject to the Corporate Net Income Tax (CNIT) and franchise taxes. It is recommended that this change be accompanied by the option to file a de minimis report for banks with limited presence in the state.
6. Strengthen the taxpayer definitions and apportionment provisions of the Mutual Thrift Institutions Tax. This action should be taken to prevent large credit card companies from avoiding the Bank Shares Tax by forming as savings institutions, while preserving this structure as a benefit to Pennsylvania mutually owned, non-stock thrifts.

Introduction

Pennsylvania is a diverse banking state with a desirable mix of community banks, savings banks, regional banks, large banks with a statewide presence, out-of-state banks with branches in the commonwealth, and more credit unions than all but one state. These institutions are at the core of the commonwealth's credit cycle performing the essential functions of linking depositors and borrowers. Serving individuals, businesses large and small, agriculture, non-profits and government, they provide a safe place to deposit money and make loans, contributing directly to the economic vitality of their communities. They also provide jobs in their communities and, if stock-owned, generate returns for shareholders promoting economic growth.

There are 95 state chartered banks, 50 state chartered savings banks, and 16 state chartered non-depository trust companies headquartered in the commonwealth. These institutions have approximately $153 billion in assets, 2,420 branch offices, and employ 26,000 people in Pennsylvania.

There are 28 national banks, 20 federally chartered savings banks (savings and loan associations), and 4 federally chartered non-depository trust companies headquartered in Pennsylvania. These institutions have approximately $71 billion in assets, about 800 branch offices, and employ about 14,000 people. State and federally chartered banks based in the commonwealth hold approximately $150 billion in loans.

There are 26 banks and 3 savings banks headquartered outside of the commonwealth that have branches in Pennsylvania. These institutions employ approximately 20,000 people in Pennsylvania.

There are 56 state chartered credit unions with approximately $11 billion in assets and 415 federally chartered credit unions with approximately $29 billion in assets located in the commonwealth. There are at least 21 credit unions headquartered in other states that have operations here.

The Department of Banking and Securities is also aware of 16 credit card banks based in other states and as many as 10 industrial banks (loan companies) that do business with Pennsylvania customers.

Pennsylvania Financial Institutions Taxes

In Pennsylvania, financial institutions are not subject to the corporate income tax, but instead are subject to several different taxes. These taxes have very different bases and rates, but do not include credit unions which are not currently subject to tax. The result is widely varying tax burdens on different segments of the financial sector.

Banking institutions having capital stock and conducting business in Pennsylvania[1] are subject to the Bank Shares Tax on the apportioned value of bank net equity. This tax is discussed in more detail following this section, and is the primary focus of this report.

Mutual thrift institutions, including savings institutions, savings banks, savings and loan associations, and building and loan associations conducting business in Pennsylvania, are subject to the Mutual Thrift Institutions Tax. This tax applies a rate of 11.5 percent to the net earnings or income received or accrued from all sources during the tax year. Income earned from United States obligations or Pennsylvania state and local obligations is excluded from the computation of net earnings on income. Additionally, no deduction is permitted for the amount of interest expense related to tax-exempt income. Apportionment of income to Pennsylvania is permitted through payroll, receipts, and deposits factors. Mutual thrift institutions are permitted to carry forward net operating losses for a maximum of three years.

Total revenues from the Mutual Thrift Institutions Tax were $10.7 million in fiscal year 2013-14. Revenues from this source have declined as thrifts continue to convert to or merge with commercial banks.

Pennsylvania also imposes a gross receipts tax on private bankers in this commonwealth at the rate of 1.00 percent on gross receipts from commissions, discounts, abatements, allowances, and all other receipts arising from business. There is only one entity subject to the Private Bankers Tax.

The varying tax treatment of these financial institutions primarily arises from the form of ownership of the business, and the charter under which they are formed. A bank is defined as formed under the banking law, having capital stock and operating to make a profit for its shareholders. In general, a mutual thrift institution has a mutual form of ownership, meaning that it is owned by its members, though there are some thrifts that have issued stock. Credit unions also have a mutual form of ownership and are classified by state law as savings institutions, but are exempt from most types of taxes by federal and state law. The Department estimates that the tax exemption for credit unions from the Mutual Thrift Institutions Tax reduces revenues by $26.3 million annually.

Federally chartered credit unions are exempt under federal law from all federal, state, and local taxes, except for taxes on real property and tangible personal property. Federal law permits states, however, to impose personal property taxes on the holders of shares in federally chartered credit unions, provided that such taxes are also imposed on holders of shares of state chartered credit unions. Credit unions chartered by the commonwealth are exempt under state law from all state and local taxes except real property taxes.

[1] This report will refer to “institutions” as defined in Article VII of the Tax Reform Code as “banks,” to distinguish them from other types of financial institutions.

All of these organizations (with the exception of private banks) pay for and are covered by deposit insurance from one of two federal agencies: the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).

However, as will be discussed in detail later in this report, the traditional lines distinguishing these types of financial institutions have become blurred over time, so that similar institutions are now more likely to be subject to different taxation by the commonwealth.

Changing Regulations in the Financial Industry

The banking industry has been under stress since the banking crisis in 2008, only improving recently as the economy has slowly been recovering from a deep recession. However, Pennsylvania's banking institutions were able to avoid many of the most negative effects that the economic downturn inflicted on banks in other regions of the country.

Pennsylvania banks have not been immune to the industry consolidation seen in many other states, however. There are approximately 46 fewer banks, 27 fewer savings banks and savings and loan associations and nine fewer non-depository trust companies based in the commonwealth than there were 10 years ago. Credit union numbers have been reduced by 230 during the same period. There has been, however, significant growth in the number of out-of-state banks and credit unions operating in the commonwealth during the past ten years. The consolidation of the Pennsylvania banking industry is expected to continue, along with the expansion of out-of-state banks operating in the commonwealth through acquisitions and branching.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law by President Obama in July 2010. The Dodd-Frank Act requires depository institutions, including banks and their holding companies, to adhere to minimum leverage and minimum risk-based ratios that must be no less than the ratios imposed by the federal bank regulatory agencies in effect at the time of the passage of the Dodd-Frank Act. Institutions subject to the Dodd-Frank Act are likely to consolidate operations under the banks to meet the minimum ratios required by the Dodd-Frank Act. As the institutions' consolidated equity increases, institutions' Pennsylvania Bank Shares Tax liability will likely increase.

Set forth by the Federal Reserve in 2006, Regulation K requires banks' foreign subsidiaries, as well as other foreign investments, be held through a special type of entity known as an "Edge Act corporation." An Edge Act corporation acts as a holding company for the bank's foreign investments and conducts other permitted overseas activities, directly or indirectly.[2] This has a similar effect as the Dodd-Frank Act in that it requires the Pennsylvania Bank Shares Tax to include an institution's consolidated equity

[2] *Reg K-- 12 C.F.R. § 211, implements Section 25A of the Federal Reserve Act. See 12 U.S.C. §§ 611-631.*

in the tax base but does not allow the institution to use the apportionment factors of its subsidiaries. The Edge Act issue affects a very limited number of the larger, more complex banks that do business in the commonwealth.

Pennsylvania banks continue to face 21st century challenges including changing federal regulatory regimes and more complicated and expensive compliance requirements, capital ratios that will likely continue to increase under federal regulations and international requirements, increasing competition from out-of-state banks, technological innovations, and evolving customer demands.

For example, the new Consumer Financial Protection Bureau (CFPB) was put in place under the Dodd-Frank Act with a stated mission of providing consumers information to understand their agreements with financial institutions.

Another example of recent operational challenges for banks is the increase in leverage ratios. Tier 1 (Core) Capital is used to measure a bank's financial strength from a regulator's point of view – it is regulatory capital. This includes common stock, retained earnings, and some equity-like non-redeemable preferred shares. Core Capital (leverage) ratios (equity capital as a share of total assets) have increased from 7.82 percent in 2009 to 10.20 percent in 2014 for all Pennsylvania charters.

The Third Basel Accord (Basel III) is a global regulatory agreement establishing standards for adequacy of bank capital, stress testing, and liquidity. The accord was developed in response to the 2008 global financial crisis which exposed regulatory gaps and inconsistencies internationally. The intent of the accord is to strengthen capital requirements for all banks by requiring increased liquidity and decreased leverage standards.

Federal and international regulations like Basel III will continue to require increased levels of capital. This will have the effect of increasing the tax base for many banks.

With the evolving regulatory and financial environment, the Bank Shares Tax should be a stable, reasonably predictable, and fair tax that is competitive with other states taxes. The tax should also encourage Pennsylvania banks to maintain their locations in Pennsylvania and make Pennsylvania an attractive state for banks from other states.

Background

Bank Shares Tax and the Development of Act 52 of 2013

The Bank Shares Tax is an annual tax imposed on every bank and trust company, having capital stock, which is conducting business within the commonwealth. The tax is based on the value of shares as of each January 1st. A report and payment of 100 percent of the tax on the value of shares on the preceding January 1st are due on March 15th of each year. Banks can apply for a six month extension to file their return, but the tax liability remains due on March 15th.

The development of the Act began when the Pennsylvania Bankers Association (PBA) met with executive staff of the Pennsylvania Department of Revenue ("the Department") in May 2012 to present a proposal entitled "Recommendations For Changes To Pennsylvania Bank Shares Tax." The summary stated the following major objectives:

- Modify the tax to solve the problems with the use of a six-year moving average identified in the *Lebanon Valley Farmers Bank*[3] case (described later).
- Create greater incentives to develop and expand banking facilities in Pennsylvania.
- Make possible substantial rate reductions by expanding the extent to which out of state banks are subject to the tax.

The initial PBA proposal made the following major changes:

- Reduced the tax rate for 2013 from 1.25 percent to 0.55 percent, and provided a process for calculating a tax rate to reach $238 million in fiscal year 2012-13 revenue. The Department would publish a revised tax rate by May 1 each year to bring revenue up to the target amount. The tax rate would be calculated based on actual revenue received at the March 15th due date.
- Eliminated the use of the six-year moving average in calculating the value of bank shares to resolve the *Lebanon Valley Farmers Bank* case.
- Adopted the use of "total bank equity" instead of "total equity" capital.
- Shifted to 100 percent reliance upon receipts for apportionment, phased in over a four-year period.
- Apportioned receipts based on the recommendations of the Multi-state Tax Commission, with modifications to use market-based sourcing of receipts from services and for other payments.
- Required any institution actively soliciting business in Pennsylvania or with employees or agents operating in the state to pay the Bank Shares Tax.
- Repealed limitations on appeal petitions regarding the Bank Shares Tax. Specifically, banks would no longer need to pay an assessment before beginning the appeals process.

[3] *Lebanon Valley Farmers Bank v. Commonwealth of Pennsylvania*, 83 A.3d 107 (Pa. 2013).

A modified version of the amendment was incorporated into the omnibus Tax Reform Code bill, House Bill 465. After receiving approval in both chambers of the General Assembly, HB 465 was signed by Governor Corbett on July 9, 2013, becoming Act 52.

The Act provided that beginning January 1, 2014, the tax rate on the dollar value of each taxable share of stock was reduced from 1.25 percent to 0.89 percent.[4] The 1.25 percent rate had been in effect since 1990.

Prior to January 1, 2014, the value of shares was calculated by a six-year moving average of total equity capital, with a proportional exemption for United States obligations. For each year in the average, total equity capital and deductions for United States obligations were determined by averaging the values as shown in the Report of Condition for each quarter of the preceding calendar year.

As of January 1, 2014, the value of shares is the total *bank* equity capital, with a proportional exemption for United States obligations.[5] Total bank equity capital and deductions for United States obligations are determined by the most recent year-end values as shown in the Report of Condition.

Apportionment is now based solely on receipts, rather than on payroll, receipts, and deposits. The receipts factor is also re-defined to heavily favor customer-based sourcing, rather than sourcing based on the location of bank offices.[6] This is similar to the manner in which CNIT is apportioned based on sales using market-based sourcing. The term "sourcing" is used to describe the location where a receipt is assigned for tax purposes.

The Act also expanded the number of taxpayers by adding a new definition of "doing business in this Commonwealth," extending the tax to banking institutions that generate at least $100,000 of gross receipts apportioned to Pennsylvania. It also removed the language, "located within this Commonwealth" from the definition of an institution and expanded it to include foreign depositories.[7] These changes are generally described as an "economic nexus" standard, indicating that tax may be required from banks with economic ties to Pennsylvania, but that may not have a direct physical presence.

The Act also required this detailed report to determine whether the Act's changes to the Bank Shares Tax sufficiently addressed the significant changes in the structure and regulatory environment within the banking industry and provided predictable tax revenues. This report is to be provided to the chairmen and minority chairmen of the Appropriation and Finance Committees of both the Senate and the House of Representatives.

[4] *See* 72 P.S. 7701(b).
[5] *See* 72 P.S. 7701.1.
[6] *See* 72 P.S. 7701.4.
[7] *See* 72 P.S. 7701.5.

The Act was scored to be close to revenue neutral. Fiscal year 2013-14 Bank Shares Tax collections were forecasted to be $352.1 million before the Act, and $351.5 million after the reform was in place. The actual collections for fiscal year 2013-14 were $307.2 million. A discussion of the reasons for that shortfall is included in this report.

Detailed Review of Act 52 of 2013

Tax Base

The federal government, as with most other states, taxes banks on net income like other corporations. Pennsylvania taxes banks based on their equity capital, which is a measure of a bank's net worth, taking the current market value of everything a bank owns and subtracting liabilities. It is likely that a net worth tax is more stable than an income tax, because net income is more volatile than net worth.[8]

The Act eliminated the use of a six-year average to calculate the value of total equity capital. It also changed the balance sheet line item upon which the value is calculated from total equity capital to total bank equity capital. Changing from a six-year average to a spot tax on the bank equity for a single quarter may make the tax base somewhat more volatile. However, this change also increases the tax base by eliminating historical equity – which is most often lower than current equity – from the calculation. As a result, the value of shares (before apportionment) for all banks rose by 31.5 percent between 2013 and 2014.

The legislative changes were enacted prior to a final decision of the Pennsylvania Supreme Court on the constitutionality of the application of the six-year averaging provision as it applied to bank acquisitions and mergers in the *Lebanon Valley Farmers Bank* case.[9] In this case, the taxpayer claimed that the uniformity rule of the Constitution was violated by requiring the six-year history of the taxable value of shares to include the value of acquired Pennsylvania banks. Pursuant to a prior decision of the Court[10], the value of acquired non-Pennsylvania banks was excluded from the history of values. Ultimately, the Court held the disparate treatment afforded acquisitions of Pennsylvania banks under the First Union rule did not violate constitutional standards.

The change from total equity capital to total bank equity capital stems from Financial Accounting Standards Board's (FASB) December 2007 adoption of new standards affecting the consolidation of entities and the reporting of minority interest.[11] The term minority interest was changed to non-controlling interest to reflect the new standard for consolidation based on control rather than predominantly on a majority ownership percentage. A non-controlling interest is the portion of equity in a subsidiary not attributable, directly or indirectly, to the parent. Beginning in 2009, the new standards specifically require an institution's equity capital and non-controlling interest be

[8] Picketty, T. (2014). Capital in the twenty-first century. (A. Goldhammer, Trans.). Cambridge Massachusetts : The Belknap Press of Harvard University Press.
[9] *Lebanon Valley Farmers Bank v. Commonwealth of Pennsylvania*, 83 A.3d 107 (Pa. 2013).
[10] *First Union National Bank v. Commonwealth of Pennsylvania*, 867 A.2d 711 (Pa. Cmwlth.), exceptions dismissed, 885 A.2d 112, (Pa. Cmwlth. 2005), aff'd per curiam, 587 Pa. 507, 901 A.2d 981 (Pa. 2006).
[11] FASB: Financial Accounting Standards Board, "Summary of Statement No. 160," http://www.fasb.org/summary/stsum160.shtml, accessed September 22, 2014.

separately reported in arriving at total equity capital within the equity section of the consolidated balance sheet. In the past, non-controlling interest (minority interest) most often appeared as a separate item between assets and liabilities and shareholders' equity.

The Report of Condition (also known as the Call Report) required of banks by the Federal Financial Institutions Examination Council was updated in 2009 to reflect the FASB change, inserting a line for total bank equity, non-controlling interest in subsidiaries, before total equity capital. As a result of the Act revisions, the tax base used now is total bank equity capital. The total bank equity reported for 2014 for all banks was $1.2 trillion. The most equivalent comparison to 2013 would be fourth quarter total equity capital for all banks. That figure is $1.1 trillion after Department assessments (see Appendix A for more details).

The Act also expanded the nexus standards of the Bank Shares Tax by providing a new definition of doing business in the commonwealth and revising the definition of institution. The new language implements an economic nexus standard rather than a physical presence standard in the commonwealth. These changes were expected to expand the tax base to include additional out-of-state banks, which would offset the expected decrease in tax liability of existing, in-state Bank Shares Tax payers resulting from other changes implemented by the Act.

Tax Liabilities

The changes introduced in the Act reduced Bank Shares Tax liabilities from $343.3 million in 2013 (after assessments) to $310.5 million in 2014. While the shares subject to tax grew by 27 percent, the reduction in the tax rate and the shift to a single receipts factor allowed for this overall tax liability reduction. Also decreasing tax liabilities in 2014 was an increase in the use of the goodwill deduction against the tax base. This deduction is discussed in more detail in a subsequent section of this report.

Tax liabilities, as the term is used in this report, reflect the tax due as reported by banks and assessed by the Department. These tax liabilities can be met by cash payments, but also through a number of other means. Restricted tax credits, such as the Educational Improvement Tax Credit and the Film Production Tax Credit, can be used to offset tax liabilities. Restricted tax credits increased from $27.7 million in 2013 to $39.4 million in 2014.

Banks can also offset tax liabilities through transfers of credit from prior tax years. These credits are generated when a bank makes a payment on the March 15th due date, then files a return at a later date that reflects a lower tax liability. Upon filing their return, banks can choose to transfer that credit to the next tax year or request a refund of this overpayment. Transfers of credit declined by $1.4 million in 2014. However, transfers of overpayment credits to future years have increased from $4.3 million in 2013 to $76.1 million in 2014. These credits are expected to significantly affect future tax collections and refunds. See Appendix A for more details on 2013 and 2014 tax liabilities.

The largest impact from new taxpayers, resulting from the expanded nexus, appears to be from the credit card arms of several out-of-state banks. The total 2014 tax liability associated with banks that did not file a Bank Shares Tax return in 2013 was approximately $16.7 million. It is not certain that all of this was due to the expansion of nexus, as there is no indicator on returns for "new taxpayer." This figure is more than the $7.1 million forecasted for new taxpayers. However, it was not enough to offset the shortfall in collections caused by other elements and interpretations of the Act.

Analysis of 2013 and 2014 returns does show an increase in the number of out-of-state banks in 2014 (see Table 1 and Appendix B). Furthermore, their tax liability rose by 44 percent. However, this $47.6 million increase in out-of-state bank tax liabilities was not enough to offset the $80.4 million drop in Pennsylvania bank tax liabilities.

Table 1 – Pennsylvania and Out-of-State Bank Tax Liabilities

	2014 Returns		
	PA	Out-of-State	Proportion PA
Number of Banks	144	156	48%
Tax Liability	$156,021,934	$154,496,422	50%

	2013 Returns After Assessments		
	PA	Out-of-State	Proportion PA
Number of Banks	159	104	60%
Tax Liability	$236,398,103	$106,931,212	69%

	Percent Change	
	PA	Out-of-State
Number of Banks	-9%	50%
Tax Liability	-34%	44%

While there were some changes among large and small bank returns, the Act seemed to have little effect on the proportion of Bank Shares Tax paid by the larger banks.[12] However, the number of large banks grew substantially, likely due to the expansion of nexus. While all bank tax liabilities dropped, the total tax liability of large banks fell less than their smaller counterparts.

The tax liabilities of small banks declined by 23.7 percent, almost as much as the 28.8 percent reduction in the tax rate. Within this group there was a wide variation, some banks showing an increase in tax liabilities while others showed declines. Between 2013

[12] The FDIC defines large banks as those having over $1 billion in total assets. This report follows the same convention.

and 2014, there were 185 unique small banks. Of those, 119 saw their tax liabilities decline by $12.4 million, or 33.6 percent. However, 66 small banks realized a $1.9 million increase (26.5 percent) in Bank Shares Tax liabilities.

Similarly, large banks had a significant split between liability increases and decreases. Of the 139 unique large banks in 2013 and 2014, 43 saw an $88.5 million decrease (39.2 percent) in tax liability after the Act. In contrast, 96 large banks saw a $66.2 million increase in tax liability. Included in the banks with increased tax liabilities are Bank Shares Tax payers who were newly subject to the tax due to the expansion of the definition of institution in the Act. See Table 2 and Appendix C for more details on large and small banks.

Table 2 – Large and Small Bank Tax Liabilities

	2014 Returns		
	Small Banks	Large Banks	Proportion Large
Number of Banks	167	133	44.3%
Tax Liability	$33,825,012	$276,693,344	89.1%

	2013 After Assessments		
	Small Banks	Large Banks	Proportion Large
Number of Banks	160	103	39.2%
Tax Liability	$44,309,026	$299,020,288	87.1%

	Percent Change	
	Small Banks	Large Banks
Number of Banks	4.4%	29.1%
BST Liability	-23.7%	-7.5%

Rate of Tax

Beginning January 1, 2014, the tax rate on the dollar value of each taxable share of stock was reduced from 1.25 percent to 0.89 percent. The 1.25 percent rate had been in effect since 1990.

The commonwealth is one of a minority of states that impose tax on bank and trust companies based on total bank equity. In most states, bank and trust companies are taxed on net income in the same or similar manner as other corporations. A few states tax bank and trust companies using different tax bases and/or complicated tax formulas which do not directly compare to either the commonwealth's Bank Shares Tax or corporate net income tax. See Appendix D for details.

Based on the data available, it appears four states have taxes based on bank equity similar to Pennsylvania. Kentucky (1.10 percent), Michigan (0.29 percent), and Virginia (1.00 percent) all have a flat tax rate on net capital. Beginning January 1, 2014, Ohio implemented a tax on financial institutions based on total Ohio equity capital (OEC). Prior to that time, financial institutions were subject to the corporation franchise tax based on net worth. Ohio's tax on financial institutions is the greater of a $1,000 minimum tax, or a graduated rate on OEC as follows:

0.80 percent of the first $200 million of OEC
0.40 percent of OEC over $200 million up to $1.3 billion
0.25 percent of OEC in excess of $1.3 billion

Depending on tax revenues, Ohio law provides the tax commissioner may increase or decrease each tax rate, except the minimum tax, for tax years beginning on or after January 1, 2015, and for tax years beginning on or after January 1, 2017.

Nebraska and Vermont tax bank and trust companies based on average deposits, at rates of .047 percent and .0096 percent, respectively.

The Department estimates the effective Bank Shares Tax rate in Pennsylvania on the CNIT tax base is 9.84 percent. This estimate was derived by calculating a fiscal year 2013-14 projection of bank tax liabilities under both the Bank Shares Tax and CNIT statutes. The CNIT rate in Pennsylvania is 9.99 percent. Based on the data available, it appears the average rate at which banks are taxed in the United States is 7.97 percent of net income. This is calculated by weighting each state's net income tax (or effective net income tax if the state uses a net equity tax base) by that state's gross state product. These estimates indicate that Pennsylvania's effective tax rate on banks is about 1.9 percentage points higher than the national average. See Table 3 for the tax rates of each state and Appendix D for more details.

This conclusion is also supported by a study commissioned by the Pennsylvania Bankers Association. A report authored by Crowe Horwath LLP compares bank taxes in Pennsylvania and seven competing states including Michigan, North Carolina, and the contiguous states except for West Virginia. The study compares the bank taxes of three hypothetical banks during a three-year period. The study concludes that "under the scenarios considered substantially similar banks generally would pay more tax if headquartered in Pennsylvania than if headquartered in one of the other States."

More specifically, the small bank ($500 million in assets) paid more taxes in Pennsylvania under any scenario. The medium sized bank ($3 billion in assets) had the highest tax burden in the commonwealth under most scenarios. The large bank ($15 billion in assets) paid more taxes in Maryland and New Jersey than in Pennsylvania. Over a three-year period in which the bank incurs losses in the second year, however, Pennsylvania again has the highest tax burden for the hypothetical large bank. The full Crowe Horwath report is attached as Appendix E.

Table 3 – Effective Income Tax Rates for Banks by State

State	2014 Rate	State	2014 Rate
Alabama	6.50%	Montana	6.75%
Alaska	9.40%	Nebraska 2/	
Arizona	6.50%	Nevada 2/	
Arkansas	6.50%	New Hampshire	8.50%
California	10.84%	New Jersey*	9.00%
Colorado	4.63%	New Mexico	7.30%
Connecticut	7.50%	New York*	7.10%
Delaware*	8.70%	North Carolina	6.00%
Florida	5.50%	North Dakota	7.00%
Georgia	6.00%	Ohio* 1/	8.85%
Hawaii	7.92%	Oklahoma	6.00%
Idaho	7.40%	Oregon	7.90%
Illinois	9.50%	Pennsylvania* 1/	9.84%
Indiana	8.00%	Rhode Island	9.00%
Iowa	5.00%	South Carolina	4.50%
Kansas	4.375%	South Dakota	6.00%
Kentucky 1/	12.17%	Tennessee	6.50%
Louisiana 2/		Texas 2/	
Maine	1.00%	Utah	5.00%
Maryland*	8.25%	Vermont 2/	
Massachusetts	9.00%	Virginia 1/	11.06%
Michigan 1/	3.21%	Washington 2/	
Minnesota	9.80%	West Virginia*	6.50%
Mississippi	5.00%	Wisconsin	7.50%
Missouri	7.00%	Wyoming 2/	

*Contiguous states.

Notes:
1/ These states have a bank tax on shares or net capital. Pennsylvania effective rate was determined and the proportion to the CNIT rate was applied to the other states with a tax on bank shares or capital.
2/ These states do not have rates due to a number of issues including different tax bases and complicated tax formulas that did not allow for the calculation of an effective rate.
3/ Compiled by the Federal Tax Administrators and Thomson Reuters - Checkpoint from various sources.

Apportionment

Under federal case law, states must provide a method for "fair apportionment" of taxes to avoid a challenge under the commerce clause.[13] An apportionment formula is used to determine how much of a taxpayer's activity occurs in Pennsylvania and is taxable by Pennsylvania. Institutions that are subject to tax in another state (other than Pennsylvania) determine their Bank Shares Tax by apportioning their value.

Prior to the Act 52 changes, the Bank Shares Tax was apportioned by a three-factor apportionment methodology, using receipts, payroll, and deposits factors. The numerator included the institution's Pennsylvania factors and the denominator included all the institution's factors. The Act adopted a single receipts factor apportionment methodology, arriving at the apportionment factor by dividing the institution's receipts within Pennsylvania by its total receipts. The new apportionment formula was designed to more accurately represent economic activity within the commonwealth.

Prior to the Act, the use of "employee leasing subsidiaries" became common as a method to reduce a bank's payroll factor. These subsidiaries are sometimes referred to as professional employer organizations (PEOs). PEOs can be established by the holding company of a bank in a state other than Pennsylvania, typically in the form of limited liability companies (LLCs). The LLC can act as the employer of most of the bank's employees, removing their wages from the numerator of the payroll factor. The use of this practice was routinely identified before the Act.

The Bank Shares Tax receipts apportionment provisions contained a list of eight sourcing rules governing the treatment of various types of receipts prior to the Act. Several key items on this list included the treatment of interest and service charges from credit card receivables, and interest, dividends and net gains from the sale of intangibles. These receipt categories were tied to the location of the office that treated the receivables or intangibles as assets on its books and records. In addition, the catch-all category of all other receipts was sourced to the location where the greatest portion of the income-producing activity is performed, based on costs of performance.

Because so many financial transactions take place without visiting an office, sourcing based on office locations will overlook the contributions of customers in many situations. The Act removes these references of sourcing to office locations in order to minimize the role of physical presence. There is now a list of 17 detailed sourcing rules, as summarized in Appendix F. The new sourcing rules are designed to locate each type of receipts at the location of the customer for the transaction with the exception of some receipt categories, in particular, investment and trading receipts for out-of-state banks.

While converting from physical presence to customer sourcing of receipts typically raises the apportionment factors of large out-of-state banks, larger Pennsylvania banks usually

[13] *Complete Auto Transit, Inc. v. Brady*, 430 U.S. 274 (1977).

see their apportionment factors drop due to their customer base expanding beyond the commonwealth's borders. This change has a much smaller impact on small community banks that serve customers who are only or overwhelmingly in Pennsylvania.

One important change in the Act relates to the sourcing of receipts from investments and other intangibles, which may be difficult to assign to a specific location. When a bank earns income by trading stocks, bonds, or other intangible assets in the marketplace, those receipts may not be traceable to a specific customer whose location can be determined. The Act addresses this problem by providing two options for sourcing these receipts, known as Method 1 and Method 2.

Method 1 allows a bank to allocate all receipts from *trading* assets and activities in the same manner as all other receipts. Method 2 allows a bank to allocate all receipts from *investment and trading* assets and activities by the average value of the assets which generate receipts assigned to a regular place of business of the institution within Pennsylvania divided by the average value of all such assets.

Method 1 is designed to be advantageous for banks headquartered in Pennsylvania, as it allows receipts from intangibles to be sourced to customer locations outside of Pennsylvania. Method 2 is designed to be more advantageous for out-of-state banks, since it allows receipts from intangibles to be sourced to an office location outside of Pennsylvania. As written, the statute allows Method 1 for banks with trading assets only. The Department has administered the tax in accordance with the statute as written.

Many in-state banks with investment assets paid their Bank Shares Tax liabilities in March of 2014 under the assumption they could use Method 1 for investment and trading receipts. This led the Department to issue Information Notice 2014-01 on April 14, 2014 in order to clarify the issue. The notice pointed out this apparent misreading of the statute and asked that banks remit any payments due the commonwealth on this issue by May 15, 2014.

Both Pennsylvania and out-of-state banks show an increase in apportionment in 2014 over the prior year. However, the overall apportionment for all banks (shares subject to tax divided by the total value of shares) fell slightly. Table 4 also illustrates the change among the top 10 banks (based on 2013 tax liability). Prior to the implementation of the Act, the apportionment factors of the top 10 banks (based on receipts, payroll, and deposits) ranged from 0.9 percent to 100 percent after assessments. Under the Act, the apportionment factors of the top 10 banks (based solely on receipts) ranged from 0.8 percent to 96.5 percent. Their overall apportionment declined about 6 percentage points.

Table 4 – Average Apportionment Factors by State of Headquarters

	2014 Returns		2013 Returns After Assessments	
	PA	Out-of-State	PA	Out-of-State
By State	26.4%	1.8%	22.1%	1.2%
Overall	3.4%		3.6%	
Top 10 Banks	4.0%		3.8%	

Pennsylvania's single receipts apportionment factor for banks is similar to a majority of other states. In the Table 5, the commonwealth's use of a single receipts factor is considered a single sales factor, as are states that refer to their apportionment method as using a gross business factor. A three-factor apportionment is almost always based on equally weighted property, payroll, and sales factors. As noted previously, most states tax bank income.

Table 5 – State Apportionment Formulas for Bank Tax Bases

Apportionment Formula	Number of States
3 Factor	19
3 Factor, Sales Factor Double-Weighted	7
Single Sales Factor	21
Single Deposits Factor	1

Note:
1/ Summarized from compilation of Thomson Reuters - Checkpoint data from various sources and state bank tax forms.

Compared to the four other states that tax banks on their net capital, equity, or shares, Pennsylvania's single receipts apportionment factor is similar to Michigan (single gross receipts factor)[14] and Ohio (single gross receipts factor).[15] Kentucky uses a three-factor apportionment formula (receipts, property, and payroll)[16]. Virginia is the only state apportioning by a single deposits factor.[17]

The sourcing of investment and trading receipts in Pennsylvania appears to allow for customer sourcing of trading receipts only. Ohio's method for sourcing receipts from investment and trading assets and activities is similar Pennsylvania's rules. Ohio law allows financial institutions to choose from two methods.[18] The first method determines

[14] Mich. Comp. Laws Ann. § 206.657(3).
[15] Ohio Rev. Code Ann. §5726.05(D)(1); Ohio Admin. Code §5703-33-06(C)(1).
[16] Ky. Rev. Stat. Ann. §136.525(2).
[17] *See e.g.*, Va. Code Ann. § 58.1-1211.
[18] Ohio Rev. Code Ann. §5726.05(D)(1).

the location of the investment and trading receipts based upon the proportion of the benefits to customers within Ohio in relation to the benefits to customers everywhere.[19] The second method apportions the receipts based upon the average value of the investment and trading assets to a regular place of business within Ohio in relation to those assets everywhere.[20]

Michigan sources investment and trading receipts using customer location unless a customer location cannot be identified, in which case the receipts are sourced based on the regular place of business of the taxpayer.[21] In Kentucky, receipts from investing and trading assets and activities are determined using physical presence, taking the average value of the assets assigned to a regular place of business within Kentucky compared to everywhere.[22]

Considered to be the banking capital of the world, New York is also a neighboring state to which Pennsylvania can be compared. For tax years beginning on or after January 1, 2015, New York will merge its Bank Franchise Tax with its Corporate Franchise Tax. Among other reforms, the largest changes are a move from origination sourcing of services to full customer sourcing and from a three-factor apportionment formula (payroll, deposits, and a double-weighted receipts factor) to a single sales apportionment factor.[23] While New York continues to tax banks on their net income, the apportionment factor of the tax base will now be similar to Pennsylvania law.

After January 1, 2015, banks subject to the corporate franchise tax in New York may elect to source receipts from qualified financial instruments using one of two methods. "Qualified financial instruments" are defined as financial instruments that are marked to market under I.R.C. §§ 475 or 1256, making them similar to what Pennsylvania considers investment and trading receipts. Under the fixed percentage method, a taxpayer can make an irrevocable election to assign 8 percent of all income from qualified financial instruments to the New York numerator. If this method is not elected, all financial instrument income will be sourced to customer location.[24] See Appendix D for more details on each state's apportionment factors.

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[19] Ohio Rev. Code Ann. §5726.05(B).
[20] Ohio Rev. Code Ann. §5726.05(D)(2)(b).
[21] Mich. Comp. Laws Ann. § 206.659(f)(i); see Mich. Comp. Laws Ann. § 206.651(o).
[22] Ky. Rev. Stat. Ann. §§ 136.530(1)(l) (determining the denominator of the receipts factor) (2)(l)(1).
[23] *See* NY Tax Law 210-A (apportionment provisions effective for tax years beginning on or after January 1, 2015).
[24] *See* NY Tax Law 210-A (apportionment provisions effective for tax years beginning on or after January 1, 2015).

Summary of Issues

This report is required by the Act to review whether the tax rate and other amendments sufficiently address the significant changes in the structure and regulatory environment of the banking industry and provide for fair, stable and predictable tax revenues for the commonwealth while remaining competitive with other states. In addition, this report is required to provide recommendations concerning the tax base, an appropriate methodology to allocate and apportion the tax base, and to provide draft legislation concerning any recommendations. This section discusses a number of issues with the Act and recommendations offered by the Department.

Goodwill Deduction

Goodwill is the amount by which the purchase price paid by the buyer exceeds the book value of the acquired assets. Goodwill is included on the balance sheet of a business when it merges with or acquires another business. It is usually understood to represent the intangible values created by a going concern, such as a public brand, supplier and customer contracts, and other relationships.

Beginning in 2008, Act 55 of 2007 allowed for goodwill generated by a merger with or acquisition of another institution as defined in Bank Shares Tax statute to be subtracted from a bank's book value of total equity capital when calculating its shares history and the calculation of the deduction for United States obligations. This change applied to combinations occurring after June 30, 2001.

The impetus for this change was Financial Accounting Standard (FAS) 141, adopted by the Financial Accounting Standards Board in June of 2001.[25] FAS 141 required goodwill to be reported by the surviving entity of a combination as part of its equity. Prior to FAS 141, banks were permitted to use an accounting method that did not include the amount by which the purchase price exceeded all specifically acquired assets (goodwill) in the equity section of their balance sheets. The adopted standard forced banks to include goodwill in their tax base for Bank Shares Tax purposes.

The Act amended Tax Reform Code section 701.1, and significantly changed the language previously allowing the deduction of goodwill from the calculation of taxable shares. Prior to the Act, subsection (b) was interpreted to provide a deduction from the taxable value of shares and in the calculation of the deduction for United States obligations. The amended subsections (a) and (b) could be interpreted as only providing that deduction in the calculation of the deduction for United States obligations. There is no clear expression of the intent of the changes to section 701.1, whether the deduction remains viable and the proper interpretation of the Act remains under legal review by the Department. Because the proper interpretation of the change in the express language of

[25] FASB: Financial Accounting Standards Board, "Summary of Statement No. 141," www.fasb.org/st/summary/stsum141.shtml, accessed December 10, 2014.

section 701.1 has not been conclusively determined, the Department has not acted to remove the separate deduction for goodwill from the book value of total bank equity capital on the forms used to calculate Bank Shares Tax, but has noted on the form that the deduction is under review. Nonetheless, the Department has not yet processed returns submitted since the Act pending the final determination as to the post-Act treatment of goodwill in the computation of both taxable value and the deduction for United States obligations. The Department recommends that the statute should be clarified on this point.

It should be noted that representatives of the banking industry object to the suggestion that the Act eliminated the goodwill deduction against the tax base. Nonetheless, the banking industry does not object to amendments to the law to clarify the continued applicability of the goodwill deduction in order to avoid disputes and uncertainty.

Currently, it appears Virginia is the only other state that taxes banks based on net worth, which allows a deduction for goodwill. Virginia allows a deduction of up to 90 percent of goodwill created in connection with the acquisition or merger of a bank on or after July 1, 2001. Michigan previously allowed a deduction for goodwill but eliminated it in 2012. Ohio eliminated its goodwill deduction in 2013 as part of several legislative changes related to its method of taxing banks. Kentucky has never allowed a deduction for goodwill.

The deduction may also have an effect on taxpayer behavior. Because goodwill is created in a merger, the deduction may influence the value assigned to a bank in merger negotiations. In addition, the deduction provides a relatively greater benefit to larger banks that are more likely to have been involved in a merger than smaller banks.

In 2014, 99.8 percent of the goodwill deducted from total bank equity was attributed to large banks (institutions with more than $1 billion in assets). Furthermore, for large banks, goodwill reduced pre-apportionment bank equity by 17 percent, while small banks realized a 5 percent reduction. Approximately 69 percent of the impact of the deduction is realized by the top 10 beneficiaries of the deduction. Overall, the tax liability of the top 10 banks would increase by 45.8 percent due to disallowing the goodwill deduction. Many of the smallest banks are not eligible for the deduction if they have not been a party to a merger since 2001. The goodwill deduction reduced tax liabilities by $72.8 million in 2014. See Appendices A through C for more details about the distribution of deductions for goodwill.

Apportionment

The Act provided two apportionment options for banks with income from investment and trading assets and activity. However, it was not anticipated that Method 1 could be used to lower the receipts factor as much as it did for in-state banks.

The Bank Shares Tax Information Notice 2014-01 described previously was issued in April of 2014. The Department estimates that less than 10 banks made payments totaling

$36.3 million due to this notice. It cannot be definitively determined if more payments after this notice was issued were due to the Method 1 apportionment issue. The Department recommends that the statute be clarified on the issue of sourcing investment and trading receipts.

It should be noted that the banking industry believes that the information notice was incorrectly issued and has no legal force and effect. Nonetheless, the banking industry supports the Department's proposal to clarify the availability of both Method 1 and Method 2 for the apportionment of receipts from investment assets and activities in order to avoid disputes and uncertainty regarding the issue.

Also included in the Act under apportionment for investment and trading receipts is a section that calls for such receipts to be apportioned separately under three different categories:

- (I) interest, dividends, net gains and other income from investment assets and activities in an investment account;
- (II) interest from Federal funds sold and purchased and from securities purchased under resale agreements and securities sold under repurchase agreements; and
- (III) interest, dividends, gains and other income from trading assets and activities, including assets and activities in the matched book, in the arbitrage book and foreign currency transactions.[26]

The separate apportionment for these different types of investment and trading receipts adds complexity within the Method 1 and Method 2 choices provided earlier, and seems to conflict with other sections of the statute. The Department recommends the section allowing for this be eliminated.

In addition, it appears some banks may be able to take advantage of tax planning opportunities to shift some receipts out of state, reducing their apportionment factors. While the Bank Shares Tax is based on a bank's consolidated reports of condition, a bank holding company can own a number of banks with their own reports of condition. This could provide an opportunity for these related banks to "restructure," or shift receipts from one bank to another in order to reduce apportionment factors. The extent of this practice is currently unknown.

Furthermore, a disparity exists between the tax base and the apportionment factors used to determine the Bank Shares Tax liability. While the Call Reports containing the tax base are prepared on a consolidated basis, the Bank Shares Tax is apportioned using the receipts of only the reporting bank and does not include the apportionment factors of the consolidated subsidiaries. The Act requires receipts to reflect the taxable income of the reporting bank reported to the federal government.

[26] *See* 72 P.S. 7701.4(3)(xiii)(E).

This mismatch may either increase or decrease the tax liability of banks depending on the circumstances. If the banking member has a relatively high Pennsylvania presence, its factors will allocate a large share of the consolidated group to Pennsylvania. If the banking member has relatively low Pennsylvania presence, its factors will allocate a lower share of the group to Pennsylvania, and the tax will be reduced.

For example, a large banking group may include an Edge Act subsidiary that primarily does business outside of the United States. The bank will calculate apportionment factors without the Edge Act subsidiary in the denominator. However, the bank's Pennsylvania tax base will include the value of the foreign Edge Act company.

Some banks have also raised concerns about the timing of the due date for Bank Shares Tax returns. Reports and payments are due on March 15th for the value of shares on the preceding January 1st. Banks may take a six month extension on filing the report, making the due date for the report September 15th. The Act defines receipts as the taxable income reported to the federal government. Federal income tax returns for calendar year taxpayers are generally due in October each year, requiring banks to report their apportionment figures to the commonwealth before their final federal returns are due. If the apportionment figures are again tied to the Call Reports, this timing issue could be eliminated.

The disparity between the tax base and the apportionment factors may also subject the tax to constitutional challenges. However, previous taxpayer challenges to similar disparities between the tax base and apportionment factors have failed.[27]

Gross Receipts Threshold

The Act provides that a bank with no physical presence in Pennsylvania and less than $100,000 of receipts from Pennsylvania sources is not subject to the Bank Shares Tax. However, such a bank could be subject to CNIT or franchise taxes. The Department recommends that the $100,000 threshold be eliminated. It is also recommended that this change be accompanied by allowing for a de minimis report to be filed by banks with limited presence in the state. The de minimis report would show that the bank falls below a set receipts threshold, and that a full tax return is not required. The Department would issue administrative guidance regarding the de minimis report. This change would have minimal revenue effects, but would simplify compliance with the law.

Taxpayer Definitions

In the Bank Shares Tax statute, the entity subject to tax is an "institution". This term is defined in part as follows:

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[27] See e.g., *Unisys Corp. v. Commonwealth of Pennsylvania*, 571 Pa. 139 (Pa. 2002).

> Every bank operating as such and having capital stock which is incorporated under any law of this Commonwealth, under the law of the United States or under the law of any other jurisdiction.[28]

The term "bank" is not defined in this statute, but is understood to be defined with reference to the banking law. However, entities subject to the Mutual Thrift Institutions Tax are specifically removed from the Bank Shares Tax, making the definitions mutually exclusive.

Prior to Act 66 of 1983, the Bank Shares Tax was applied to banks *or savings institutions* having capital stock. The Mutual Thrift Institutions Tax was applied only to savings and loans and similar entities having a mutual form of ownership. Thus, the existence of stock ownership was a clear distinguishing factor separating the two populations of taxpayers.

However, the 1980s were times of rapid evolution in the financial sector. Interstate banking became more common, resulting in more competition for deposits and loan customers. This environment and the recessions of the early 1980s put severe stress on financial institutions and precipitated what became commonly known as the "S&L crisis." Nationally, many thrifts failed and had to be rescued with taxpayer funds or merged into other entities by the Resolution Trust Corporation.

During this time, Pennsylvania law also was changed to help thrifts under stress. Act 94 of 1982 allowed thrifts to raise capital by selling shares of stock in a permanent reserve fund. Act 174 of 1988 allowed thrifts to create savings association holding companies to own a minority share of one or more thrift institutions, and to raise capital through stock sales.

In order to avoid the imposition of the more burdensome Bank Shares Tax on thrifts with these new forms of ownership, the Tax Reform Code was amended by Act 66-1983 to remove the phrase "or savings institution" from the definition of "institution" in the Bank Shares Tax. The same bill also added the phrase "savings institutions having capital stock" to the definition of "institution" in the Mutual Thrift Institutions Tax statute.

The taxpayer definition in the Mutual Thrift Institutions Tax today includes every:

(1) savings bank without capital stock;
(2) building and loan association;
(3) savings and loan association; and
(4) savings institution having capital stock.[29]

The terms "building and loan association" and "savings and loan association" are presumed to be mutual companies due to the use of the term "association".

[28] See 72 P.S. 7701.5.
[29] See 72 P.S. 8501.

The term “savings bank” is undefined in the Tax Reform Code, but is defined by the choice of organizational charter under banking law. Like savings and loan companies, savings banks usually specialize in real estate financing as opposed to commercial banking activity. Over time, the powers of banks and savings banks have evolved to be very similar.

However, the term “savings institution” is currently not defined either in the Tax Reform Code nor the banking law. Because there were only a few remaining state thrifts, the Savings Association Code was repealed by Act 23-2013, and the remaining state savings and loan institutions were forced to convert to federal institutions or savings banks, or merge out of existence. Presumably, all savings banks, savings and loans and building and loans with stock are encompassed in this reference. Since the term is undefined, it leaves an opening for other types of financial institutions having capital stock to claim “savings institution” status in order in order to avoid the Bank Shares Tax.

The definitions of financial institutions have also continued to evolve in other states. One category of firm that has attracted some interest is the “industrial bank”, also known as the “industrial loan company” (ILC). Seven states have enacted statutes allowing the formation of ILCs, but most are chartered under Utah law. An FDIC report found that ILCs are “FDIC-supervised financial institutions whose distinct features include the fact that they can be owned by commercial firms that are not regulated by a federal banking agency.”

> ILCs are state-chartered institutions (currently operating in California, Colorado, Hawaii, Indiana, Minnesota, Nevada, and Utah) that under certain circumstances are not "banks" under the Bank Holding Company Act (BHCA). A company controlling an institution that is not a BHCA bank is not required to register as a bank holding company with the Federal Reserve Board and, therefore, is not subject to regulation and supervision by the Federal Reserve Board. Generally, an ILC will not be a BHCA bank as long as it satisfies at least one of the following conditions: (1) the institution does not accept demand deposits, (2) the institution's total assets are less than $100,000,000, or (3) control of the institution has not been acquired by any company after August 10, 1987.[30]

Because of the relative freedom to form these entities, the creation of ILCs has become a common vehicle to handle credit cards and other consumer loan functions within a larger corporate structure. However, it is not clear how ILCs should be taxed in Pennsylvania – as banks, as savings institutions, or as other corporations.

Due to these changes in the industry, the Department recommends that the taxpayer definitions in the Bank Shares Tax and the Mutual Thrift Institutions Tax be reexamined.

[30] West, M. (2004, June 25). The FDIC's Supervision of Industrial Loan Companies: A Historical Perspective. *Federal Deposit Insurance Corporation*. Retrieved from www.fdic.gov

Mutual Thrift Institutions Tax

The Mutual Thrift Institutions Tax definitions governing apportionment should also be reexamined. Current law calls for three-factor apportionment (payroll, receipts, and deposits). The receipts factor is similar to the pre-Act 52 Bank Shares Tax receipts factor, with receipts from interest or service charges from credit cards sourced to the location of an office, either where the card holder resides or where the receivables are treated as assets on its books or records.

This language was repealed from the Bank Shares Tax by the Act as part of the effort to enact customer-based sourcing. Because so many financial transactions take place without visiting an office, sourcing based on office locations will overlook the contributions of customers in many situations.

Because of these weaknesses, it is possible for a large out-of-state savings institution to do substantial business in Pennsylvania, but to source none of its credit card receipts to Pennsylvania because it does not have an office in the commonwealth.

The Mutual Thrift Institutions Tax could be amended to adopt customer sourcing for receipts apportionment, similar to the new Bank Shares Tax language. This would more closely reflect the level of business activity in the commonwealth.

In addition, the Mutual Thrift Institutions Tax base is separate company net income determined by Generally Accepted Accounting Principles. Like any separate company income tax, this calculation lends itself to tax planning involving intangible holding company transactions.

Analysis of Fiscal Year 2013-14 Cash Collections

As noted earlier, Bank Shares Tax liabilities dropped between 2013 and 2014. This is reflected in cash collections dropping from $337.0 million in fiscal year 2012-13 to $307.2 million in 2013-14. Bank Shares Tax cash collections were $44.3 million short of the official estimate of $351.5 million in fiscal year 2013-14. It should be noted that the Department estimates that $12.2 million in Bank Shares Taxes have been paid during the current fiscal year which was likely due in fiscal year 2013-14. Thus, the true revenue shortfall for fiscal year 2013-14 is closer to $32.1 million.

However, transfers of overpayment credits to future years have increased from $4.3 million in 2013 to $76.1 million in 2014. These credits are expected to significantly affect future tax collections and refunds.

Also worth noting is that there is ongoing litigation that could pose a risk to future cash collections. This litigation involves issues surrounding the Bank Shares Tax statute as it existed before the Act. The main issues include questions about the tax base, the calculation of goodwill, and the calculation of the apportionment factor. To the extent that such litigation is resolved in favor of taxpayers, pre-2014 tax liabilities will be reduced, creating credits on the tax accounts that will either reduce cash payments or trigger tax refunds from prior year payments.

The Act also eliminated the requirement that banks offset the liability of a tax assessment (through payments or a reduction in refunds or credits) before they are able to appeal that assessment. This is commonly referred to as the "pay-to-play" rule. Of the $41.6 million in 2013 assessments, only $9.1 million resulted in tax due. An analysis of the assessments shows that 78 percent of the assessments from tax year 2013 were satisfied through reductions in refund requests or transfers of credit to the next tax year.

The cash collections from the Bank Shares Tax declined after the Act for a number of reasons. Among them were the following:

- A greater than anticipated reduction in the apportionment percentages of many large banks. The apportionment of the value of shares for all banks fell by 3.5 percent in 2014.
- Restricted tax credits (such as the Educational Improvement Tax Credit and the Film Production Tax Credit) increased by $11.6 million (42 percent) from 2013.
- Deductions for goodwill increased by 30.2 percent between 2013 and 2014.
- It is possible that some portion of the $9.1 million in increased tax due from 2013 assessments may have been paid had the "pay-to-play" rule not been repealed.

Offsetting these declines was a drop in transfers of credit (overpayments from prior tax years) of $1.4 million (6.8 percent). While the drop in apportionment and increase in goodwill reduced tax liabilities and thus affected cash receipts, usage of restricted tax credits and transfers of credit affects cash collections but does not change the tax liability of the taxpayer.

Options to Increase Revenues

The Department finds that, although tax revenues have been reduced by the Act, the overall effective tax rate in Pennsylvania remains higher than in competing states. Increasing regulatory capital requirements may further increase the tax liabilities of banks over the next decade, resulting in a higher effective tax rate. However, if additional revenue from the financial sector is needed, legislative action would be required. The following are options to increase tax revenue from financial institutions.

1. Raise the rate of the Bank Shares Tax: One possible resolution to the shortfall in tax collections is an increase in the rate. The Department estimates that a rate increase applied to the 2014 reports from 0.89 percent to 0.99 percent would increase tax liabilities by $34.6 million.[31]
2. Clarification of the deduction for goodwill: It is estimated that the deduction for goodwill is valued at $72.8 million in tax liabilities on the 2014 reports.[32] This estimate assumes that the deduction for goodwill is maintained in the calculation of the deduction for United States obligations. If the goodwill deduction against the tax base is eliminated, a tax rate reduction from 0.89 percent to 0.82 percent would be possible to reach a target of $350 million in tax liabilities in 2014.

[31] Estimate assumes that Method 1 apportionment is available to banks having both investment and trading receipts. Overpayments and refunds from any proposal will cause cash collections to differ from this tax liability estimate.
[32] *Ibid*.

Summary of Recommendations

The Act also required a set of recommendations for the Bank Shares Tax moving forward. The following is a list of recommended technical changes to current statute.

1. Clarify the current apportionment language allowing Method 1 apportionment for banks with receipts from trading assets/activities and not investment assets/activities.
2. Clarify whether the deduction for goodwill is also allowed against the tax base, and not just in calculating the deduction for United States obligations.
3. Correct the mismatch of definitions between the tax base (consolidated reports of condition) and apportionment (separate company federal tax figures). The mismatch creates legal and reporting issues and opens opportunities for tax planning.
4. Repeal Tax Reform Code section 701.4(3)(xiii)(E) allowing for separate apportionment for different types of investment and trading receipts.
5. Eliminate the requirement that banks have $100,000 in Pennsylvania sourced receipts in order to be subject to Bank Shares Tax. Under current law it is possible that such banks could be subject to the CNIT and franchise taxes. It is recommended that this change be accompanied by the option to file a de minimis report for banks with limited presence in the state.
6. Strengthen the taxpayer definitions and apportionment provisions of the Mutual Thrift Institutions Tax. This action should be taken to prevent large credit card companies from avoiding the Bank Shares Tax by forming as savings institutions, while preserving this structure as a benefit to Pennsylvania mutually owned, non-stock thrifts.

Proposed Draft Legislation

The following pages contain proposed legislation to address the six recommendations set forth in this report.

Recommendation #1

Clarifying Method 1 and 2 Apportionment of Investment and Trading Receipts

Section 1. Amend section 701.4 of Article VII of the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971as follows:

Section 701.4 Apportionment.--An institution may apportion its taxable amount of shares determined under section 701.1 in accordance with this subsection if the institution is subject to tax in another state based on or measured by net worth, gross receipts, net income or some similar base of taxation, or if it could be subject to such tax, whether or not such a tax has in fact been enacted. The following shall apply:

(1) (i) For calendar years beginning prior to January 1, 2014, the taxable amount of shares shall be apportioned in accordance with a fraction, the numerator of which is the sum of the payroll factor, the receipts factor and the deposits factor, and the denominator of which is three. If one of the factors is inapplicable, the denominator is two. If two of the factors are inapplicable, the denominator is one.

(ii) For the calendar year beginning January 1, 2014, and each calendar year thereafter, the taxable amount of shares shall be apportioned based upon the receipts factor, and the payroll and deposits factors shall be disregarded.

(2) The payroll factor is a fraction, the numerator of which is the total wages paid in this Commonwealth and the denominator of which is the total wages paid in all states. Wages are paid in a state if paid to an employe having a regular presence therein.

(3) The receipts factor is a fraction, the numerator of which is total receipts located in this Commonwealth and the denominator of which is the total receipts located in all states. The method of calculating receipts for purposes of the denominator shall be the same as the method used in determining receipts for purposes of the numerator. The location of receipts shall be determined as follows:

(i) The numerator of the receipts factor shall include receipts from the lease or rental of real property owned by the institution if the property is located within this Commonwealth or receipts from the sublease of real property if the property is located within this Commonwealth.

(ii) The following shall apply to receipts from the lease or rental of tangible personal property owned by the institution:

(A) Except as provided under clause (B), the numerator of the receipts factor shall include receipts from the lease or rental of tangible personal property owned by the institution if the property is located within this Commonwealth when it is first placed in service by the lessee.

(B) The following shall apply:

(I) Receipts from the lease or rental of transportation property owned by the institution shall be included in the numerator of the receipts factor to the extent that the property is used in this Commonwealth.

* * *

(xiii) The following shall apply to receipts from an institution's investment assets and activity and trading assets and activity:

(A) Interest, dividends, net gains equal to zero or above, and other income from investment assets and activities and from trading assets and activities shall be included in the receipts factor. Investment assets and activities and trading assets and activities shall include investment securities, trading account assets, Federal funds, securities purchased and sold under agreements to resell or repurchase, options, futures contracts, forward contracts and notional principal contracts such as swaps, equities and foreign currency transactions. For the investment and trading assets and activities under subclauses (I) and (II), the receipts factor shall include the amounts under subclauses (I) and (II). The following shall apply:

(I) The receipts factor shall include the amount by which interest from Federal funds sold and securities purchased under resale agreements exceeds interest expense on Federal funds purchased and securities sold under repurchase agreements.

(II) The receipts factor shall include the amount by which interest, dividends, gains and other income from trading assets and activities, including assets and activities in the matched book, in the arbitrage book and foreign currency transactions, exceed amounts paid in lieu of interest, amounts paid in lieu of dividends and losses from the assets and activities.

(B) The numerator of the receipts factor shall include [interest, dividends, net gains, equal to zero or above, and other income from investment assets and activities and from trading assets and activities] <u>the receipts</u> under clause (A) that are attributable to this Commonwealth using one of the following alternative methods:

(I) Method 1. The numerator shall be determined by multiplying the total amount of receipts [from trading assets and activities] under clause (A) by a fraction, the numerator of which is the total amount of all other receipts attributable to this Commonwealth and the denominator of which is the total amount of all other receipts.

(II) Method 2. The numerator shall be determined by multiplying the total amount of receipts under clause (A) by a fraction, the numerator of which is the average value of the assets which generate the receipts which are properly assigned to a regular place of business of the institution within this Commonwealth and the denominator of which is the average value of all such assets.

(C) Upon the election by the institution to use one of the methods under clause (B), the institution shall use the method on all subsequent returns unless the institution receives prior permission from the Department of Revenue to use a different method.

(D) The following shall apply:

(I) An institution electing to use Method 2 shall have the burden of proving that an investment asset or activity or trading asset or activity was properly assigned to a regular place of business outside of this Commonwealth by demonstrating that the day-to-day decisions regarding the asset or activity occurred at a regular place of business outside this Commonwealth.

(II) If the day-to-day decisions regarding an investment asset or activity or trading asset or activity occur at more than one regular place of business and one regular place of business is in this Commonwealth and one regular place of business is outside this Commonwealth, the asset or activity shall be considered to be located at the regular place of business of the institution where the investment or trading policies or guidelines with respect to the asset or activity are established.

(III) Unless the institution demonstrates to the contrary, the investment or trading policies and guidelines under subclause (II) shall be presumed to be established at the commercial domicile of the institution.

(E) Receipts apportioned under this subparagraph shall be separately apportioned for:

(I) interest, dividends, net gains and other income from investment assets and activities in an investment account;

(II) interest from Federal funds sold and purchased and from securities purchased under resale agreements and securities sold under repurchase agreements; and

(III) interest, dividends, gains and other income from trading assets and activities, including assets and activities in the matched book, in the arbitrage book and foreign currency transactions.

* * *

Section 2. Application. The provisions of this act shall apply to tax imposed for all calendar years beginning after December 31, 2014.

Section 3. Effective date. This act shall take effect immediately.

Recommendation #2

Clarifying Language on the Goodwill Deduction

Section 1. Amend section 701.1 of Article VII of the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971as follows:

Section 701.1 Ascertainment of taxable amount; exclusion of United States obligations.--

(a) The taxable amount of shares shall be ascertained and fixed by the book value of total bank equity capital as determined by the Reports of Condition at the end of the preceding calendar year in accordance with the requirements of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation or other applicable regulatory authority. In the case of institutions which do not file such Reports of Condition, book values shall be determined by generally accepted accounting principles as of the end of the preceding calendar year.

(b) A deduction for the value of United States obligations shall be provided from the taxable amount of shares in an amount equal to the same percentage of total bank equity capital as the book value of obligations of the United States bears to the book value of the total assets. [, except that, for the value of shares reported on tax returns due on March 15, 2008, and thereafter, any] In computing the deduction for United States obligations any goodwill recorded as a result of the use of purchase accounting for an acquisition or combination as described in this section and occurring after June 30, 2001, [may] shall be subtracted from the book value of total bank equity capital and disregarded in determining the deduction provided for obligations of the United States. For purposes of this article, United States obligations shall be obligations coming within the scope of 31 U.S.C. § 3124. [In the case of institutions which do not file such Reports of Condition, book values shall be determined by generally accepted accounting principles as of the end of the preceding calendar year.]

(b.1) A deduction for goodwill shall be provided from the taxable amount of shares in an amount equal to the value of goodwill recorded as a result of the use of purchase accounting for an acquisition or combination as described in this section and occurring after June 30, 2001.

(c) For purposes of this section:

(1) a mere change in identity, form or place of organization of one institution, however effected, shall be treated as if a single institution had been in existence prior to as well as after such change; and

(2) if there is a combination of two or more institutions into one, the book values and deductions for United States obligations from the Reports of Condition of the constituent institutions shall be combined. For purposes of this section, a combination shall include any acquisition required to be accounted for by using the purchase method in accordance with generally accepted accounting principles or a statutory merger or consolidation.

* * *

Section 2. Application. The provisions of this act shall apply to tax imposed for all calendar years beginning after December 31, 2013.

Section 3. Effective date. This act shall take effect immediately.

Recommendation #3

Eliminating Discrepancy Between the Tax Base and the Apportionment

Section 1. Amend section 701.5 of Article VII of the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971as follows:

Section 701.5 Definitions.-- The following words, terms and phrases when used in this article shall have the meaning ascribed to them in this section, except where the context clearly indicates a different meaning:

* * *

"Receipts." [As follows:

(1) Except as provided under paragraph (2), an item included in taxable income returned to and ascertained by the Federal Government.

(2) If consolidated returns are filed with the Federal Government, an item that would be included in taxable income returned to and ascertained by the Federal Government if a separate return had been made to the Federal Government by the institution, including the taxable income of a subsidiary of the institution that are disregarded entities for purposes of Federal taxation.] <u>The total gross receipts of the institution included in the computation of the income statements of each quarterly Report of Condition for the preceding calendar year. In the case of institutions which do not file quarterly Reports of Condition, the term shall include the total gross receipts determined in accordance with generally accepted accounting principles for the preceding calendar year.</u>

* * *

Section 2. Application. The provisions of this act shall apply to tax imposed for all calendar years beginning after December 31, 2013.

Section 3. Effective date. This act shall take effect immediately.

Recommendation #4

Repealing Separate Apportionment among Investment and Trading Receipts

Section 1. Amend section 701.4 of Article VII of the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971as follows:

Section 701.4 Apportionment.--An institution may apportion its taxable amount of shares determined under section 701.1 in accordance with this subsection if the institution is subject to tax in another state based on or measured by net worth, gross receipts, net income or some similar base of taxation, or if it could be subject to such tax, whether or not such a tax has in fact been enacted. The following shall apply:

(1) (i) For calendar years beginning prior to January 1, 2014, the taxable amount of shares shall be apportioned in accordance with a fraction, the numerator of which is the sum of the payroll factor, the receipts factor and the deposits factor, and the denominator of which is three. If one of the factors is inapplicable, the denominator is two. If two of the factors are inapplicable, the denominator is one.

(ii) For the calendar year beginning January 1, 2014, and each calendar year thereafter, the taxable amount of shares shall be apportioned based upon the receipts factor, and the payroll and deposits factors shall be disregarded.

(2) The payroll factor is a fraction, the numerator of which is the total wages paid in this Commonwealth and the denominator of which is the total wages paid in all states. Wages are paid in a state if paid to an employe having a regular presence therein.

(3) The receipts factor is a fraction, the numerator of which is total receipts located in this Commonwealth and the denominator of which is the total receipts located in all states. The method of calculating receipts for purposes of the denominator shall be the same as the method used in determining receipts for purposes of the numerator. The location of receipts shall be determined as follows:

(i) The numerator of the receipts factor shall include receipts from the lease or rental of real property owned by the institution if the property is located within this Commonwealth or receipts from the sublease of real property if the property is located within this Commonwealth.

(ii) The following shall apply to receipts from the lease or rental of tangible personal property owned by the institution:

(A) Except as provided under clause (B), the numerator of the receipts factor shall include receipts from the lease or rental of tangible personal property owned by the institution if the property is located within this Commonwealth when it is first placed in service by the lessee.

(B) The following shall apply:

(I) Receipts from the lease or rental of transportation property owned by the institution shall be included in the numerator of the receipts factor to the extent that the property is used in this Commonwealth.

* * *

(xiii) The following shall apply to receipts from an institution's investment assets and activity and trading assets and activity:

(A) Interest, dividends, net gains equal to zero or above, and other income from investment assets and activities and from trading assets and activities shall be included in the receipts factor. Investment assets and activities and trading assets and activities shall include investment securities, trading account assets, Federal funds, securities purchased and sold under agreements to resell or repurchase, options, futures contracts, forward contracts and notional principal contracts such as swaps, equities and foreign currency transactions. For the investment and trading assets and activities under subclauses (I) and (II), the receipts factor shall include the amounts under subclauses (I) and (II). The following shall apply:

(I) The receipts factor shall include the amount by which interest from Federal funds sold and securities purchased under resale agreements exceeds interest expense on Federal funds purchased and securities sold under repurchase agreements.

(II) The receipts factor shall include the amount by which interest, dividends, gains and other income from trading assets and activities, including assets and activities in the matched book, in the arbitrage book and foreign currency transactions, exceed amounts paid in lieu of interest, amounts paid in lieu of dividends and losses from the assets and activities.

(B) The numerator of the receipts factor shall include interest, dividends, net gains, equal to zero or above, and other income from investment assets and activities and from trading assets and activities under clause (A) that are attributable to this Commonwealth using one of the following alternative methods:

(I) Method 1. The numerator shall be determined by multiplying the total amount of receipts from trading assets and activities under clause (A) by a fraction, the numerator of which is the total amount of all other receipts attributable to this Commonwealth and the denominator of which is the total amount of all other receipts.

(II) Method 2. The numerator shall be determined by multiplying the total amount of receipts under clause (A) by a fraction, the numerator of which is the average value of the assets which generate the receipts which are properly assigned to a regular place of business of the institution within this Commonwealth and the denominator of which is the average value of all such assets.

(C) Upon the election by the institution to use one of the methods under clause (B), the institution shall use the method on all subsequent returns unless the institution receives prior permission from the Department of Revenue to use a different method.

(D) The following shall apply:

(I) An institution electing to use Method 2 shall have the burden of proving that an investment asset or activity or trading asset or activity was properly assigned to a regular place of business outside of this Commonwealth by demonstrating that the day-to-day decisions regarding the asset or activity occurred at a regular place of business outside this Commonwealth.

(II) If the day-to-day decisions regarding an investment asset or activity or trading asset or activity occur at more than one regular place of business and one regular place of business is in this Commonwealth and one regular place of business is outside this Commonwealth, the asset or activity shall be considered to be located at the regular place of business of the institution where the investment or trading policies or guidelines with respect to the asset or activity are established.

(III) Unless the institution demonstrates to the contrary, the investment or trading policies and guidelines under subclause (II) shall be presumed to be established at the commercial domicile of the institution.

(E) [Receipts apportioned under this subparagraph shall be separately apportioned for:

(I) interest, dividends, net gains and other income from investment assets and activities in an investment account;

(II) interest from Federal funds sold and purchased and from securities purchased under resale agreements and securities sold under repurchase agreements; and

(III) interest, dividends, gains and other income from trading assets and activities, including assets and activities in the matched book, in the arbitrage book and foreign currency transactions.] <u>Reserved.</u>

* * *

Section 2. Application. The provisions of this act shall apply to tax imposed for all calendar years beginning after December 31, 2013.

Section 3. Effective date. This act shall take effect immediately.

Recommendation #5

Eliminating $100,000 Pennsylvania Receipts Threshold for Economic Nexus

Section 1. Amend section 701.5 of Article VII of the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971as follows:

Section 701.5 Definitions.-- The following words, terms and phrases when used in this article shall have the meaning ascribed to them in this section, except where the context clearly indicates a different meaning:

* * *

“Doing business in this Commonwealth.” As follows:

(1) An institution is engaged in doing business in this Commonwealth and is subject to the tax imposed under this article if it satisfies any of the following requirements [and generates gross receipts apportioned to this Commonwealth under section 701.4 in excess of $100,000]:

(i) The institution has an office or branch in this Commonwealth.

(ii) One or more employes, representatives, independent contractors or agents of the institution conduct business activities of the institution in this Commonwealth.

(iii) A person, including an employe, representative, independent contractor, agent or affiliate of the institution, or an employe, representative, independent contractor or agent of an affiliate of the institution, directly or indirectly solicits business in this Commonwealth by or for the benefit of the institution, through:

(A) person-to-person contact, mail, telephone or other electronic means; or

(B) the use of advertising published, produced or distributed in this Commonwealth.

(iv) The institution owns, leases or uses real or personal property in this Commonwealth to conduct its business activities.

(v) The institution holds a security interest, mortgage or lien in real or personal property located in this Commonwealth.

(vi) A basis exists under section 701.4 to apportion the institution's receipts to this Commonwealth.

(vii) The institution has a physical presence in this Commonwealth for a period of more than one day during the tax year or conducts an activity sufficient to create a nexus in this Commonwealth for tax purposes under the Constitution of the United States.

(2) The term shall not include:

(i) The use by the institution of a professional performing a service on behalf of the institution in this Commonwealth if the services are not significantly associated with the institution's ability to establish and maintain a market in this Commonwealth.

(ii) The mere use of financial intermediaries in this Commonwealth by an institution for the processing or transfer of checks, credit card receivables, commercial paper and similar items.

* * *

Section 2. Application. The provisions of this act shall apply to tax imposed for all calendar years beginning after December 31, 2013.

Section 3. Effective date. This act shall take effect immediately.

Recommendation #6

Strengthening Taxpayer Definitions in Banks Shares and Mutual Thrift Institutions Taxes

Section 1. Amend section 701.5 of Article VII of the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971as follows:

Section 701.5 Definitions.-- The following words, terms and phrases when used in this article shall have the meaning ascribed to them in this section, except where the context clearly indicates a different meaning:

* * *

"Institution." As follows:

(1) The term shall mean:

(i) Every bank operating as such and having capital stock which is incorporated under any law of this Commonwealth, under the law of the United States or under the law of any other jurisdiction.

(ii) Every operating company having capital stock and having any of the powers of companies entitled to the benefits of an act, entitled "An act conferring upon certain fidelity, insurance, safety deposit, trust, and savings companies, the powers and privileges of companies incorporated under the provisions of section 29 of an act, entitled 'An act to provide for the incorporation and regulation of certain corporations,' approved April 29, 1874, and of the supplements thereto," approved June 27, 1895, commonly known as trust companies.

(iii) Every company organized and operating as a bank and trust company or as trust company having capital stock, whether the institution is incorporated under any law of this Commonwealth, the law of the United States or any law of any jurisdiction. The term shall not include any of such companies, all of the shares of capital stock of which, other than shares necessary to qualify directors, are owned by a company which is liable to pay to the Commonwealth a tax pursuant to this article.

(iv) A corporation organized under 12 U.S.C. Ch. 6 Subch. II (relating to organization of corporations to do foreign banking).

(v) An agency or branch of a foreign depository as defined in 12 U.S.C. § 3101 (relating to definitions).

(vi) A savings bank, savings association, building and loan association, savings and loan association or similar entity having any amount of capital stock which is owned directly or indirectly by any person other than:

(A) A parent bank holding company as defined in section 1841(a) of the Bank Holding Company Act of 1956 (12 U.S.C. §1841(a) et seq.); or

(B) A parent savings and loan holding company as defined in section 1467a(a)(1)(D) of the Home Owners' Loan Act (12 U.S.C. §1467a(a)1)(D)).

(vii) A credit card bank or similar entity that accepts deposits insured under the Federal Deposit Insurance Act (12 U.S.C. §1811 et seq.);

(viii) An industrial loan company, industrial bank or similar entity that:

(A) Accepts deposits insured under the Federal Deposit Insurance Act (12 U.S.C. §1811 et seq.); and

(B) Is not a bank for purposes of the Bank Holding Company Act of 1956 (12 U.S.C. §1841 et seq.).

(2) The term shall not include a "mutual thrift institution" or "institution," as defined in section 1501, which is subject to the tax imposed under Article XV.

* * *

Section 2. Amend sections 1501and 1502.1 of Article XV of the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971as follows:

Section 1501. Definitions.--The following words, terms and phrases when used in this article shall have the meanings ascribed to them in this section, except where the context clearly indicates a different meaning:

* * *

"Mutual thrift institution" or "institution." [Every:

(1) savings bank without capital stock;

(2) building and loan association;

(3) savings and loan association; and

(4) savings institution having capital stock;]

A savings bank, savings association, building and loan association, savings and loan association or similar entity whether the institution is incorporated under any law of this Commonwealth or under the law of the United States, or is incorporated under the law of any other jurisdiction and is located within this Commonwealth. <u>The term does not include an entity subject to the tax imposed by Article VII.</u>

* * *

Section 1501.2 Apportionment. –(a) Net income or net loss shall be apportioned in accordance with this section. An institution may apportion its net income or net loss if the institution is subject to tax in another state based on or measured by net worth, gross receipts, net income or some similar base of taxation, or if it could be subject to such a tax, whether or not such a tax has in fact been enacted.

(b) Income or loss shall be apportioned in accordance with a fraction, the numerator of which is the sum of the payroll factor, the receipts factor and the deposits factor, and the denominator of which is three.

(c) The payroll factor is a fraction, the numerator of which is the total wages paid in this State and the denominator of which is the total wages paid in all states. Wages are paid in a state if paid to an employe having a regular presence therein.

(d) The receipts factor is a fraction, the numerator of which is total receipts located in this State and the denominator of which is the total receipts located in all states. Receipts do not include principal repayments on loans or credit, travel and entertainment cards. Receipts from sale or disposition of intangible and tangible property include only the net gain therefrom. The location of receipts shall be determined [as follows:

(1) Receipts from loans are located at the place of origination.

(2) All receipts from performance of services are located in a state to the extent the services are performed in the state. If services are performed partly within two or more states, the receipts located in each state shall be measured by the ratio which the time spent in performing such services in the state bears to the total time spent in performing such services in all states. Time spent in performing services in a state is the time spent by employes having a regular presence in the state in performing such services.

(3) Receipts from lease transactions are located in the state in which the leased property is deemed located.

(4) Interest or service charges (excluding merchant discounts) from credit, travel and entertainment card receivables and credit card holders' fees are located in the

state in which the credit card holder resides in the case of an individual or, if a corporation, in the state of the cardholder's commercial domicile if, in either case, the institution maintains an office in such state. Otherwise, the receipts are located in the state in which the institution maintains an office which treats such receivables as assets on its books or records.

(5) Interest, dividends and net gains from the sale or disposition of intangibles, exclusive of those receipts described elsewhere in this section, are located in the state in which the depository maintains an office which treats such intangibles as assets on its books or records.

(6) Fees or charges from the issuance of traveler's checks and money orders are located in the state in which such traveler's checks or money orders are issued.

(7) Receipts from sales of tangible property are located in the state in which the property is delivered or shipped to a purchaser, regardless of the f.o.b. point or other conditions of the sale.

(8) All receipts not specifically treated under this subsection are located in the state where the greatest portion of the income-producing activities are performed, based on costs of performance.] <u>by applying the receipts factor sourcing rules provided by section 701.4 of Article VII.</u>

(e) The deposits factor is a fraction, the numerator of which is the average value of deposits located in this State during the taxable year and the denominator of which is the average value of total deposits during the taxable year. The average value of deposits is to be computed on a quarterly basis. The location of deposits shall be determined as follows:

(1) Deposits received from individuals are located in the state in which the individual resides, if the institution maintains an office in that state.

(2) Deposits received from a corporation are located in the state of the corporation's commercial domicile, if the institution maintains an office in that state.

(3) Deposits received from a state government, its political subdivisions, agencies and instrumentalities are located in such state, if the institution maintains an office in that state.

(4) In all other cases, deposits are located in the state in which the institution maintains an office which treats the deposits as liabilities on its books or records.

* * *

Section 3. Application. The provisions of this act shall apply to tax imposed for all calendar years beginning after December 31, 2015.

Section 4. Effective date. This act shall take effect immediately.

Appendix A

Summary of 2013 and 2014 Bank Shares Tax Return Data

	2014	2013 As Reported	2013 After Assessments	Difference from Assessed	
Calculation of Tax					
Total Bank Equity/Total Equity - Capital	1,240,157,032,371	1,078,193,575,710	1,081,944,329,884	14.6%	1/
Total Goodwill Deductions	207,854,288,023	192,221,266,455	159,621,021,191	30.2%	3/
Total Net Bank Equity/Total Net Equity - Capital	1,032,302,744,348	885,972,309,255	922,323,308,693	11.9%	2/
Value of Shares	1,012,797,935,876	732,637,100,500	770,028,871,524	31.5%	3/
Shares Subject to Tax	34,843,762,200	24,113,699,948	27,438,569,828	27.0%	3/
Tax Liability	310,518,356	301,768,471	343,329,315	-9.6%	
Apportionment Based on Totals	3.4%	3.3%	3.6%	-3.5%	4/
Payments and Refunds					
Estimated Payments	297,079,023	247,786,372	247,786,372	19.9%	
Transfers of Credit from Prior Years	18,629,279	19,979,336	19,979,336	-6.8%	
Restricted Credits	39,372,839	27,726,924	27,726,924	42.0%	
Total Credits	355,156,560	295,492,632	295,492,632	20.2%	
Tax Due	40,500,128	69,343,811	78,482,982	-48.4%	
Remitted	32,375,453	46,887,878	46,887,878	-31.0%	
Overpayments	83,741,909	63,045,734	30,624,061	173.5%	
Refunds	7,437,347	48,205,060	20,498,054	-63.7%	
Transfers of Credit to Future Years	76,114,087	7,366,681	4,349,640	1649.9%	
Count	300	263	263	14.1%	

NOTES:

1/ The 1/1/2014 data represents total net bank equity. The 1/1/2013 data is 4th quarter total equity capital from Page 4, Line 19 of the return.

2/ The 1/1/2014 data represents total net bank equity. The 1/1/2013 data is 4th quarter total net equity - capital from Page 4, Line 22 of the return.

3/ The 1/1/2013 data represents the closest equivalent data to that presented for 1/1/2014, specifically:

- 4th Quarter - Total Goodwill Deductions
- Taxable Shares (Sum value of shares divided by 6 or the number of years in existence if less than 6)
- Total Amount of Shares Subject to Tax

4/ Apportionment based on totals is calculated as shares subject to tax divided by value of shares.

5/ 1/1/2014 return data appears to include payments due to the Information Notice for some banks.

Appendix B

Summary of 2013 and 2014 Bank Shares Tax Return Data by State

	2014			2013 After Assessments			Difference			
	Pennsylvania	Out-of-State	Proportion PA	Pennsylvania	Out-of-State	Proportion PA	PA	OOS	Total	
Calculation of Tax										
Total Bank Equity/Total Equity - Capital	83,697,160,521	1,156,459,871,850	6.7%	136,865,588,998	945,078,740,886	12.6%	-38.8%	22.4%	14.6%	1/
Total Goodwill Deductions	16,150,240,940	191,704,047,083	7.8%	35,167,963,529	124,453,057,662	22.0%	-54.1%	54.0%	30.2%	3/
Total Net Bank Equity/Total Net Equity - Capital	67,546,919,581	964,755,824,767	6.5%	101,697,625,469	820,625,683,224	11.0%	-33.6%	17.6%	11.9%	2/
Value of Shares	66,111,948,469	946,685,987,407	6.5%	85,492,570,075	684,536,301,449	11.1%	-22.7%	38.3%	31.5%	3/
Shares Subject to Tax	17,484,558,587	17,359,203,613	50.2%	18,885,104,354	8,553,465,474	68.8%	-7.4%	102.9%	27.0%	3/
Tax Liability	156,021,934	154,496,422	50.2%	236,398,103	106,931,212	68.9%	-34.0%	44.5%	-9.6%	
Apportionment Based on Totals	26.4%	1.8%		22.1%	1.2%		19.7%	46.8%	-3.5%	4/
Payments and Refunds										
Estimated Payments	144,015,101	153,063,922	48.5%	142,083,839	105,702,533	57.3%	1.4%	44.8%	19.9%	
Transfers of Credit from Prior Years	5,076,735	13,552,544	27.3%	13,677,749	6,301,587	68.5%	-62.9%	115.1%	-6.8%	
Restricted Credits	31,901,739	7,471,100	81.0%	26,093,724	1,633,200	94.1%	22.3%	357.5%	42.0%	
Total Credits	180,993,575	174,162,985	51.0%	181,855,312	113,637,320	61.5%	-0.5%	53.3%	20.2%	
Tax Due	22,345,570	18,154,558	55.2%	74,202,290	4,280,692	94.5%	-69.9%	324.1%	-48.4%	
Remitted	18,510,338	13,865,115	57.2%	45,436,948	1,450,930	96.9%	-59.3%	855.6%	-31.0%	
Overpayments	45,923,589	37,818,320	54.8%	19,637,261	10,986,800	64.1%	133.9%	244.2%	173.5%	
Refunds	2,633,647	4,803,700	35.4%	11,637,183	8,860,871	56.8%	-77.4%	-45.8%	-63.7%	
Transfers of Credit to Future Years	43,290,642	32,823,445	56.9%	723,882	3,625,758	16.6%	5880.3%	805.3%	1649.9%	
Count	144	156	48.0%	159	104	60.5%	-9.4%	50.0%	14.1%	

NOTES:

1/ The 1/1/2014 data represents total net bank equity. The 1/1/2013 data is 4th quarter total equity capital from Page 4, Line 19 of the return.

2/ The 1/1/2014 data represents total net bank equity. The 1/1/2013 data is 4th quarter total net equity - capital from Page 4, Line 22 of the return.

3/ The 1/1/2013 data represents the closest equivalent data to that presented for 1/1/2014, specifically:

- 4th Quarter - Total Goodwill Deductions
- Taxable Shares (Sum value of shares divided by 6 or the number of years in existence if less than 6)
- Total Amount of Shares Subject to Tax

4/ Apportionment based on totals is calculated as shares subject to tax divided by value of shares.

5/ 1/1/2014 return data appears to include payments due to the Information Notice for some banks.

Appendix C

Summary of 2013 and 2014 Bank Shares Tax Return Data by Size of Institution

	2014			2013 After Assessments			Difference			
	Small Banks	Large Banks	Proportion Large Banks	Small Banks	Large Banks	Proportion Large Banks	Small Banks	Large Banks	Total	
Calculation of Tax										
Total Bank Equity/Total Equity - Capital	7,650,132,952	1,232,506,899,419	99.4%	7,680,795,571	1,074,263,534,313	99.3%	-0.4%	14.7%	14.6%	1/
Total Goodwill Deductions	379,324,813	207,474,963,210	99.8%	245,815,796	159,375,205,395	99.8%	54.3%	30.2%	30.2%	3/
Total Net Bank Equity/Total Net Equity - Capital	7,270,808,139	1,025,031,936,209	99.3%	7,434,979,775	914,888,328,918	99.2%	-2.2%	12.0%	11.9%	2/
Value of Shares	7,060,943,757	1,005,736,992,119	99.3%	6,380,194,418	763,648,677,106	99.2%	10.7%	31.7%	31.5%	3/
Shares Subject to Tax	3,750,865,414	31,092,896,786	89.2%	3,516,942,141	23,921,627,687	87.2%	6.7%	30.0%	27.0%	3/
Tax Liability	33,825,012	276,693,344	89.1%	44,309,026	299,020,288	87.1%	-23.7%	-7.5%	-9.6%	
Apportionment Based on Totals	53.1%	3.1%		55.1%	3.1%		-3.6%	-1.3%	-3.5%	4/
Payments and Refunds										
Estimated Payments	15,918,940	281,160,083	94.6%	6,888,884	240,897,488	97.2%	131.1%	16.7%	19.9%	
Transfers of Credit from Prior Years	817,706	17,811,573	95.6%	1,335,373	18,643,963	93.3%	-38.8%	-4.5%	-6.8%	
Restricted Credits	7,446,774	31,926,065	81.1%	6,311,783	21,415,141	77.2%	18.0%	49.1%	42.0%	
Total Credits	24,183,420	330,973,140	93.2%	14,536,040	280,956,592	95.1%	66.4%	17.8%	20.2%	
Tax Due	11,608,542	28,891,586	71.3%	31,527,633	46,955,348	59.8%	-63.2%	-38.5%	-48.4%	
Remitted	10,796,844	21,578,609	66.7%	28,629,791	18,258,086	38.9%	-62.3%	18.2%	-31.0%	
Overpayments	1,966,600	81,775,309	97.7%	1,549,863	29,074,198	94.9%	26.9%	181.3%	173.5%	
Refunds	858,441	6,578,906	88.5%	604,904	19,893,150	97.0%	41.9%	-66.9%	-63.7%	
Transfers of Credit to Future Years	1,108,849	75,005,238	98.5%	936,697	3,412,943	78.5%	18.4%	2097.7%	1649.9%	
Count	167	133	44.3%	160	103	39.2%	4.4%	29.1%	14.1%	

NOTES:

1/ The 1/1/2014 data represents total net bank equity. The 1/1/2013 data is 4th quarter total equity capital from Page 4, Line 19 of the return.

2/ The 1/1/2014 data represents total net bank equity. The 1/1/2013 data is 4th quarter total net equity - capital from Page 4, Line 22 of the return.

3/ The 1/1/2013 data represents the closest equivalent data to that presented for 1/1/2014, specifically:

4th Quarter - Total Goodwill Deductions

Taxable Shares (Sum value of shares divided by 6 or the number of years in existence if less than 6)

Total Amount of Shares Subject to Tax

4/ Apportionment based on totals is calculated as shares subject to tax divided by value of shares.

5/ 1/1/2014 return data appears to include payments due to the Information Notice for some banks.

6/ Large versus Small determined by the Federal Deposit Insurance Corporation (FDIC), Statistics on Depository Institutions Report, which separates data based on:

Institutions with assets to $1B

Institutions with assets more than $1B

Appendix D

2014 Rates of Tax on Banks and Apportionment Forumulas for Bank Taxes

State	(a) (percent) Income Tax Rate	(b) Separate Financial Institutions Tax Rate	(c) (d) Apportionment Formula
ALABAMA	6.50	6.5% of net income	3-factor formula. Sales factor is double-weighted
ALASKA	0 - 9.4		3-factor formula
ARIZONA	6.50		3-factor formula
ARKANSAS	1.0 - 6.5		3-factor formula
CALIFORNIA	10.84	10.84% of net income	3-factor formula
COLORADO	4.63		Single sales factor formula
CONNECTICUT	7.50		Single sales factor formula
DELAWARE	8.7-1.7	On taxable income: 8.7% on the first $20 million 6.7% on the next $5 million 4.7% on the next $5 million 2.7% on the next $620 million 1.7% in excess of $650 million	3-factor formula
FLORIDA	5.50	5.5	3-factor formula. Sales factor is double-weighted
GEORGIA	6.00		Single sales factor formula
HAWAII	7.92	7.92% of net income	3-factor formula
IDAHO	7.40		3-factor formula
ILLINOIS	9.50		Single sales factor formula
INDIANA	8.00	8.0% of adjusted gross income or apportioned income	Single sales factor formula
IOWA	5.00	5% of net income	Single sales factor formula
KANSAS	2.25	2.25% of net income plus a surtax of 2.125% of net income exceeding $25,000	3-factor formula
KENTUCKY (e)	--- (a)	1.1% of net capital	3-factor formula.
LOUISIANA (f)	4.0 - 8.0		3-factor formula
MAINE	1.00	(1) The sum of: 1% of the Maine net income; and 8¢ per $1,000 of the Maine assets; or (2) 39¢ per $1,000 of the Maine assets	Single sales factor formula
MARYLAND	8.25		3-factor formula. Sales factor is double-weighted
MASSACHUSETTS	9.00	9.0% on net income	3-factor formula
MICHIGAN (e)	--- (a)	0.29% of net capital	Single sales factor formula
MINNESOTA	9.80		Single sales factor formula
MISSISSIPPI	3.0 - 5.0		3-factor formula
MISSOURI	7.00	Corporate taxes plus the sum of: (1) 1/37 of 1% for 2012 of the outstanding shares and surplus if they exceed one million dollars, and (2) 7% of net income less (1) above and a credit for all Missouri and local taxes paid.	3-factor formula
MONTANA	6.75		3-factor formula
NEBRASKA (f)	--- (a)	47¢ on each $1,000 of average deposits	Single sales factor formula
NEVADA (f)			N/A
NEW HAMPSHIRE	8.50		3-factor formula. Sales factor is double-weighted
NEW JERSEY	9.00		Single sales factor formula
NEW MEXICO	4.8 - 7.3		3-factor formula
NEW YORK	7.1		Single sales factor formula
NORTH CAROLINA	6.0		3-factor formula. Sales factor is double-weighted
NORTH DAKOTA	7.0		3-factor formula
OHIO (e)		Greater of: (1) $1,000 minimum tax; or (2) the tax on total Ohio equity capital (OEC) equal to 8 mills (.008) per dollar of the first $200 million, 4 mills (.004) per dollar over $200 million up to $1.3 billion, and 2-1/2 mills (.0025) per dollar of OEC in excess of $1.3 billion	Single sales factor formula
OKLAHOMA	6.0	6.0 % of net income	3-factor formula
OREGON	6.6 - 7.6	6.6% for income up to $1 million; 7.9% in excess of $1 million	Single sales factor formula
PENNSYLVANIA (e)	--- (a)	.89% of the value of shares	Single sales factor formula
RHODE ISLAND	9.0	9.0% of net income or If a state bank, the greater of $2.50 per $10,000 of authorized capital stock	3-factor formula (g)

Appendix D (continued)

2014 Rates of Tax on Banks and Apportionment Forumulas for Bank Taxes

State	(a) (percent) Income Tax Rate	(b) Separate Financial Institutions Tax Rate	(c) (d) Apportionment Formula
SOUTH CAROLINA	4.5	4.5 % of net income	Single sales factor formula
SOUTH DAKOTA	6.0-0.25%	The rate of tax is on net income: 6% on the first $400 million 5% on the next $25 million 4% on the next $25 million 3% on the next $25 million 2% on the next $25 million 1% on the next $100 million 0.5% on the next $600 million 0.25% in excess of $1.2 billion	3-factor formula
TENNESSEE	6.5		3-factor formula. Sales factor is double-weighted
TEXAS (f)			Single sales factor formula
UTAH	5.0		Single sales factor formula
VERMONT (f)	--- (a)	0.000096 of average monthly deposits	3-factor formula. Sales factor is double-weighted
VIRGINIA (e)	6.0	$1 per $100 of net capital	Single deposits factor formula
WASHINGTON (f)	.13 - 3.3	1.5% of gross income	Single sales factor formula
WEST VIRGINIA	6.5		Single sales factor formula
WISCONSIN	7.9		Single sales factor formula
WYOMING (f)			N/A

NOTES:

(a) Rates listed are the corporate income tax rate applied to financial institutions or excise taxes based on income. Some states have other taxes based upon the value of deposits or shares. Source: Compiled by Federal Tax Administrators from various sources.

(b) Source: Compiled by Thomson Reuters - Checkpoint from various sources.

(c) Apportionment formulas listed are those banks are subject to. This may be the corporate income tax apportionment or separate financial institution apportionment formulas. Sources: Compiled by Thomson Reuters - Checkpoint from various sources and state tax forms.

(d) The 3-factor formula factors are almost always payroll, property, and sales (receipts). Factors are assumed to be equally weighted unless otherwise noted. Gross business or reciepts factors are labelled sales factors.

(e) These states have a bank tax on shares or net capital.

(f) These states do not have rates due to a number of issues including different tax bases and complicated tax formulas that did not allow for the calculation of an effective rate.

(g) Banking institutions that engage only in the credit card business may elect to allocate income based on the domicile of the credit card holders.

Appendix E
Crowe Horwath Report

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Date: December 23, 2014

To: Pennsylvania Bankers Association

From: Chris Hopkins

Re: **Comparison of State Bank Taxes – Overview, Summary of Approach and Preliminary Observations**

Overview

The Pennsylvania Bankers Association engaged Crowe Horwath LLP to assist with comparing the Pennsylvania bank shares tax ("BST"), as revised by Act 52 of 2013, with the bank tax regimes of five neighboring states, Delaware, Maryland, New Jersey, Ohio and New York.[1] The bank tax regimes of two additional states, Michigan and North Carolina, were also considered. (Including Pennsylvania, the tax regimes of eight states, collectively, the "States," were analyzed.)

As a threshold matter, significant variability generally exists with respect to taxes imposed on banks by states. This holds true for the States. Components of tax systems that contribute to the lack of consistency include:

- The tax base;
- The tax rate;
- Apportionment; and
- Statutory provisions (and interpretations) specific or relevant to banks.

The tax base. The tax base is the financial metric upon which a tax is imposed. The bank tax base of Pennsylvania, Michigan and Ohio, is equity or capital, and the tax base of Delaware, Maryland and New Jersey consists of the taxpayer's net (or operating) income. North Carolina imposes both a net income tax and a tax on capital (as well as a separate, albeit nominal, bank privilege tax). Beginning in 2015, New York tax liability is computed using three bases: net income, capital or a fixed dollar minimum.[2] Corporate taxpayers, including banks, pay the greatest of the three calculated tax amounts.

The tax rate. Tax rates for equity/capital-based taxes obviously are lower than tax rates for net income-based taxes. However, even for the same tax base, tax rates vary significantly amongst the States.

[1] Although contiguous with Pennsylvania, West Virginia was not considered in the analysis.
[2] Legislation enacted on March 31, 2014 eliminated New York State's franchise tax on banking corporations (Article 32). For tax years beginning on or after January 1, 2015, banks will be subject to the general corporation franchise tax (Article 9-A).

Equity/ capital tax rates range from 0.29% in Michigan to 0.89% in Pennsylvania.[3] Ohio's tax rate begins at 0.80%, but decreases to 0.25% for capital value greater than $1.3 billion.

Income tax rates range from 5% in North Carolina (beginning in 2015) to 9% in New Jersey. New York's income tax rate will decrease from 7.1% to 6.5% for tax years beginning on or after January 2016, and New York's rate for tax on capital decreases annually, from .15% in 2015 to 0% in tax year 2021. Delaware's stated bank franchise tax rate of 8.7% (the same rate that applies to the state's corporate income tax) is somewhat misleading. This is because under the state's bank franchise tax regime a bank's taxable income is only 56% of its net operating income after adjustments. Thus, Delaware's 8.7% tax rate effectively is 4.872% (8.7% multiplied by 56%). In fact, Delaware's bank franchise tax rate is *regressive*, decreasing from 8.7% to 1.7% for taxable income greater than $650 million.[4]

Apportionment. Apportionment (referred to as allocation by some states) is the method by which states generally determine the amount of tax base subject to the applicable tax rate. Six of the States—Pennsylvania, Michigan, New Jersey, New York (beginning in 2015), North Carolina and Ohio—apply a receipts-only apportionment factor. Maryland applies a three factor formula consisting of property, payroll and double-weighted receipts. While technically not a method of apportionment, Delaware allows a reduction from net operating income for specific subsidiaries and out-of-state branches.

Although seven of the States (including Maryland) take receipts into consideration for purposes of apportionment, the differences amongst the states are more than nuanced. Pennsylvania and Ohio, for example, have statutory elections for apportioning certain types of portfolio income, and Maryland apportions interest and dividend income based on the taxpayer's property and payroll factors. For tax years beginning on or after January 1, 2015, a series of special rules apply to apportioning income from "financial transactions" apply in New York. These new rules generally are favorable to banks.

Statutory provisions (and interpretations) specific or relevant to banks. Four of the States (including New York beginning in 2015) do not have separate bank tax regimes. Instead, banks are subject to the same taxes as other corporations.[5] In addition to generally favorable apportionment rules for sourcing intangible income in some of the States, other statutory provisions and interpretations favor banks based on size. The regressive graduated tax rate structures of Delaware and Ohio appear to benefit larger institutions. Conversely, recent statutory changes in New York specifically benefit only smaller institutions, those with average total combined assets of $8 billion or less.

Further complicating the analysis, significant legislative changes affecting banks recently were enacted by four of the eight states: Michigan, effective in 2012; Ohio and Pennsylvania (Act 52 of 2013), effective in 2014; and New York, effective in 2015.

Due to the variability and complexity of the bank tax regimes of the States, simply considering particular elements used in the calculation of tax liability (e.g., the tax base or tax rates) cannot provide an informative comparison. However, bank taxes imposed by the States can be evaluated and compared by applying the respective bank tax rules of the States to banks with assumed identical operational and financial profiles.

Summary of Approach

To develop an identical starting point for comparing the States' tax regimes, hypothetical composite bank taxpayers were constructed using the mean of specific bank financial metrics from call reports of 10 similarly-sized banks. Because the rules for calculating a bank's state tax liability differed in some of the

[3] North Carolina's capital-based corporate franchise tax rate is 0.15%. As noted, however, banks—as well as other corporations—also are subject to a net income tax.
[4] In Delaware, banks may elect to be subject to an alternative franchise tax instead of the standard franchise tax. The alternative franchise tax is not considered in the analysis.
[5] In addition to corporate income and franchise taxes, a third (though nominal) bank privilege tax is imposed on banks in North Carolina. This additional tax was taken into consideration when calculating estimated North Carolina tax liability.

States depending on an institution's size, composite bank taxpayers of three different asset levels were considered: small, assets of $500 million; medium, assets of $3 billion; and large, assets of $15 billion.

For the purpose of evaluating the impact of the States' respective apportionment rules, two scenarios were considered for each size bank: (1) 100 percent of the loan portfolio located in the headquarters state, and (2) 50 percent of the loan portfolio sourced outside the headquarters state.

A three-year time period was assumed, applying state bank tax provisions in effect as of January 1, 2015 in Year 1. In order to consider the impact of a bank having unfavorable operating results in an individual tax year, a pre-tax loss equal to 50 percent of Year 1 pre-tax income was assumed for each composite bank in Year 2.

Where applicable, the analysis assumed that the composite taxpayer banks made elections and applied statutory provisions that generally would minimize tax liability in the headquarters state. For example, Ohio-headquartered banks would elect to source portfolio income based on the ratio of Ohio-sourced other receipts to total other receipts (i.e., in a manner similar to Method 1 of the BST, as revised by Act 52 of 2013). Similarly, the analysis assumed that the small and medium banks headquartered in New York would take advantage of the captive REIT "subtraction modification," and New Jersey-headquartered banks would hold their non-loan portfolio assets in a statutory investment company. Non-statutory tax-favored structures such as so-called Delaware holding companies were not considered.

In all, six scenarios were modeled.

Limitations and Assumptions

The analysis of bank tax regimes of the States is hypothetical and for comparison purposes only. The calculations represent a reasonable approximation of tax liability based on the hypothetical composite bank profiles and assumptions.

In order to reduce the level of complexity and simplify the computations, a number of assumptions were made:

- The taxpayer is a single bank entity (except for purposes of the New Jersey and New York calculations) subject to tax under Subchapter C of the Internal Revenue Code of 1986, as amended.
- Pre-tax book income is equal to federal taxable income.
- No state additions (e.g., state income tax expense) or subtractions (e.g., interest from U.S. and municipal obligations) are made to federal taxable income.
- Non-headquarters state business activity generally is proportionate to loan income (branches locations for Delaware, and property and payroll for Maryland).
- Throw-back receipts are not considered.
- A combined federal and state effective tax rate for calculating the roll-forward of equity was assumed: 36 percent for the small composite bank, and 38 percent for the medium and large composite banks.
- Year 3 carry-forward value of tax deferred assets associated with net operating losses is not considered.

- Local jurisdiction taxes are not considered.

- Statutory credits and negotiated incentives are not considered.

In addition, detail for more complex tax calculations is not presented in the matrixes (e.g., the calculation of the New Jersey corporation business tax includes calculations for the bank and a subsidiary investment company), and to the extent no material impact would result, certain tax calculations were simplified.

The foregoing assumptions would not necessarily exist in an actual tax situation. For example, generally a small bank would not have 50 percent of its loan portfolio income from sources outside its headquarters state. Conversely, it would be unlikely for a large bank to operate solely within its headquarters state.

Preliminary Observations

The analysis suggests that under the scenarios considered substantially similar banks generally would pay more tax if headquartered in Pennsylvania than if headquartered in one of the other States.

For the small composite bank, taxes are lowest in New York and highest in Pennsylvania in Year 1 and over the three year period, under both apportionment scenarios. This holds true notwithstanding the application of Method 1 when calculating the BST (assuming a Method 1 election was available).

As with the small composite bank, for the medium composite bank the calculated tax liability is smallest in New York in Year 1 and over the three year period. Assuming 100 percent apportionment in the headquarters state, Maryland tax liability is greater than the BST liability in Year 1. And, assuming 50 percent of loan income is sourced outside the headquarters state, both Maryland and New Jersey taxes in Year 1 are higher than the BST when Method 1 is applied. Under Method 2, however, the Year 1 BST is greater than the tax liability in the other States. Over the three-year period, which takes into account the assumed loss in Year 2, the bank taxes imposed by the other States are less than the calculated BST liability in all scenarios (even assuming a Method 1 election).

For the large composite bank, tax liability is greater in Maryland and New Jersey than in Pennsylvania under both apportionment scenarios. Also under both apportionment scenarios, Year 1 tax liability is smallest in Michigan and smallest over the three-year period in Delaware (irrespective of the Method 1/Method 2 election for the BST). Over the three-year period (again, which takes into account the assumed loss in Year 2) in all scenarios the bank taxes imposed by the other States are less than the calculated BST.

* * * * *

This analysis, and the related tax calculations, only considers state bank taxes in Pennsylvania, Delaware, Maryland, Michigan, New Jersey, New York, North Carolina and Ohio. It does not consider any other federal, state, local or foreign taxes matters. Our discussion is based on foregoing states' statutes, as amended, the regulations thereunder, judicial and administrative interpretations thereof, as well as the Internal Revenue Code of 1986, as amended, the regulations thereunder, judicial and administrative interpretations thereof and other relevant authorities. These authorities are all subject to change, and such change could have retroactive effect. Any such changes could thus have an effect on the analysis. Unless specifically request otherwise, we will not update this analysis for subsequent changes or modifications to these authorities. The analysis and the related hypothetical tax calculations are based on our interpretation of these authorities. Another knowledgeable party, such as a state taxing agency, might reach different conclusions.

This analysis is based on various hypothetical facts and assumptions. The hypothetical facts and assumptions do not reflect the current or historical financial or tax profile of any individual bank.

The analysis is provided solely for the use of the Pennsylvania Bankers Association, in connection with the consideration of the specific issues described above and for no other purpose and by no other person. In the event that other persons or entities are provided with a copy of this analysis, they should not rely upon it with respect the tax consequences they may face.

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Small Bank - $500 Million in Assets
100% of Loans in Headquarters State

Jurisdiction:	**Pennsylvania (Method 1)**	**Pennsylvania (Method 2)**	**Delaware**	**Maryland**	**Michigan**	**New Jersey**	**New York**	**North Carolina**	**Ohio**
Equity Year 1:	49,450,000	49,450,000	49,450,000	49,450,000	49,450,000	49,450,000	49,450,000	49,450,000	49,450,000
Pre-Tax Income Year 1:	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000
Capital Tax:	**425,000**	**425,000**	**N/A**	**N/A**	**121,000**	**N/A**	**66,000**	**81,000**	**396,000**
Income Tax:	**N/A**	**N/A**	**246,000**	**417,000**	**N/A**	**331,000**	**-**	**224,000**	**N/A**
Total Year 1 State Tax:	**425,000**	**425,000**	**246,000**	**417,000**	**121,000**	**331,000**	**66,000**	**305,000**	**396,000**
Equity Year 2:	47,832,000	47,832,000	47,832,000	47,832,000	47,832,000	47,832,000	47,832,000	47,832,000	47,832,000
Pre-Tax Income Year 2:	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)
Capital Tax:	**411,000**	**411,000**	**N/A**	**N/A**	**117,000**	**N/A**	**53,000**	**79,000**	**383,000**
Income Tax:	**N/A**	**N/A**	**-**	**-**	**N/A**	**85,000**	**-**	**-**	**N/A**
Total Year 2 State Tax:	**411,000**	**411,000**	**-**	**-**	**117,000**	**85,000**	**53,000**	**79,000**	**383,000**
Equity Year 3:	51,067,000	51,067,000	51,067,000	51,067,000	51,067,000	51,067,000	51,067,000	51,067,000	51,067,000
Pre-Tax Income Year 3:	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000
Capital Tax:	**440,000**	**440,000**	**N/A**	**N/A**	**126,000**	**N/A**	**45,000**	**83,000**	**409,000**
Income Tax:	**N/A**	**N/A**	**246,000**	**208,000**	**N/A**	**85,000**	**-**	**112,000**	**N/A**
Total Year 3 State Tax:	**440,000**	**440,000**	**246,000**	**208,000**	**126,000**	**85,000**	**45,000**	**195,000**	**409,000**
3-Year Summary:									
Capital Tax:	**1,276,000**	**1,276,000**	**N/A**	**N/A**	**364,000**	**N/A**	**164,000**	**243,000**	**1,188,000**
Income Tax:	**N/A**	**N/A**	**492,000**	**625,000**	**N/A**	**501,000**	**-**	**336,000**	**N/A**
Tax Base:	***Capital Tax***	***Capital Tax***	***Income Tax***	***Income Tax***	***Capital Tax***	***Income Tax***	***Greater of Capital or Income Tax***	***Income and Capital Tax***	***Capital Tax***
3-Year Total Tax:	**1,276,000**	**1,276,000**	**492,000**	**625,000**	**364,000**	**501,000**	**164,000**	**579,000**	**1,188,000**

(Rounded to nearest thousand.)

Composite Bank Profile and Assumptions:

Assets*:	497,994,000
U.S. obligations*:	7,568,000
Equity Year 1*:	49,450,000
Goodwill*:	904,000
Pre-Tax income:	
Year 1*:	5,055,000
Year 2 (loss assumed):	(2,528,000)
Year 3 (assumed):	5,055,000
Loan interest income*:	16,493,000
Portfolio income*:	2,301,000

- Call report pre-tax income is equal to federal and state taxable income.
- Combined state and federal effective tax rate of 36% for equity roll-forward purposes.
- Capital taxes based on beginning of year value.
- Single bank entity for state tax purposes (except for New York and New Jersey).
- No throw-back of receipts for apportionment purposes.
- No NOL carrybacks applied and pre-apportioned/post-apportioned NOL carryforwards are assumed equal.
- No state modifications made to pre-tax income.

* Based on mean of September 30, 2014 call report data of 10 similarly-sized banks (see schedule).

Comments:

Pennsylvania:
1) "Method 1" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(I).
2) "Method 2" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(II).
3) Deductions for goodwill and U.S. obligations applied. 72 Pa. Stat. Ann. § 7701.1.
4) Year 2 and year 3 deductions for goodwill and U.S. obligations assumed to equal year 1.

Delaware:
1) Income tax based on statutory definition of "taxable income," not federal taxable income. Del. Code Ann. § 1101(a).
2) Standard (not alternative) Delaware franchise tax assumed. Del. Code Ann. § 1101(a).
3) Only 56% of taxable income is subject to the Delaware franchise tax. Del. Code Ann. § 1101(a)(2).
4) Assumes branch locations are proportionate to receipts.

Maryland:
1) Banks subject to corporate income tax; there is no separate tax regime for banks. Md. Code Ann., Tax-Gen § 10-102.
2) Maryland applies a three factor apportionment formula. Md. Regs. Code tit. 03, § 03.04.08.03. Property and payroll are assumed to be proportionate to receipts.

Michigan:
1) Banks are subject to an equity/capital-based financial institutions tax in Michigan. Mich. Comp. Laws § 206.653, *et seq.*
2) Tax base is the average of the net capital of the current and preceding four years. Mich. Comp. Laws § 206.655. Average is assumed to equal current year.
3) Deduction for U.S. obligation applied. Mich. Comp. Laws § 206.655(1).

New Jersey:
1) Assumes investment portfolio assets are held in a subsidiary statutory "investment company." N.J. Rev. Stat. § 54:10A-5(d).
2) Only 40% of an investment company's income is subject to tax. N.J. Rev. Stat. § 54:10A-5(d).
3) Includes minimum tax in loss years.

New York:
1) Assumes bank tax laws effective January 1, 2015.
2) Tax is the highest of three bases: entire net income, capital, fixed-dollar minimum (fixed-dollar minimum not considered). N.Y. Tax Law § 210(1)(a) - (c).
3) Favorable apportionment rules for portfolio income ("financial transactions"). N.Y. Tax Law § 210-A.5. 8% NY apportionment assumed.
4) Statutory incentives available for banks with total combined assets under $8 billion. N.Y. Tax Law § 208.9.(r) - (t). Assumes subsidiary REIT. N.Y. Tax Law § 208.9.(t). Annual REIT deduction assumed to be equal to federal/state taxable income.

North Carolina:
1) Assumes 5% tax rate effective January 1, 2015. N.C. Gen. Stat. § 105-130.3.
2) Assumes bank's issued and outstanding capital stock, surplus and undivided profits is equal to bank's equity; computations based on tangible/real property not considered. N.C. Gen. Stat. § 105-122.
3) Favorable apportionment for investment portfolio income; 8% NC apportionment assumed. *2007-2008 Corporate Income Tax Technical Bulletins, Part II. Corporate Income Tax, Sec. I. Apportionment Factors* , North Carolina Department of Revenue.
4) Bank franchise tax ($30 for each $1 million in assets) included in capital tax amount. N.C. Gen. Stat. § 105-102.3.

Ohio:
1) A *regressive* tax rate schedule applies to Ohio bank franchise tax. Ohio Rev. Code Ann. § 5726.04(A)(2).
2) Assumes portfolio income is apportioned in manner similar to Pennsylvania bank shares tax "Method 1" (72 Pa. Stat. Ann. § 7701.4 (3)(xiii)(B)(I)). Ohio Rev. Code Ann. § 5726.05 (B) and (D)(1).

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Small Bank - $500 Million in Assets
100% of Loans in Headquarters State

Jurisdiction:	Pennsylvania (Method 1)	Pennsylvania (Method 2)	Delaware	Maryland	Michigan	New Jersey	New York	North Carolina	Ohio
Year 1:									
Taxable Capital:	47,807,000	47,807,000	N/A	N/A	41,882,000	N/A	49,450,000	49,450,000	49,450,000
Apportionment:	100%	100%	N/A	N/A	100%	N/A	89%	89%	100%
Apportioned Tax Base:	47,807,000	47,807,000	N/A	N/A	41,882,000	N/A	43,879,837	43,879,837	49,450,000
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.15%	0.15%	0.80%
Capital Tax:	**425,482**	**425,482**	**N/A**	**N/A**	**121,458**	**N/A**	**65,820**	**80,760**	**395,600**
Taxable Income:	N/A	N/A	5,055,000	5,055,000	N/A	2,754,000	0	5,055,000	N/A
Apportionment:	N/A	N/A	100%	100%	N/A	N/A	89%	89%	N/A
Apportioned Tax Base:	N/A	N/A	2,830,800	5,055,000	N/A	2,754,000	0	4,485,593	N/A
Tax Rate:	N/A	N/A	8.70%	8.25%	N/A	Calculation	7.10%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**246,280**	**417,038**	**N/A**	**330,696**	**0**	**224,280**	**N/A**
Year 2:									
Taxable Capital:	46,214,000	46,214,000	N/A	N/A	40,264,080	N/A	47,832,080	47,832,080	47,832,080
Apportionment:	100%	100%	N/A	N/A	100%	N/A	89%	89%	100%
Apportioned Tax Base:	46,214,000	46,214,000	N/A	N/A	40,264,080	N/A	42,444,163	42,444,163	47,832,080
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.125%	0.15%	0.80%
Capital Tax:	**411,305**	**411,305**	**N/A**	**N/A**	**116,766**	**N/A**	**53,055**	**78,606**	**382,657**
Taxable Income:	N/A	N/A	(2,528,000)	(2,528,000)	N/A	(4,829,000)	(7,583,000)	(2,528,000)	N/A
Apportionment:	N/A	N/A	100%	100%	N/A	100%	89%	89%	N/A
Apportioned Tax Base:	N/A	N/A	(1,415,680)	(2,528,000)	N/A	(4,829,000)	(6,728,833)	(2,243,240)	N/A
Tax Rate:	N/A	N/A	8.70%	8.25%	N/A	Calculation	6.50%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**0**	**0**	**N/A**	**84,836**	**0**	**0**	**N/A**
Year 3:									
Taxable Capital:	49,399,000	49,399,000	N/A	N/A	43,499,280	N/A	51,067,280	51,067,280	51,067,280
Apportionment:	100%	100%	N/A	N/A	100%	N/A	89%	89%	100%
Apportioned Tax Base:	49,399,000	49,399,000	N/A	N/A	43,499,280	N/A	45,314,942	45,314,942	51,067,280
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.10%	0.15%	0.80%
Capital Tax:	**439,651**	**439,651**	**N/A**	**N/A**	**126,148**	**N/A**	**45,315**	**82,912**	**408,538**
Taxable Income:	N/A	N/A	5,055,000	5,055,000	N/A	2,754,000	0	5,055,000	N/A
Apportionment:	N/A	N/A	100%	100%	N/A	100%	89%	89%	N/A
Apportioned Tax Base:	N/A	N/A	2,830,800	5,055,000	N/A	2,754,000	0	4,485,593	N/A
Apportioned NOL Carryover:	N/A	N/A	0	(2,528,000)	N/A	(4,829,000)	(6,728,833)	(2,243,240)	N/A
State Taxable Income after NOL:	N/A	N/A	2,830,800	2,527,000	N/A	(2,075,000)	(6,728,833)	2,242,353	N/A
Tax Rate:	N/A	N/A	8.70%	8.25%	N/A	Calculation	6.50%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**246,280**	**208,478**	**N/A**	**84,836**	**0**	**112,118**	**N/A**
Apportionment*:									
HQ state loans receipts:	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000
HQ state portfolio receipts:	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000	184,000	184,000	2,301,000
Total HQ state receipts:	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**16,677,000**	**16,677,000**	**18,794,000**
Everywhere loans receipts:	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000
Everywhere portfolio receipts:	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000
Total everywhere receipts:	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**
	100.0000%	**100.0000%**	**100.0000%**	**100.0000%**	**100.0000%**	**100.0000%**	**88.7358%**	**88.7358%**	**100.0000%**

*Only loan interest and portfolio income considered for apportionment purposes.

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Small Bank - $500 Million in Assets
50% of Loans Outside Headquarters State

Jurisdiction:	**Pennsylvania (Method 1)**	**Pennsylvania (Method 2)**	**Delaware**	**Maryland**	**Michigan**	**New Jersey**	**New York**	**North Carolina**	**Ohio**
Equity Year 1:	49,450,000	49,450,000	49,450,000	49,450,000	49,450,000	49,450,000	49,450,000	49,450,000	49,450,000
Pre-Tax Income Year 1:	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000
Capital Tax:	**213,000**	**239,000**	**N/A**	**N/A**	**68,000**	**N/A**	**33,000**	**41,000**	**198,000**
Income Tax:	**N/A**	**N/A**	**138,000**	**209,000**	**N/A**	**207,000**	**-**	**113,000**	**N/A**
Total Year 1 State Tax:	**213,000**	**239,000**	**138,000**	**209,000**	**68,000**	**207,000**	**33,000**	**154,000**	**198,000**
Equity Year 2:	47,832,000	47,832,000	47,832,000	47,832,000	47,832,000	47,832,000	47,832,000	47,832,000	47,832,000
Pre-Tax Income Year 2:	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)	(2,528,000)
Capital Tax:	**206,000**	**231,000**	**N/A**	**N/A**	**66,000**	**N/A**	**27,000**	**40,000**	**191,000**
Income Tax:	**N/A**	**N/A**	**-**	**-**	**N/A**	**85,000**	**-**	**-**	**N/A**
Total Year 2 State Tax:	**206,000**	**231,000**	**-**	**-**	**66,000**	**85,000**	**27,000**	**40,000**	**191,000**
Equity Year 3:	51,067,000	51,067,000	51,067,000	51,067,000	51,067,000	51,067,000	51,067,000	51,067,000	51,067,000
Pre-Tax Income Year 3:	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000	5,055,000
Capital Tax:	**220,000**	**247,000**	**N/A**	**N/A**	**71,000**	**N/A**	**23,000**	**42,000**	**204,000**
Income Tax:	**N/A**	**N/A**	**138,000**	**104,000**	**N/A**	**85,000**	**-**	**57,000**	**N/A**
Total Year 3 State Tax:	**220,000**	**247,000**	**138,000**	**104,000**	**71,000**	**85,000**	**23,000**	**99,000**	**204,000**
3-Year Summary:									
Capital Tax:	**639,000**	**717,000**	**N/A**	**N/A**	**205,000**	**N/A**	**83,000**	**123,000**	**593,000**
Income Tax:	**N/A**	**N/A**	**276,000**	**313,000**	**N/A**	**377,000**	**-**	**170,000**	**N/A**
Tax Base:	***Capital Tax***	***Capital Tax***	***Income Tax***	***Income Tax***	***Capital Tax***	***Income Tax***	***Greater of Capital or Income Tax***	***Income and Capital Tax***	***Capital Tax***
3-Year Total Tax:	**639,000**	**717,000**	**276,000**	**313,000**	**205,000**	**377,000**	**83,000**	**293,000**	**593,000**

(Rounded to nearest thousand.)

Composite Bank Profile and Assumptions:

Assets*:	497,994,000
U.S. obligations*:	7,568,000
Equity Year 1*:	49,450,000
Goodwill*:	904,000
Pre-Tax income:	
Year 1*:	5,055,000
Year 2 (loss assumed):	(2,528,000)
Year 3 (assumed):	5,055,000
Loan interest income*:	16,493,000
Portfolio income*:	2,301,000

- Call report pre-tax income is equal to federal and state taxable income.
- Combined state and federal effective tax rate of 36% for equity roll-forward purposes.
- Capital taxes based on beginning of year value.
- Single bank entity for state tax purposes (except for New York and New Jersey).
- No throw-back of receipts for apportionment purposes.
- No NOL carrybacks applied and pre-apportioned/post-apportioned NOL carryforwards are assumed equal.
- No state modifications made to pre-tax income.

* Based on mean of September 30, 2014 call report data of 10 similarly-sized banks (see schedule).

Comments:

Pennsylvania:
1) "Method 1" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(I).
2) "Method 2" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(II).
3) Deductions for goodwill and U.S. obligations applied. 72 Pa. Stat. Ann. § 7701.1.
4) Year 2 and year 3 deductions for goodwill and U.S. obligations assumed to equal year 1.

Delaware:
1) Income tax based on statutory definition of "taxable income," not federal taxable income. Del. Code Ann. § 1101(a).
2) Standard (not alternative) Delaware franchise tax assumed. Del. Code Ann. § 1101(a).
3) Only 56% of taxable income is subject to the Delaware franchise tax. Del. Code Ann. § 1101(a)(2).
4) Assumes branch locations are proportionate to receipts.

Maryland:
1) Banks subject to corporate income tax; there is no separate tax regime for banks. Md. Code Ann., Tax-Gen § 10-102.
2) Maryland applies a three factor apportionment formula. Md. Regs. Code tit. 03, § 03.04.08.03. Property and payroll are assumed to be proportionate to receipts.

Michigan:
1) Banks are subject to an equity/capital-based financial institutions tax in Michigan. Mich. Comp. Laws § 206.653, *et seq.*
2) Tax base is the average of the net capital of the current and preceding four years. Mich. Comp. Laws § 206.655. Average is assumed to equal current year.
3) Deduction for U.S. obligation applied. Mich. Comp. Laws § 206.655(1).

New Jersey:
1) Assumes investment portfolio assets are held in a subsidiary statutory "investment company." N.J. Rev. Stat. § 54:10A-5(d).
2) Only 40% of an investment company's income is subject to tax. N.J. Rev. Stat. § 54:10A-5(d).
3) Includes minimum tax in loss years.

New York:
1) Assumes bank tax laws effective January 1, 2015.
2) Tax is the highest of three bases: entire net income, capital, fixed-dollar minimum (fixed-dollar minimum not considered). N.Y. Tax Law § 210(1)(a) - (c).
3) Favorable apportionment rules for portfolio income ("financial transactions"). N.Y. Tax Law § 210-A.5. 8% NY apportionment assumed.
4) Statutory incentives available for banks with total combined assets under $8 billion. N.Y. Tax Law § 208.9.(r) - (t). Assumes subsidiary REIT. N.Y. Tax Law § 208.9.(t). Annual REIT deduction assumed to be equal to federal/state taxable income.

North Carolina:
1) Assumes 5% tax rate effective January 1, 2015. N.C. Gen. Stat. § 105-130.3.
2) Assumes bank's issued and outstanding capital stock, surplus and undivided profits is equal to bank's equity; computations based on tangible/real property not considered. N.C. Gen. Stat. § 105-122.
3) Favorable apportionment for investment portfolio income; 8% NC apportionment assumed. *2007-2008 Corporate Income Tax Technical Bulletins, Part II. Corporate Income Tax, Sec. I. Apportionment Factors* , North Carolina Department of Revenue.
4) Bank franchise tax ($30 for each $1 million in assets) included in capital tax amount. N.C. Gen. Stat. § 105-102.3.

Ohio:
1) A *regressive* tax rate schedule applies to Ohio bank franchise tax. Ohio Rev. Code Ann. § 5726.04(A)(2).
2) Assumes portfolio income is apportioned in manner similar to Pennsylvania bank shares tax "Method 1" (72 Pa. Stat. Ann. § 7701.4 (3)(xiii)(B)(I)). Ohio Rev. Code Ann. § 5726.05 (B) and (D)(1).

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Small Bank - $500 Million in Assets
50% of Loans Outside Headquarters State

Jurisdiction:	Pennsylvania (Method 1)	Pennsylvania (Method 2)	Delaware	Maryland	Michigan	New Jersey	New York	North Carolina	Ohio
Year 1:									
Taxable Capital:	47,807,000	47,807,000	N/A	N/A	41,882,000	N/A	49,450,000	49,450,000	49,450,000
Apportionment:	50%	56%	N/A	N/A	56%	N/A	45%	45%	50%
Apportioned Tax Base:	23,906,044	26,831,342	N/A	N/A	23,505,977	N/A	22,183,301	22,183,301	24,727,631
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.15%	0.15%	0.80%
Capital Tax:	**212,764**	**238,799**	**N/A**	**N/A**	**68,167**	**N/A**	**33,275**	**40,745**	**197,821**
Taxable Income:	N/A	N/A	5,055,000	5,055,000	N/A	2,754,000	0	5,055,000	N/A
Apportionment:	N/A	N/A	56%	50%	N/A	50%	45%	45%	N/A
Apportioned Tax Base:	N/A	N/A	1,588,767	2,527,769	N/A	1,377,083	0	2,267,676	N/A
Tax Rate:	N/A	N/A	8.70%	8.25%	N/A	Calculation	7.10%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**138,223**	**208,541**	**N/A**	**206,774**	**0**	**113,384**	**N/A**
Year 2:									
Taxable Capital:	46,214,000	46,214,000	N/A	N/A	40,264,080	N/A	47,832,080	47,832,080	47,832,080
Apportionment:	50%	56%	N/A	N/A	56%	N/A	45%	45%	50%
Apportioned Tax Base:	23,109,459	25,937,282	N/A	N/A	22,597,931	N/A	21,457,501	21,457,501	23,918,585
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.125%	0.15%	0.80%
Capital Tax:	**205,674**	**230,842**	**N/A**	**N/A**	**65,534**	**N/A**	**26,822**	**39,656**	**191,349**
Taxable Income:	N/A	N/A	(2,528,000)	(2,528,000)	N/A	(4,829,000)	(7,583,000)	(2,528,000)	N/A
Apportionment:	N/A	N/A	56%	50%	N/A	50%	45%	45%	N/A
Apportioned Tax Base:	N/A	N/A	(794,540)	(1,264,135)	N/A	(2,414,646)	(3,401,738)	(1,134,062)	N/A
Tax Rate:	N/A	N/A	8.70%	8.25%	N/A	Calculation	6.50%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**0**	**0**	**N/A**	**84,836**	**0**	**0**	**N/A**
Year 3:									
Taxable Capital:	49,399,000	49,399,000	N/A	N/A	43,499,280	N/A	51,067,280	51,067,280	51,067,280
Apportionment:	50%	56%	N/A	N/A	56%	N/A	45%	45%	50%
Apportioned Tax Base:	24,702,128	27,724,840	N/A	N/A	24,413,664	N/A	22,908,813	22,908,813	25,536,357
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.10%	0.15%	0.80%
Capital Tax:	**219,849**	**246,751**	**N/A**	**N/A**	**70,800**	**N/A**	**22,909**	**41,833**	**204,291**
Taxable Income:	N/A	N/A	5,055,000	5,055,000	N/A	2,754,000	0	5,055,000	N/A
Apportionment:	N/A	N/A	56%	50%	N/A	50%	45%	45%	N/A
Apportioned Tax Base:	N/A	N/A	1,588,767	2,527,769	N/A	1,377,083	0	2,267,676	N/A
Apportioned NOL Carryover:	N/A	N/A	0	(1,264,135)	N/A	(2,414,646)	(3,401,738)	(1,134,062)	N/A
State Taxable Income after NOL:	N/A	N/A	1,588,767	1,263,634	N/A	(1,037,563)	(3,401,738)	1,133,614	N/A
Tax Rate:	N/A	N/A	8.70%	8.25%	N/A	Calculation	6.50%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**138,223**	**104,250**	**N/A**	**84,836**	**0**	**56,681**	**N/A**
Apportionment*:									
HQ state loans receipts:	8,247,000	8,247,000	8,247,000	8,247,000	8,247,000	8,247,000	8,247,000	8,247,000	8,247,000
HQ state portfolio receipts:	1,151,000	2,301,000	2,301,000	1,151,000	2,301,000	2,301,000	184,000	184,000	1,151,000
Total HQ state receipts:	**9,398,000**	**10,548,000**	**10,548,000**	**9,398,000**	**10,548,000**	**10,548,000**	**8,431,000**	**8,431,000**	**9,398,000**
Everywhere loans receipts:	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000	16,493,000
Everywhere portfolio receipts:	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000	2,301,000
Total everywhere receipts:	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**	**18,794,000**
	50.0053%	**56.1243%**	**56.1243%**	**50.0053%**	**56.1243%**	**50.0030%**	**44.8601%**	**44.8601%**	**50.0053%**

*Only loan interest and portfolio income considered for apportionment purposes.

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Medium Bank - $3 Billion in Assets
100% of Loans in Headquarters State

Jurisdiction:	**Pennsylvania (Method 1)**	**Pennsylvania (Method 2)**	**Delaware**	**Maryland**	**Michigan**	**New Jersey**	**New York**	**North Carolina**	**Ohio**
Equity Year 1:	331,069,000	331,069,000	331,069,000	331,069,000	331,069,000	331,069,000	331,069,000	331,069,000	331,069,000
Pre-Tax Income Year 1:	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000
Capital Tax:	**2,736,000**	**2,736,000**	**N/A**	**N/A**	**806,000**	**N/A**	**432,000**	**527,000**	**2,124,000**
Income Tax:	**N/A**	**N/A**	**1,707,000**	**2,890,000**	**N/A**	**2,321,000**	**-**	**1,525,000**	**N/A**
Total Year 1 State Tax:	**2,736,000**	**2,736,000**	**1,707,000**	**2,890,000**	**806,000**	**2,321,000**	**432,000**	**2,052,000**	**2,124,000**
Equity Year 2:	320,210,000	320,210,000	320,210,000	320,210,000	320,210,000	320,210,000	320,210,000	320,210,000	320,210,000
Pre-Tax Income Year 2:	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)
Capital Tax:	**2,641,000**	**2,641,000**	**N/A**	**N/A**	**775,000**	**N/A**	**349,000**	**512,000**	**2,081,000**
Income Tax:	**N/A**	**N/A**	**-**	**-**	**N/A**	**556,000**	**-**	**-**	**N/A**
Total Year 2 State Tax:	**2,641,000**	**2,641,000**	**-**	**-**	**775,000**	**556,000**	**349,000**	**512,000**	**2,081,000**
Equity Year 3:	341,927,000	341,927,000	341,927,000	341,927,000	341,927,000	341,927,000	341,927,000	341,927,000	341,927,000
Pre-Tax Income Year 3:	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000
Capital Tax:	**2,831,000**	**2,831,000**	**N/A**	**N/A**	**838,000**	**N/A**	**298,000**	**541,000**	**2,168,000**
Income Tax:	**N/A**	**N/A**	**1,707,000**	**1,445,000**	**N/A**	**556,000**	**-**	**763,000**	**N/A**
Total Year 3 State Tax:	**2,831,000**	**2,831,000**	**1,707,000**	**1,445,000**	**838,000**	**556,000**	**298,000**	**1,304,000**	**2,168,000**
3-Year Summary:									
Capital Tax:	**8,208,000**	**8,208,000**	**N/A**	**N/A**	**2,419,000**	**N/A**	**1,079,000**	**1,580,000**	**6,373,000**
Income Tax:	**N/A**	**N/A**	**3,414,000**	**4,335,000**	**N/A**	**3,433,000**	**-**	**2,288,000**	**N/A**
Tax Base:	***Capital Tax***	***Capital Tax***	***Income Tax***	***Income Tax***	***Capital Tax***	***Income Tax***	***Greater of Capital or Income Tax***	***Income and Capital Tax***	***Capital Tax***
3-Year Total Tax:	**8,208,000**	**8,208,000**	**3,414,000**	**4,335,000**	**2,419,000**	**3,433,000**	**1,079,000**	**3,868,000**	**6,373,000**

(Rounded to nearest thousand.)

Composite Bank Profile and Assumptions:

Assets*:	3,141,312,000
U.S. obligations*:	52,967,000
Equity Year 1*:	331,069,000
Goodwill*:	18,319,000
Pre-Tax income:	
Year 1*:	35,028,000
Year 2 (loss assumed):	(17,514,000)
Year 3 (assumed):	35,028,000
Loan interest income*:	94,211,000
Portfolio income*:	15,394,000

- Call report pre-tax income is equal to federal and state taxable income.
- Combined state and federal effective tax rate of 38% for equity roll-forward purposes.
- Capital taxes based on beginning of year value.
- Single bank entity for state tax purposes (except for New York and New Jersey).
- No throw-back of receipts for apportionment purposes.
- No NOL carrybacks applied and pre-apportioned/post-apportioned NOL carryforwards are assumed equal.
- No state modifications made to pre-tax income.

* Based on mean of September 30, 2014 call report data of 10 similarly-sized banks (see schedule).

Comments:

Pennsylvania:
1) "Method 1" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(I).
2) "Method 2" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(II).
3) Deductions for goodwill and U.S. obligations applied. 72 Pa. Stat. Ann. § 7701.1.
4) Year 2 and year 3 deductions for goodwill and U.S. obligations assumed to equal year 1.

Delaware:
1) Income tax based on statutory definition of "taxable income," not federal taxable income. Del. Code Ann. § 1101(a).
2) Standard (not alternative) Delaware franchise tax assumed. Del. Code Ann. § 1101(a).
3) Only 56% of taxable income is subject to the Delaware franchise tax. Del. Code Ann. § 1101(a)(2).
4) Assumes branch locations are proportionate to receipts.

Maryland:
1) Banks subject to corporate income tax; there is no separate tax regime for banks. Md. Code Ann., Tax-Gen § 10-102.
2) Maryland applies a three factor apportionment formula. Md. Regs. Code tit. 03, § 03.04.08.03. Property and payroll are assumed to be proportionate to receipts.

Michigan:
1) Banks are subject to an equity/capital-based financial institutions tax in Michigan. Mich. Comp. Laws § 206.653, *et seq.*
2) Tax base is the average of the net capital of the current and preceding four years. Mich. Comp. Laws § 206.655. Average is assumed to equal current year.
3) Deduction for U.S. obligation applied. Mich. Comp. Laws § 206.655(1).

New Jersey:
1) Assumes investment portfolio assets are held in a subsidiary statutory "investment company." N.J. Rev. Stat. § 54:10A-5(d).
2) Only 40% of an investment company's income is subject to tax. N.J. Rev. Stat. § 54:10A-5(d).
3) Includes minimum tax in loss years.

New York:
1) Assumes bank tax laws effective January 1, 2015.
2) Tax is the highest of three bases: entire net income, capital, fixed-dollar minimum (fixed-dollar minimum not considered). N.Y. Tax Law § 210(1)(a) - (c).
3) Favorable apportionment rules for portfolio income ("financial transactions"). N.Y. Tax Law § 210-A.5. 8% NY apportionment assumed.
4) Statutory incentives available for banks with total combined assets under $8 billion. N.Y. Tax Law § 208.9.(r) - (t). Assumes subsidiary REIT. N.Y. Tax Law § 208.9.(t). Annual REIT deduction assumed to be equal to federal/state taxable income.

North Carolina:
1) Assumes 5% tax rate effective January 1, 2015. N.C. Gen. Stat. § 105-130.3.
2) Assumes bank's issued and outstanding capital stock, surplus and undivided profits is equal to bank's equity; computations based on tangible/real property not considered. N.C. Gen. Stat. § 105-122.
3) Favorable apportionment for investment portfolio income; 8% NC apportionment assumed. *2007-2008 Corporate Income Tax Technical Bulletins, Part II. Corporate Income Tax, Sec. I. Apportionment Factors*, North Carolina Department of Revenue.
4) Bank franchise tax ($30 for each $1 million in assets) included in capital tax amount. N.C. Gen. Stat. § 105-102.3.

Ohio:
1) A *regressive* tax rate schedule applies to Ohio bank franchise tax. Ohio Rev. Code Ann. § 5726.04(A)(2).
2) Assumes portfolio income is apportioned in manner similar to Pennsylvania bank shares tax "Method 1" (72 Pa. Stat. Ann. § 7701.4 (3)(xiii)(B)(I)). Ohio Rev. Code Ann. § 5726.05 (B) and (D)(1).

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Medium Bank - $3 Billion in Assets
100% of Loans in Headquarters State

Jurisdiction:	Pennsylvania (Method 1)	Pennsylvania (Method 2)	Delaware	Maryland	Michigan	New Jersey	New York	North Carolina	Ohio
Year 1:									
Taxable Capital:	307,446,000	307,446,000	N/A	N/A	278,102,000	N/A	331,069,000	331,069,000	331,069,000
Apportionment:	100%	100%	N/A	N/A	100%	N/A	87%	87%	100%
Apportioned Tax Base:	307,446,000	307,446,000	N/A	N/A	278,102,000	N/A	288,291,762	288,291,762	331,069,000
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.15%	0.15%	Regressive
Capital Tax:	**2,736,269**	**2,736,269**	**N/A**	**N/A**	**806,496**	**N/A**	**432,438**	**526,677**	**2,124,276**
Taxable Income:	N/A	N/A	35,028,000	35,028,000	N/A	19,634,000	0	35,028,000	N/A
Apportionment:	N/A	N/A	100%	100%	N/A	100%	87%	87%	N/A
Apportioned Tax Base:	N/A	N/A	19,615,680	35,028,000	N/A	19,634,000	0	30,502,052	N/A
Tax Rate:	N/A	N/A	8.70%	8.25%	N/A	Calculation	7.10%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**1,706,564**	**2,889,810**	**N/A**	**2,321,244**	**0**	**1,525,103**	**N/A**
Year 2:									
Taxable Capital:	296,771,000	296,771,000	N/A	N/A	267,243,320	N/A	320,210,320	320,210,320	320,210,320
Apportionment:	100%	100%	N/A	N/A	100%	N/A	87%	87%	100%
Apportioned Tax Base:	296,771,000	296,771,000	N/A	N/A	267,243,320	N/A	278,836,126	278,836,126	320,210,320
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.125%	0.15%	Regressive
Capital Tax:	**2,641,262**	**2,641,262**	**N/A**	**N/A**	**775,006**	**N/A**	**348,545**	**512,494**	**2,080,841**
Taxable Income:	N/A	N/A	(17,514,000)	(17,514,000)	N/A	(32,908,000)	(17,514,000)	(17,514,000)	N/A
Apportionment:	N/A	N/A	100%	100%	N/A	100%	87%	87%	N/A
Apportioned Tax Base:	N/A	N/A	(9,807,840)	(17,514,000)	N/A	(32,908,000)	(15,251,026)	(15,251,026)	N/A
Tax Rate:	N/A	N/A	8.70%	0.00%	N/A	Calculation	6.50%	0.00%	N/A
State Income Tax:	**N/A**	**N/A**	**0**	**0**	**N/A**	**556,184**	**0**	**0**	**N/A**
Year 3:									
Taxable Capital:	318,120,000	318,120,000	N/A	N/A	288,960,680	N/A	341,927,680	341,927,680	341,927,680
Apportionment:	100%	100%	N/A	N/A	100%	N/A	87%	87%	100%
Apportioned Tax Base:	318,120,000	318,120,000	N/A	N/A	288,960,680	N/A	297,747,398	297,747,398	341,927,680
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.10%	0.15%	Regressive
Capital Tax:	**2,831,268**	**2,831,268**	**N/A**	**N/A**	**837,986**	**N/A**	**297,747**	**540,860**	**2,167,711**
Taxable Income:	N/A	N/A	35,028,000	35,028,000	N/A	19,634,000	0	35,028,000	N/A
Apportionment:	N/A	N/A	100%	100%	N/A	100%	87%	87%	N/A
Apportioned Tax Base:	N/A	N/A	19,615,680	35,028,000	N/A	19,634,000	0	30,502,052	N/A
Apportioned NOL Carryover:	N/A	N/A	0	(17,514,000)	N/A	(32,908,000)	(15,251,026)	(15,251,026)	N/A
State Taxable Income after NOL:	N/A	N/A	19,615,680	17,514,000	N/A	(13,274,000)	(15,251,026)	15,251,026	N/A
Tax Rate:	N/A	N/A	8.70%	8.25%	N/A	Calculation	6.50%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**1,706,564**	**1,444,905**	**N/A**	**556,184**	**0**	**762,551**	**N/A**
Apportionment*:									
HQ state loans receipts:	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000
HQ state portfolio receipts:	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000	1,232,000	1,232,000	15,394,000
Total HQ state receipts:	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**95,443,000**	**95,443,000**	**109,605,000**
Everywhere loans receipts:	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000
Everywhere portfolio receipts:	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000
Total everywhere receipts:	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**
	100.0000%	**100.0000%**	**100.0000%**	**100.0000%**	**100.0000%**	**100.0000%**	**87.0791%**	**87.0791%**	**100.0000%**

*Only loan interest and portfolio income considered for apportionment purposes.

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Medium Bank - $3 Billion in Assets
50% of Loans Outside Headquarters State

Jurisdiction:	**Pennsylvania (Method 1)**	**Pennsylvania (Method 2)**	**Delaware**	**Maryland**	**Michigan**	**New Jersey**	**New York**	**North Carolina**	**Ohio**
Equity Year 1:	331,069,000	331,069,000	331,069,000	331,069,000	331,069,000	331,069,000	331,069,000	331,069,000	331,069,000
Pre-Tax Income Year 1:	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000
Capital Tax:	**1,368,000**	**1,560,000**	**N/A**	**N/A**	**460,000**	**N/A**	**219,000**	**266,000**	**1,324,000**
Income Tax:	**N/A**	**N/A**	**973,000**	**1,445,000**	**N/A**	**1,438,000**	**-**	**772,000**	**N/A**
Total Year 1 State Tax:	**1,368,000**	**1,560,000**	**973,000**	**1,445,000**	**460,000**	**1,438,000**	**219,000**	**1,038,000**	**1,324,000**
Equity Year 2:	320,210,000	320,210,000	320,210,000	320,210,000	320,210,000	320,210,000	320,210,000	320,210,000	320,210,000
Pre-Tax Income Year 2:	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)	(17,514,000)
Capital Tax:	**1,321,000**	**1,506,000**	**N/A**	**N/A**	**442,000**	**N/A**	**177,000**	**259,000**	**1,281,000**
Income Tax:	**N/A**	**N/A**	**-**	**-**	**N/A**	**556,000**	**-**	**-**	**N/A**
Total Year 2 State Tax:	**1,321,000**	**1,506,000**	**-**	**-**	**442,000**	**556,000**	**177,000**	**259,000**	**1,281,000**
Equity Year 3:	341,927,000	341,927,000	341,927,000	341,927,000	341,927,000	341,927,000	341,927,000	341,927,000	341,927,000
Pre-Tax Income Year 3:	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000	35,028,000
Capital Tax:	**1,416,000**	**1,614,000**	**N/A**	**N/A**	**478,000**	**N/A**	**151,000**	**273,000**	**1,368,000**
Income Tax:	**N/A**	**N/A**	**973,000**	**722,000**	**N/A**	**556,000**	**-**	**386,000**	**N/A**
Total Year 3 State Tax:	**1,416,000**	**1,614,000**	**973,000**	**722,000**	**478,000**	**556,000**	**151,000**	**659,000**	**1,368,000**
3-Year Summary:									
Capital Tax:	**4,105,000**	**4,680,000**	**N/A**	**N/A**	**1,380,000**	**N/A**	**547,000**	**798,000**	**3,973,000**
Income Tax:	**N/A**	**N/A**	**1,946,000**	**2,167,000**	**N/A**	**2,550,000**	**-**	**1,158,000**	**N/A**
Tax Base:	***Capital Tax***	***Capital Tax***	***Income Tax***	***Income Tax***	***Capital Tax***	***Income Tax***	***Greater of Capital or Income Tax***	***Income and Capital Tax***	***Capital Tax***
3-Year Total Tax:	**4,105,000**	**4,680,000**	**1,946,000**	**2,167,000**	**1,380,000**	**2,550,000**	**547,000**	**1,956,000**	**3,973,000**

(Rounded to nearest thousand.)

Composite Bank Profile and Assumptions:

Assets*:	3,141,312,000
U.S. obligations*:	52,967,000
Equity Year 1*:	331,069,000
Goodwill*:	18,319,000
Pre-Tax income:	
Year 1*:	35,028,000
Year 2 (loss assumed):	(17,514,000)
Year 3 (assumed):	35,028,000
Loan interest income*:	94,211,000
Portfolio income*:	15,394,000

- Call report pre-tax income is equal to federal and state taxable income
- Combined state and federal effective tax rate of 38% for equity roll-forward purposes.
- Capital taxes based on beginning of year value.
- Single bank entity for state tax purposes (except for New York and New Jersey).
- No throw-back of receipts for apportionment purposes.
- No NOL carrybacks applied and pre-apportioned/post-apportioned NOL carryforwards are assumed equal.
- No state modifications made to pre-tax income.

* Based on mean of September 30, 2014 call report data of 10 similarly-sized banks (see schedule).

Comments:

Pennsylvania:
1) "Method 1" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(I).
2) "Method 2" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(II).
3) Deductions for goodwill and U.S. obligations applied. 72 Pa. Stat. Ann. § 7701.1.
4) Year 2 and year 3 deductions for goodwill and U.S. obligations assumed to equal year 1.

Delaware:
1) Income tax based on statutory definition of "taxable income," not federal taxable income. Del. Code Ann. § 1101(a).
2) Standard (not alternative) Delaware franchise tax assumed. Del. Code Ann. § 1101(a).
3) Only 56% of taxable income is subject to the Delaware franchise tax. Del. Code Ann. § 1101(a)(2).
4) Assumes branch locations are proportionate to receipts.

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1) Banks subject to corporate income tax; there is no separate tax regime for banks. Md. Code Ann., Tax-Gen § 10-102.
2) Maryland applies a three factor apportionment formula. Md. Regs. Code tit. 03, § 03.04.08.03. Property and payroll are assumed to be proportionate to receipts.

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1) Banks are subject to an equity/capital-based financial institutions tax in Michigan. Mich. Comp. Laws § 206.653, *et seq.*
2) Tax base is the average of the net capital of the current and preceding four years. Mich. Comp. Laws § 206.655. Average is assumed to equal current year.
3) Deduction for U.S. obligation applied. Mich. Comp. Laws § 206.655(1).

New Jersey:
1) Assumes investment portfolio assets are held in a subsidiary statutory "investment company." N.J. Rev. Stat. § 54:10A-5(d).
2) Only 40% of an investment company's income is subject to tax. N.J. Rev. Stat. § 54:10A-5(d).
3) Includes minimum tax in loss years.

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1) Assumes bank tax laws effective January 1, 2015.
2) Tax is the highest of three bases: entire net income, capital, fixed-dollar minimum (fixed-dollar minimum not considered). N.Y. Tax Law § 210(1)(a) - (c).
3) Favorable apportionment rules for portfolio income ("financial transactions"). N.Y. Tax Law § 210-A.5. 8% NY apportionment assumed.
4) Statutory incentives available for banks with total combined assets under $8 billion. N.Y. Tax Law § 208.9.(r) - (t). Assumes subsidiary REIT. N.Y. Tax Law § 208.9.(t). Annual REIT deduction assumed to be equal to federal/state taxable income.

North Carolina:
1) Assumes 5% tax rate effective January 1, 2015. N.C. Gen. Stat. § 105-130.3.
2) Assumes bank's issued and outstanding capital stock, surplus and undivided profits is equal to bank's equity; computations based on tangible/real property not considered. N.C. Gen. Stat. § 105-122.
3) Favorable apportionment for investment portfolio income; 8% NC apportionment assumed. *2007-2008 Corporate Income Tax Technical Bulletins, Part II. Corporate Income Tax, Sec. I. Apportionment Factors* , North Carolina Department of Revenue.
4) Bank franchise tax ($30 for each $1 million in assets) included in capital tax amount. N.C. Gen. Stat. § 105-102.3.

Ohio:
1) A *regressive* tax rate schedule applies to Ohio bank franchise tax. Ohio Rev. Code Ann. § 5726.04(A)(2).
2) Assumes portfolio income is apportioned in manner similar to Pennsylvania bank shares tax "Method 1" (72 Pa. Stat. Ann. § 7701.4 (3)(xiii)(B)(I)). Ohio Rev. Code Ann. § 5726.05 (B) and (D)(1).

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Medium Bank - $3 Billion in Assets
50% of Loans Outside Headquarters State

Jurisdiction:	Pennsylvania (Method 1)	Pennsylvania (Method 2)	Delaware	Maryland	Michigan	New Jersey	New York	North Carolina	Ohio
Year 1:									
Taxable Capital:	307,446,000	307,446,000	N/A	N/A	278,102,000	N/A	331,069,000	331,069,000	331,069,000
Apportionment:	50%	57%	N/A	N/A	57%	N/A	44%	44%	50%
Apportioned Tax Base:	153,724,403	175,314,767	N/A	N/A	158,581,953	N/A	146,008,059	146,008,059	165,536,010
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.15%	0.15%	0.80%
Capital Tax:	**1,368,147**	**1,560,301**	**N/A**	**N/A**	**459,888**	**N/A**	**219,012**	**266,132**	**1,324,288**
Taxable Income:	N/A	N/A	35,028,000	35,028,000	N/A	19,634,000	0	35,028,000	N/A
Apportionment:	N/A	N/A	57%	50%	N/A	50%	44%	44%	N/A
Apportioned Tax Base:	N/A	N/A	11,185,439	17,514,160	N/A	9,817,104	0	15,448,049	N/A
Tax Rate:	N/A	N/A	8.70%	8.25%	N/A	Calculation	7.10%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**973,133**	**1,444,918**	**N/A**	**1,437,723**	**0**	**772,402**	**N/A**
Year 2:									
Taxable Capital:	296,771,000	296,771,000	N/A	N/A	267,243,320	N/A	320,210,320	320,210,320	320,210,320
Apportionment:	50%	57%	N/A	N/A	57%	N/A	44%	44%	50%
Apportioned Tax Base:	148,386,854	169,227,567	N/A	N/A	152,390,014	N/A	141,219,164	141,219,164	160,106,621
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.125%	0.15%	0.80%
Capital Tax:	**1,320,643**	**1,506,125**	**N/A**	**N/A**	**441,931**	**N/A**	**176,524**	**258,948**	**1,280,853**
Taxable Income:	N/A	N/A	(17,514,000)	(17,514,000)	N/A	(32,908,000)	(17,514,000)	(17,514,000)	N/A
Apportionment:	N/A	N/A	57%	50%	N/A	50%	44%	44%	N/A
Apportioned Tax Base:	N/A	N/A	(5,592,719)	(8,757,080)	N/A	(16,454,175)	(7,724,025)	(7,724,025)	N/A
Tax Rate:	N/A	N/A	8.70%	8.25%	N/A	Calculation	6.50%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**0**	**0**	**N/A**	**556,184**	**0**	**0**	**N/A**
Year 3:									
Taxable Capital:	318,120,000	318,120,000	N/A	N/A	288,960,680	N/A	341,927,680	341,927,680	341,927,680
Apportionment:	50%	57%	N/A	N/A	57%	N/A	44%	44%	50%
Apportioned Tax Base:	159,061,451	181,401,396	N/A	N/A	164,773,893	N/A	150,796,954	150,796,954	170,965,400
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.10%	0.15%	0.80%
Capital Tax:	**1,415,647**	**1,614,472**	**N/A**	**N/A**	**477,844**	**N/A**	**150,797**	**273,315**	**1,367,723**
Taxable Income:	N/A	N/A	35,028,000	35,028,000	N/A	19,634,000	0	35,028,000	N/A
Apportionment:	N/A	N/A	57%	50%	N/A	50%	44%	44%	N/A
Apportioned Tax Base:	N/A	N/A	11,185,439	17,514,160	N/A	9,817,104	0	15,448,049	N/A
Apportioned NOL Carryover:	N/A	N/A	0	(8,757,080)	N/A	(16,454,175)	(7,724,025)	(7,724,025)	N/A
State Taxable Income after NOL:	N/A	N/A	11,185,439	8,757,080	N/A	(6,637,070)	(7,724,025)	7,724,025	N/A
Tax Rate:	N/A	N/A	8.70%	8.25%	N/A	Calculation	6.50%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**973,133**	**722,459**	**N/A**	**556,184**	**0**	**386,201**	**N/A**
Apportionment*:									
HQ state loans receipts:	47,106,000	47,106,000	47,106,000	47,106,000	47,106,000	47,106,000	47,106,000	47,106,000	47,106,000
HQ state portfolio receipts:	7,697,000	15,394,000	15,394,000	7,697,000	15,394,000	15,394,000	1,232,000	1,232,000	7,697,000
Total HQ state receipts:	**54,803,000**	**62,500,000**	**62,500,000**	**54,803,000**	**62,500,000**	**62,500,000**	**48,338,000**	**48,338,000**	**54,803,000**
Everywhere loans receipts:	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000	94,211,000
Everywhere portfolio receipts:	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000	15,394,000
Total everywhere receipts:	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**	**109,605,000**
	50.0005%	**57.0229%**	**57.0229%**	**50.0005%**	**57.0229%**	**50.0005%**	**44.1020%**	**44.1020%**	**50.0005%**

*Only loan interest and portfolio income considered for apportionment purposes.

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Large Bank - $15 Billion in Assets
100% of Loans in Headquarters State

Jurisdiction:	**Pennsylvania (Method 1)**	**Pennsylvania (Method 2)**	**Delaware**	**Maryland**	**Michigan**	**New Jersey**	**New York**	**North Carolina**	**Ohio**
Equity Year 1:	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000
Pre-Tax Income Year 1:	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000
Capital Tax:	**11,904,000**	**11,904,000**	**N/A**	**N/A**	**4,106,000**	**N/A**	**-**	**2,862,000**	**7,433,000**
Income Tax:	**N/A**	**N/A**	**4,322,000**	**15,396,000**	**N/A**	**12,720,000**	**11,344,000**	**7,989,000**	**N/A**
Total Year 1 State Tax:	**11,904,000**	**11,904,000**	**4,322,000**	**15,396,000**	**4,106,000**	**12,720,000**	**11,344,000**	**10,851,000**	**7,433,000**
Equity Year 2:	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000
Pre-Tax Income Year 2:	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)
Capital Tax:	**11,405,000**	**11,405,000**	**N/A**	**N/A**	**3,938,000**	**N/A**	**1,943,000**	**2,788,000**	**7,288,000**
Income Tax:	**N/A**	**N/A**	**-**	**-**	**N/A**	**2,719,000**	**-**	**-**	**N/A**
Total Year 2 State Tax:	**11,405,000**	**11,405,000**	**-**	**-**	**3,938,000**	**2,719,000**	**1,943,000**	**2,788,000**	**7,288,000**
Equity Year 3:	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000
Pre-Tax Income Year 3:	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000
Capital Tax:	**12,403,000**	**12,403,000**	**N/A**	**N/A**	**4,274,000**	**N/A**	**-**	**2,936,000**	**7,577,000**
Income Tax:	**N/A**	**N/A**	**4,322,000**	**7,698,000**	**N/A**	**2,719,000**	**5,193,000**	**3,994,000**	**N/A**
Total Year 3 State Tax:	**12,403,000**	**12,403,000**	**4,322,000**	**7,698,000**	**4,274,000**	**2,719,000**	**5,193,000**	**6,930,000**	**7,577,000**
3-Year Summary:									
Capital Tax:	**35,712,000**	**35,712,000**	**N/A**	**N/A**	**12,318,000**	**N/A**	**1,943,000**	**8,586,000**	**22,298,000**
Income Tax:	**N/A**	**N/A**	**8,644,000**	**23,094,000**	**N/A**	**18,158,000**	**16,537,000**	**11,983,000**	**N/A**
Tax Base:	***Capital Tax***	***Capital Tax***	***Income Tax***	***Income Tax***	***Capital Tax***	***Income Tax***	***Greater of Capital or Income Tax***	***Income and Capital Tax***	***Capital Tax***
3-Year Total Tax:	**35,712,000**	**35,712,000**	**8,644,000**	**23,094,000**	**12,318,000**	**18,158,000**	**18,480,000**	**20,569,000**	**22,298,000**

(Rounded to nearest thousand.)

Composite Bank Profile and Assumptions:

Assets*:	15,214,815,000
U.S. obligations*:	457,326,000
Equity Year 1*:	1,873,137,000
Goodwill*:	492,760,000
Pre-Tax income:	
Year 1*:	186,617,000
Year 2 (loss assumed):	(93,309,000)
Year 3 (assumed):	186,617,000
Loan interest income*:	407,196,000
Portfolio income*:	75,468,000

- Call report pre-tax income is equal to federal and state taxable income
- Combined state and federal effective tax rate of 38% for equity roll-forward purposes.
- Capital taxes based on beginning of year value.
- Single bank entity for state tax purposes (except for New York and New Jersey).
- No throw-back of receipts for apportionment purposes.
- No NOL carrybacks applied and pre-apportioned/post-apportioned NOL carryforwards are assumed equal.
- No state modifications made to pre-tax income.

* Based on mean of September 30, 2014 call report data of 10 similarly-sized banks (see schedule).

Comments:

Pennsylvania:
1) "Method 1" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(I).
2) "Method 2" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(II).
3) Deductions for goodwill and U.S. obligations applied. 72 Pa. Stat. Ann. § 7701.1.
4) Year 2 and year 3 deductions for goodwill and U.S. obligations assumed to equal year 1.

Delaware:
1) Income tax based on statutory definition of "taxable income," not federal taxable income. Del. Code Ann. § 1101(a).
2) Standard (not alternative) Delaware franchise tax assumed. Del. Code Ann. § 1101(a).
3) Only 56% of taxable income is subject to the Delaware franchise tax (regressive rate). Del. Code Ann. § 1101(a)(2).
4) Assumes branch locations are proportionate to receipts.

Maryland:
1) Banks subject to corporate income tax; there is no separate tax regime for banks. Md. Code Ann., Tax-Gen § 10-102.
2) Maryland applies a three factor apportionment formula. Md. Regs. Code tit. 03, § 03.04.08.03. Property and payroll are assumed to be proportionate to receipts.

Michigan:
1) Banks are subject to an equity/capital-based financial institutions tax in Michigan. Mich. Comp. Laws § 206.653, *et seq.*
2) Tax base is the average of the net capital of the current and preceding four years. Mich. Comp. Laws § 206.655. Average is assumed to equal current year.
3) Deduction for U.S. obligation applied. Mich. Comp. Laws § 206.655(1).

New Jersey:
1) Assumes investment portfolio assets are held in a subsidiary statutory "investment company." N.J. Rev. Stat. § 54:10A-5(d).
2) Only 40% of an investment company's income is subject to tax. N.J. Rev. Stat. § 54:10A-5(d).
3) Includes minimum tax in loss years.

New York:
1) Assumes bank tax laws effective January 1, 2015.
2) Tax is the highest of three bases: entire net income, capital, fixed-dollar minimum (fixed-dollar minimum not considered). N.Y. Tax Law § 210(1)(a) - (c).
3) Favorable apportionment rules for portfolio income ("financial transactions"). N.Y. Tax Law § 210-A.5. 8% NY apportionment assumed.

North Carolina:
1) Assumes 5% tax rate effective January 1, 2015. N.C. Gen. Stat. § 105-130.3.
2) Assumes bank's issued and outstanding capital stock, surplus and undivided profits is equal to bank's equity; computations based on tangible/real property not considered. N.C. Gen. Stat. § 105-122.
3) Favorable apportionment for investment portfolio income; 8% NC apportionment assumed. *2007-2008 Corporate Income Tax Technical Bulletins, Part II. Corporate Income Tax, Sec. I. Apportionment Factors*, North Carolina Department of Revenue.
4) Bank franchise tax ($30 for each $1 million in assets) included in capital tax amount. N.C. Gen. Stat. § 105-102.3.

Ohio:
1) A *regressive* tax rate schedule applies to Ohio bank franchise tax. Ohio Rev. Code Ann. § 5726.04(A)(2).
2) Assumes portfolio income is apportioned in manner similar to Pennsylvania bank shares tax "Method 1" (72 Pa. Stat. Ann. § 7701.4 (3)(xiii)(B)(I)). Ohio Rev. Code Ann. § 5726.05 (B) and (D)(1).

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Large Bank - $15 Billion in Assets
100% of Loans in Headquarters State

Jurisdiction:	Pennsylvania (Method 1)	Pennsylvania (Method 2)	Delaware	Maryland	Michigan	New Jersey	New York	North Carolina	Ohio
Year 1:									
Taxable Capital:	1,337,497,000	1,337,497,000	N/A	N/A	1,415,811,000	N/A	1,873,137,000	1,873,137,000	1,873,137,000
Apportionment:	100%	100%	N/A	N/A	100%	N/A	86%	86%	100%
Apportioned Tax Base:	1,337,497,000	1,337,497,000	N/A	N/A	1,415,811,000	N/A	1,603,687,082	1,603,687,082	1,873,137,000
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.15%	0.15%	Regressive
Capital Tax:	**11,903,723**	**11,903,723**	**N/A**	**N/A**	**4,105,852**	**N/A**	**0**	**2,861,975**	**7,432,843**
Taxable Income:	N/A	N/A	186,617,000	186,617,000	N/A	111,149,000	186,617,000	186,617,000	N/A
Apportionment:	N/A	N/A	100%	100%	N/A	100%	86%	86%	N/A
Apportioned Tax Base:	N/A	N/A	104,505,520	186,617,000	N/A	111,149,000	159,772,228	159,772,228	N/A
Tax Rate:	N/A	N/A	Regressive	8.25%	N/A	Calculation	7.10%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**4,321,649**	**15,395,903**	**N/A**	**12,720,258**	**11,343,828**	**7,988,611**	**N/A**
Year 2:									
Taxable Capital:	1,281,442,000	1,281,442,000	N/A	N/A	1,357,959,420	N/A	1,815,285,420	1,815,285,420	1,815,285,420
Apportionment:	100%	100%	N/A	N/A	100%	N/A	86%	86%	100%
Apportioned Tax Base:	1,281,442,000	1,281,442,000	N/A	N/A	1,357,959,420	N/A	1,554,157,426	1,554,157,426	1,815,285,420
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.125%	0.15%	Regressive
Capital Tax:	**11,404,834**	**11,404,834**	**N/A**	**N/A**	**3,938,082**	**N/A**	**1,942,697**	**2,787,681**	**7,288,214**
Taxable Income:	N/A	N/A	(93,309,000)	(93,309,000)	N/A	(168,777,000)	(93,309,000)	(93,309,000)	N/A
Apportionment:	N/A	N/A	100%	100%	N/A	100%	86%	86%	N/A
Apportioned Tax Base:	N/A	N/A	(52,253,040)	(93,309,000)	N/A	(168,777,000)	(79,886,542)	(79,886,542)	N/A
Tax Rate:	N/A	N/A	Regressive	8.25%	N/A	Calculation	6.50%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**0**	**0**	**N/A**	**2,718,848**	**0**	**0**	**N/A**
Year 3:									
Taxable Capital:	1,393,551,000	1,393,551,000	N/A	N/A	1,473,661,960	N/A	1,930,987,960	1,930,987,960	1,930,987,960
Apportionment:	100%	100%	N/A	N/A	100%	N/A	86%	86%	100%
Apportioned Tax Base:	1,393,551,000	1,393,551,000	N/A	N/A	1,473,661,960	N/A	1,653,216,208	1,653,216,208	1,930,987,960
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.10%	0.15%	Regressive
Capital Tax:	**12,402,604**	**12,402,604**	**N/A**	**N/A**	**4,273,620**	**N/A**	**0**	**2,936,269**	**7,577,470**
Taxable Income:	N/A	N/A	186,617,000	186,617,000	N/A	111,149,000	186,617,000	186,617,000	N/A
Apportionment:	N/A	N/A	100%	100%	N/A	100%	86%	86%	N/A
Apportioned Tax Base:	N/A	N/A	104,505,520	186,617,000	N/A	111,149,000	159,772,228	159,772,228	N/A
Apportioned NOL Carryover:	N/A	N/A	0	(93,309,000)	N/A	(168,777,000)	(79,886,542)	(79,886,542)	N/A
State Taxable Income after NOL:	N/A	N/A	104,505,520	93,308,000	N/A	(57,628,000)	79,885,686	79,885,686	N/A
Tax Rate:	N/A	N/A	Regressive	8.25%	N/A	Calculation	6.50%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**4,321,649**	**7,697,910**	**N/A**	**2,718,848**	**5,192,570**	**3,994,284**	**N/A**
Apportionment*:									
HQ state loans receipts:	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000
HQ state portfolio receipts:	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000	6,037,000	6,037,000	75,468,000
Total HQ state receipts:	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**413,233,000**	**413,233,000**	**482,664,000**
Everywhere loans receipts:	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000
Everywhere portfolio receipts:	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000
Total everywhere receipts:	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**
	100.0000%	**100.0000%**	**100.0000%**	**100.0000%**	**100.0000%**	**100.0000%**	**85.6150%**	**85.6150%**	**100.0000%**

*Only loan interest and portfolio income considered for apportionment purposes.

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Large Bank - $15 Billion in Assets
50% of Loans Outside Headquarters State

Jurisdiction:	Pennsylvania (Method 1)	Pennsylvania (Method 2)	Delaware	Maryland	Michigan	New Jersey	New York	North Carolina	Ohio
Equity Year 1:	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000	1,873,137,000
Pre-Tax Income Year 1:	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000
Capital Tax:	**5,952,000**	**6,882,000**	**N/A**	**N/A**	**2,374,000**	**N/A**	**-**	**1,449,000**	**4,546,000**
Income Tax:	**N/A**	**N/A**	**3,131,000**	**7,698,000**	**N/A**	**7,719,000**	**5,755,000**	**4,053,000**	**N/A**
Total Year 1 State Tax:	**5,952,000**	**6,882,000**	**3,131,000**	**7,698,000**	**2,374,000**	**7,719,000**	**5,755,000**	**5,502,000**	**4,546,000**
Equity Year 2:	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000	1,815,285,000
Pre-Tax Income Year 2:	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)	(93,309,000)
Capital Tax:	**5,702,000**	**6,594,000**	**N/A**	**N/A**	**2,277,000**	**N/A**	**986,000**	**1,411,000**	**4,431,000**
Income Tax:	**N/A**	**N/A**	**-**	**-**	**N/A**	**2,719,000**	**-**	**-**	**N/A**
Total Year 2 State Tax:	**5,702,000**	**6,594,000**	**-**	**-**	**2,277,000**	**2,719,000**	**986,000**	**1,411,000**	**4,431,000**
Equity Year 3:	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000	1,930,988,000
Pre-Tax Income Year 3:	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000	186,617,000
Capital Tax:	**6,201,000**	**7,171,000**	**N/A**	**N/A**	**2,471,000**	**N/A**	**-**	**1,486,000**	**4,662,000**
Income Tax:	**N/A**	**N/A**	**3,131,000**	**3,849,000**	**N/A**	**2,719,000**	**2,634,000**	**2,026,000**	**N/A**
Total Year 3 State Tax:	**6,201,000**	**7,171,000**	**3,131,000**	**3,849,000**	**2,471,000**	**2,719,000**	**2,634,000**	**3,512,000**	**4,662,000**
3-Year Summary:									
Capital Tax:	**17,855,000**	**20,647,000**	**N/A**	**N/A**	**7,122,000**	**N/A**	**986,000**	**4,346,000**	**13,639,000**
Income Tax:	**N/A**	**N/A**	**6,262,000**	**11,547,000**	**N/A**	**13,157,000**	**8,389,000**	**6,079,000**	**N/A**
Tax Base:	*Capital Tax*	*Capital Tax*	*Income Tax*	*Income Tax*	*Capital Tax*	*Income Tax*	***Greater of Capital or Income Tax***	***Income and Capital Tax***	*Capital Tax*
3-Year Total Tax:	**17,855,000**	**20,647,000**	**6,262,000**	**11,547,000**	**7,122,000**	**13,157,000**	**9,375,000**	**10,425,000**	**13,639,000**

(Rounded to nearest thousand.)

Composite Bank Profile and Assumptions:

Assets*:	15,214,815,000
U.S. obligations*:	457,326,000
Equity Year 1*:	1,873,137,000
Goodwill*:	492,760,000
Pre-Tax income:	
Year 1*:	186,617,000
Year 2 (loss assumed):	(93,309,000)
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Loan interest income*:	407,196,000
Portfolio income*:	75,468,000

- Call report pre-tax income is equal to federal and state taxable income
- Combined state and federal effective tax rate of 38% for equity roll-forward purposes.
- Capital taxes based on beginning of year value.
- Single bank entity for state tax purposes (except for New York and New Jersey).
- No throw-back of receipts for apportionment purposes.
- No NOL carrybacks applied and pre-apportioned/post-apportioned NOL carryforwards are assumed equal.
- No state modifications made to pre-tax income.

* Based on mean of September 30, 2014 call report data of 10 similarly-sized banks (see schedule).

Comments:

Pennsylvania:
1) "Method 1" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(I).
2) "Method 2" for apportionment of portfolio income. 72 Pa. Stat. Ann. § 7701.4(3)(xiii)(B)(II).
3) Deductions for goodwill and U.S. obligations applied. 72 Pa. Stat. Ann. § 7701.1.
4) Year 2 and year 3 deductions for goodwill and U.S. obligations assumed to equal year 1.

Delaware:
1) Income tax based on statutory definition of "taxable income," not federal taxable income. Del. Code Ann. § 1101(a).
2) Standard (not alternative) Delaware franchise tax assumed. Del. Code Ann. § 1101(a).
3) Only 56% of taxable income is subject to the Delaware franchise tax (regressive rate). Del. Code Ann. § 1101(a)(2).
4) Assumes branch locations are proportionate to receipts.

Maryland:
1) Banks subject to corporate income tax; there is no separate tax regime for banks. Md. Code Ann., Tax-Gen § 10-102.
2) Maryland applies a three factor apportionment formula. Md. Regs. Code tit. 03, § 03.04.08.03. Property and payroll are assumed to be proportionate to receipts.

Michigan:
1) Banks are subject to an equity/capital-based financial institutions tax in Michigan. Mich. Comp. Laws § 206.653, *et seq.*
2) Tax base is the average of the net capital of the current and preceding four years. Mich. Comp. Laws § 206.655. Average is assumed to equal current year.
3) Deduction for U.S. obligation applied. Mich. Comp. Laws § 206.655(1).

New Jersey:
1) Assumes investment portfolio assets are held in a subsidiary statutory "investment company." N.J. Rev. Stat. § 54:10A-5(d).
2) Only 40% of an investment company's income is subject to tax. N.J. Rev. Stat. § 54:10A-5(d).
3) Includes minimum tax in loss years.

New York:
1) Assumes bank tax laws effective January 1, 2015.
2) Tax is the highest of three bases: entire net income, capital, fixed-dollar minimum (fixed-dollar minimum not considered). N.Y. Tax Law § 210(1)(a) - (c).
3) Favorable apportionment rules for portfolio income ("financial transactions"). N.Y. Tax Law § 210-A.5. 8% NY apportionment assumed.

North Carolina:
1) Assumes 5% tax rate effective January 1, 2015. N.C. Gen. Stat. § 105-130.3.
2) Assumes bank's issued and outstanding capital stock, surplus and undivided profits is equal to bank's equity; computations based on tangible/real property not considered. N.C. Gen. Stat. § 105-122.
3) Favorable apportionment for investment portfolio income; 8% NC apportionment assumed. *2007-2008 Corporate Income Tax Technical Bulletins, Part II. Corporate Income Tax, Sec. I. Apportionment Factors* , North Carolina Department of Revenue.
4) Bank franchise tax ($30 for each $1 million in assets) included in capital tax amount. N.C. Gen. Stat. § 105-102.3.

Ohio:
1) A *regressive* tax rate schedule applies to Ohio bank franchise tax. Ohio Rev. Code Ann. § 5726.04(A)(2).
2) Assumes portfolio income is apportioned in manner similar to Pennsylvania bank shares tax "Method 1" (72 Pa. Stat. Ann. § 7701.4 (3)(xiii)(B)(I)). Ohio Rev. Code Ann. § 5726.05 (B) and (D)(1).

STATE BANK TAX COMPARISON
Estimated Tax Liability Based on Typical Bank Structure

Large Bank - $15 Billion in Assets
50% of Loans Outside Headquarters State

Jurisdiction:	Pennsylvania (Method 1)	Pennsylvania (Method 2)	Delaware	Maryland	Michigan	New Jersey	New York	North Carolina	Ohio
Year 1:									
Taxable Capital:	1,337,497,000	1,337,497,000	N/A	N/A	1,415,811,000	N/A	1,873,137,000	1,873,137,000	1,873,137,000
Apportionment:	50%	58%	N/A	N/A	58%	N/A	43%	43%	50%
Apportioned Tax Base:	668,748,500	773,312,155	N/A	N/A	818,591,634	N/A	813,557,827	813,557,827	936,568,500
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.15%	0.15%	Regressive
Capital Tax:	**5,951,862**	**6,882,478**	**N/A**	**N/A**	**2,373,916**	**N/A**	**0**	**1,448,559**	**4,546,274**
Taxable Income:	N/A	N/A	186,617,000	186,617,000	N/A	111,149,000	186,617,000	186,617,000	N/A
Apportionment:	N/A	N/A	58%	50%	N/A	50%	43%	43%	N/A
Apportioned Tax Base:	N/A	N/A	60,422,856	93,308,500	N/A	55,574,500	81,053,186	81,053,186	N/A
Tax Rate:	N/A	N/A	Regressive	8.25%	N/A	Calculation	7.10%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**3,131,417**	**7,697,951**	**N/A**	**7,718,553**	**5,754,776**	**4,052,659**	**N/A**
Year 2:									
Taxable Capital:	1,281,442,000	1,281,442,000	N/A	N/A	1,357,959,420	N/A	1,815,285,420	1,815,285,420	1,815,285,420
Apportionment:	50%	58%	N/A	N/A	58%	N/A	43%	43%	50%
Apportioned Tax Base:	640,721,000	740,902,353	N/A	N/A	785,143,088	N/A	788,431,205	788,431,205	907,642,710
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.125%	0.15%	Regressive
Capital Tax:	**5,702,417**	**6,594,031**	**N/A**	**N/A**	**2,276,915**	**N/A**	**985,539**	**1,410,869**	**4,430,571**
Taxable Income:	N/A	N/A	(93,309,000)	(93,309,000)	N/A	(168,777,000)	(93,309,000)	(93,309,000)	N/A
Apportionment:	N/A	N/A	58%	50%	N/A	50%	43%	43%	N/A
Apportioned Tax Base:	N/A	N/A	(30,211,590)	(46,654,500)	N/A	(84,388,500)	(40,526,810)	(40,526,810)	N/A
Tax Rate:	N/A	N/A	Regressive	8.25%	N/A	Calculation	6.50%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**0**	**0**	**N/A**	**2,718,848**	**0**	**0**	**N/A**
Year 3:									
Taxable Capital:	1,393,551,000	1,393,551,000	N/A	N/A	1,473,661,960	N/A	1,930,987,960	1,930,987,960	1,930,987,960
Apportionment:	50%	58%	N/A	N/A	58%	N/A	43%	43%	50%
Apportioned Tax Base:	696,775,500	805,721,378	N/A	N/A	852,039,822	N/A	838,684,180	838,684,180	965,493,980
Tax Rate:	0.89%	0.89%	N/A	N/A	0.29%	N/A	0.10%	0.15%	Regressive
Capital Tax:	**6,201,302**	**7,170,920**	**N/A**	**N/A**	**2,470,915**	**N/A**	**0**	**1,486,248**	**4,661,976**
Taxable Income:	N/A	N/A	186,617,000	186,617,000	N/A	111,149,000	186,617,000	186,617,000	N/A
Apportionment:	N/A	N/A	58%	50%	N/A	50%	43%	43%	N/A
Apportioned Tax Base:	N/A	N/A	60,422,856	93,308,500	N/A	55,574,500	81,053,186	81,053,186	N/A
Apportioned NOL Carryover:	N/A	N/A	0	(46,654,500)	N/A	(84,388,500)	(40,526,810)	(40,526,810)	N/A
State Taxable Income after NOL:	N/A	N/A	60,422,856	46,654,000	N/A	(28,814,000)	40,526,376	40,526,376	N/A
Tax Rate:	N/A	N/A	Regressive	8.25%	N/A	Calculation	6.50%	5.00%	N/A
State Income Tax:	**N/A**	**N/A**	**3,131,417**	**3,848,955**	**N/A**	**2,718,848**	**2,634,214**	**2,026,319**	**N/A**
Apportionment*:									
HQ state loans receipts:	203,598,000	203,598,000	203,598,000	203,598,000	203,598,000	203,598,000	203,598,000	203,598,000	203,598,000
HQ state portfolio receipts:	37,734,000	75,468,000	75,468,000	37,734,000	75,468,000	75,468,000	6,037,000	6,037,000	37,734,000
Total HQ state receipts:	**241,332,000**	**279,066,000**	**279,066,000**	**241,332,000**	**279,066,000**	**279,066,000**	**209,635,000**	**209,635,000**	**241,332,000**
Everywhere loans receipts:	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000	407,196,000
Everywhere portfolio receipts:	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000	75,468,000
Total everywhere receipts:	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**	**482,664,000**
	50.0000%	**57.8179%**	**57.8179%**	**50.0000%**	**57.8179%**	**50.0000%**	**43.4329%**	**43.4329%**	**50.0000%**

*Only loan interest and portfolio income considered for apportionment purposes.

STATE BANK TAX COMPARISON
Composite Bank
Call Report Data, September 30, 2014

Small Bank - $500 Million in Assets*

Bank	Assets	Equity	Pre-Tax Income**	Net Income**	Loan Interest Income**	Portfolio Income**	US Obligations	Goodwill
Bank 1	415,391,000	35,704,000	3,600,000	2,744,000	11,695,000	2,171,000	-	1,595,000
Bank 2	600,358,000	59,255,000	5,467,000	5,288,000	22,409,000	2,884,000	5,278,000	4,717,000
Bank 3	443,609,000	40,277,000	3,020,000	1,777,000	12,473,000	928,000	-	-
Bank 4	465,051,000	45,466,000	5,189,000	5,189,000	7,548,000	5,825,000	10,799,000	-
Bank 5	586,208,000	65,700,000	9,996,000	9,996,000	22,083,000	4,897,000	4,927,000	-
Bank 6	509,821,000	50,854,000	3,512,000	3,485,000	19,455,000	1,667,000	7,300,000	-
Bank 7	515,066,000	52,453,000	1,181,000	612,000	18,803,000	1,087,000	1,713,000	-
Bank 8	593,360,000	62,072,000	19,837,000	12,212,000	21,799,000	569,000	4,552,000	-
Bank 9	474,830,000	48,878,000	2,605,000	8,575,000	16,825,000	1,700,000	19,162,000	2,725,000
Bank 10	376,250,000	33,844,000	(3,856,000)	(2,240,000)	11,844,000	1,285,000	21,951,000	-
Average	**497,994,000**	**49,450,000**	**5,055,000**	**4,764,000**	**16,493,000**	**2,301,000**	**7,568,000**	**904,000**

*Based on call report data of U.S. banks with total assets of approximately $500 million.
**Annualized.

STATE BANK TAX COMPARISON
Composite Bank
Call Report Data, September 30, 2014

Medium Bank - $3 Billion in Assets*

Bank	Assets	Equity	Pre-Tax Income**	Net Income**	Loan Interest Income**	Portfolio Income**	US Obligations	Goodwill
Bank 1	3,182,955,000	458,100,000	59,555,000	39,763,000	117,197,000	10,149,000	-	-
Bank 2	3,454,619,000	333,651,000	36,016,000	25,236,000	93,111,000	11,496,000	-	11,944,000
Bank 3	3,045,205,000	329,132,000	28,919,000	20,888,000	88,309,000	15,543,000	71,496,000	29,633,000
Bank 4	3,113,803,000	284,478,000	13,755,000	9,375,000	78,285,000	16,175,000	113,999,000	5,142,000
Bank 5	3,035,803,000	255,633,000	44,295,000	30,321,000	81,559,000	19,243,000	115,277,000	48,536,000
Bank 6	3,107,844,000	334,453,000	28,521,000	28,521,000	52,455,000	30,432,000	72,996,000	20,167,000
Bank 7	2,963,485,000	369,624,000	42,411,000	29,188,000	78,465,000	24,289,000	1,461,000	32,388,000
Bank 8	3,007,646,000	258,981,000	42,884,000	28,407,000	90,707,000	11,453,000	47,668,000	-
Bank 9	3,146,082,000	300,477,000	47,824,000	30,616,000	122,911,000	1,673,000	38,039,000	12,009,000
Bank 10	3,355,680,000	386,162,000	6,101,000	6,744,000	139,113,000	13,483,000	68,734,000	23,373,000
Average	**3,141,312,000**	**331,069,000**	**35,028,000**	**24,906,000**	**94,211,000**	**15,394,000**	**52,967,000**	**18,319,000**

*Based on call report data of U.S. banks with total assets of approximately $3 billion.
**Annualized.

STATE BANK TAX COMPARISON
Composite Bank
Call Report Data, September 30, 2014

Large Bank - $15 Billion in Assets*

Bank	Assets	Equity	Pre-Tax Income**	Net Income**	Loan Interest Income**	Portfolio Income**	US Obligations	Goodwill
Bank 1	14,954,652,000	1,642,484,000	178,131,000	114,353,000	385,767,000	44,636,000	1,761,697,000	283,737,000
Bank 2	15,159,664,000	1,690,051,000	287,227,000	177,073,000	457,475,000	60,404,000	45,934,000	94,041,000
Bank 3	15,572,317,000	1,993,696,000	195,815,000	131,055,000	393,341,000	68,249,000	275,508,000	818,512,000
Bank 4	15,376,240,000	1,762,103,000	141,087,000	108,380,000	434,127,000	63,107,000	95,539,000	185,151,000
Bank 5	15,676,198,000	3,357,138,000	243,373,000	141,031,000	571,440,000	85,672,000	36,382,000	1,722,129,000
Bank 6	14,757,972,000	1,983,788,000	243,583,000	156,456,000	435,595,000	106,792,000	731,943,000	291,503,000
Bank 7	15,442,593,000	1,755,600,000	131,407,000	97,500,000	524,121,000	(35,397,000)	354,943,000	513,128,000
Bank 8	14,551,095,000	974,428,000	229,867,000	157,603,000	264,592,000	159,717,000	285,892,000	17,388,000
Bank 9	14,662,000,000	2,306,000,000	89,333,000	49,333,000	362,667,000	82,667,000	-	912,000,000
Bank 10	15,995,419,000	1,266,080,000	126,348,000	96,689,000	242,840,000	118,836,000	985,423,000	90,011,000
Average	**15,214,815,000**	**1,873,137,000**	**186,617,000**	**122,947,000**	**407,196,000**	**75,468,000**	**457,326,000**	**492,760,000**

*Based on call report data of U.S. banks with total assets of approximately $15 billion.
**Annualized.

STATE BANK TAX COMPARISON
Composite Bank

Calculation of Pennsylvania Bank Shares Tax Year-End Value

Year 1

Bank	Small Bank	Medium Bank	Large Bank
1) Total Bank Equity:	49,450,000	331,069,000	1,873,137,000
2) Total Assets:	497,994,000	3,141,312,000	15,214,815,000
3) Goodwill:	904,000	18,319,000	492,760,000
4) Net Bank Equity: (Line 1 minus Line 3):	48,546,000	312,750,000	1,380,377,000
5) Net Assets (Line 2 minus Line 3)	497,090,000	3,122,993,000	14,722,055,000
6) US Obligations:	7,568,000	52,967,000	457,326,000
7) Divide Line 6 by Line 5:	0.0152	0.0170	0.0311
8) Deduction for U.S. Obligations: (Multiply Line 4 by 7):	739,094	5,304,344	42,880,039
9) End of Year Value:	47,807,000	307,446,000	1,337,497,000

Year 2

Bank	Small Bank	Medium Bank	Large Bank
1) Total Bank Equity:	47,832,000	320,210,000	1,815,285,000
2) Total Assets:	497,994,000	3,141,312,000	15,214,815,000
3) Goodwill:	904,000	18,319,000	492,760,000
4) Net Bank Equity: (Line 1 minus Line 3):	46,928,000	301,891,000	1,322,525,000
5) Net Assets (Line 2 minus Line 3)	497,090,000	3,122,993,000	14,722,055,000
6) US Obligations:	7,568,000	52,967,000	457,326,000
7) Divide Line 6 by Line 5:	0.015225	0.016960	0.031064
8) Deduction for U.S. Obligations: (Multiply Line 4 by 7):	714,460	5,120,172	41,082,924
9) End of Year Value:	46,214,000	296,771,000	1,281,442,000

Year 3

Bank	Small Bank	Medium Bank	Large Bank
1) Total Bank Equity:	51,067,000	341,927,000	1,930,988,000
2) Total Assets:	497,994,000	3,141,312,000	15,214,815,000
3) Goodwill:	904,000	18,319,000	492,760,000
4) Net Bank Equity: (Line 1 minus Line 3):	50,163,000	323,608,000	1,438,228,000
5) Net Assets (Line 2 minus Line 3)	497,090,000	3,122,993,000	14,722,055,000
6) US Obligations:	7,568,000	52,967,000	457,326,000
7) Divide Line 6 by Line 5:	0.015225	0.016960	0.031064
8) Deduction for U.S. Obligations: (Multiply Line 4 by 7):	763,712	5,488,499	44,677,123
9) End of Year Value:	49,399,000	318,120,000	1,393,551,000

Appendix F

Bank Shares Tax Receipts Factor Calculation

	Category	Numerator	Denominator
(i)	Lease or rental of real property owned by the institution; sublease of real property	Receipts from real property owned by institution and located in Pennsylvania; receipts from sublease of real property located in PA	All receipts from real property
(ii)	Lease or rental of tangible personal property owned by the institution	Receipts from property located in Pennsylvania when first placed in service by lessee	All receipts from tangible personal property
	Lease or rental of transportation property owned by the institution	Receipts from property to the extent that the property is used in Pennsylvania	All receipts from transportation property
	Lease or rental of aircraft owned by the institution	Receipts from lease or rental of an aircraft times a fraction equal to the number of landings in Pennsylvania divided by total landings of the aircraft	All receipts from aircraft
	Lease or rental of motor vehicles	Receipts from motor vehicles registered in Pennsylvania	All receipts from motor vehicles
	Default rule for transportation property – use cannot be determined	Receipts from transportation property with a principal base of operations in Pennsylvania	All receipts from transportation property
(iii)	Interest, fees and penalties in connection with loans secured by real property	Interest, fees and penalties on loans secured by real property in Pennsylvania	Interest, fees and penalties on all loans secured by real property
		If real property located in PA and one or more other states, sourced to PA if >50% of its FMV is located in PA	

Appendix F (continued)

Bank Shares Tax Receipts Factor Calculation

	Category	Numerator	Denominator
		If > 50% of its FMV is not in a single state, sourced to PA if borrower located in PA	
		Real property securing a loan if in PA at time original agreement made; disregard subsequent substitutions of collateral	
(iv)	Interest, fees and penalties imposed in connection with loans not secured by real property	Interest, fees and penalties on loans if the borrower is located in Pennsylvania	Interest, fees and penalties on all loans not secured by real property
(v)	Net gains from the sale of loans (including income recorded under coupon stripping rules of IRC 1286)	Net gains >= 0 from the sale of loans secured by real property times a fraction equal to the amount under (iii) divided by total interest and fees or penalties in the nature of interest from loans secured by real property	Net gains >= 0 from the sale of all loans secured by real property
		Positive net gains from the sale of loans not secured by real property times a fraction equal to the amount under (iv) divided by total interest and fees or penalties in the nature of interest from loans not secured by real property	Net gains >= 0 from the sales of all loans not secured by real property
(vi)	Interest, fees and penalties charged to credit, debit or similar cardholders, including annual fees and overdraft fees	Interest, fees and penalties if the billing address of the cardholder is in Pennsylvania	All interest, fees and penalties on cardholders

Appendix F (continued)

Bank Shares Tax Receipts Factor Calculation

	Category	Numerator	Denominator
(vii)	Net gains from the sale of credit card receivables	Net gains >= 0 from the sale of card receivables multiplied by a fraction equal to the amount under (vi) divided by total amount of interest and fees or penalties in the nature of interest from credit card receivables and fees charged to cardholders	All Net gains >= 0 from the sale of credit card receivables
(viii)	Credit card issuer reimbursement fees	Credit card issuer reimbursement fees multiplied by a fraction equal to the amount of fees, interest, and penalties charged to credit cardholders included in the numerator under (vi) divided by the total amount of fees, interest, and penalties charged to credit cardholders	All credit card issuer reimbursement fees
		Other card issuer reimbursement fees multiplied by a fraction equal to the amount of fees, interest, and penalties charged to other cardholders included in the numerator under (vi) divided by the total amount of fees, interest, and penalties charged to other cardholders	
(ix)	Merchant discounts if institution can readily determine location of merchant and the merchant is in Pennsylvania	Receipts from merchant discounts	All receipts from merchant discounts

Appendix F (continued)

Bank Shares Tax Receipts Factor Calculation

	Category	**Numerator**	**Denominator**
	Merchant discounts if institution cannot readily determine location of merchant	From merchant discounts related to use of credit card, the amount of fees, interest, and penalties charged to credit cardholders under (vi) divided by the total amount of fees, interest, and penalties changed to credit cardholders	All receipts from merchant discounts related to use of credit card
		From merchant discounts related to use of debit card, the amount of fees, interest, and penalties charged to debit cardholders under (vi) divided by the total amount of fees, interest, and penalties changed to debit cardholders	All receipts from merchant discounts related to use of debit card
		From merchant discounts related to use of all other cards, the amount of fees, interest, and penalties charged to other cardholders under (vi) divided by the total amount of fees, interest, and penalties changed to other cardholders	All receipts from merchant discounts related to use of all other cards
(x)	Automated Teller Machine (ATM) fees not forwarded directly to another bank	Fees charged to a cardholder for the use at an ATM of a card issued by the institution if the cardholder's billing address in in Pennsylvania	All fees charged to cardholders for use at an ATM of a card issued by the institution
		Fees charged to cardholders, other than the institution's cardholders, for the use at an ATM owned/rented by the institution if the ATM is in Pennsylvania	All fees charged to cardholders, other than the institution's cardholders, for the use at an ATM owned/rented by the institution

Appendix F (continued)

Bank Shares Tax Receipts Factor Calculation

	Category	**Numerator**	**Denominator**
(xi)	Loan servicing fees	Loan servicing fees derived from loans secured by real property multiplied by a fraction equal to the amount in the numerator of the receipts factor under (iii) divided by the total amount of interest and fees or penalties in the nature of interest from loans secured by real property	All loan servicing fees derived from loans secured by real property
		Loan servicing fees derived from loans not secured by real property multiplied by a fraction equal to the amount in the numerator of the receipts factor under (iv) divided by the total amount of interest and fees or penalties in the nature of interest from loans not secured by real property	All loan servicing fees derived from loans not secured by real property
	Loan servicing fees for servicing the secured or unsecured loans of another institution	Loan servicing fees if the borrower is located in Pennsylvania	All loan servicing fees
(xii)	Receipts from services not otherwise apportioned under this section	Receipts from services not otherwise apportioned under this section in proportion to the extent that the recipient receives benefits of the services in Pennsylvania	All receipts from sources not otherwise apportioned under this section

Appendix F (continued)

Bank Shares Tax Receipts Factor Calculation

	Category	Numerator	Denominator
(xiii)	Interest, dividends, net gains equal to or above zero, and other income from investment assets and activities and from trading assets and activities including: Investment securities, trading account assets, Federal funds, securities purchased or sold under agreements to resell or repurchase, options, futures and forward contracts, notional principal contracts (swaps), equities, and foreign currency transactions,* using one of two methods: **	Method 1: Total amount of receipts from trading assets and activities multiplied by the fraction equal to the total amount of all other receipts attributable to Pennsylvania divided by the total amount of all other receipts	All receipts from trading assets and activities
		Method 2: Total amount of receipts under (xiii)(A) multiplied by the fraction equal to the average value of the assets which generate the receipts which are properly assigned to a regular place of business of the institution within Pennsylvania divided by the average value of all such assets	All receipts under (xiii)(A)
(xiv)	Receipts from the sale or disposition property	Receipts from the sale or disposition of tangible personal property if the property is delivered or shipped to a purchaser in Pennsylvania regardless of the f.o.b. point or other conditions of sale	All receipts from the sale or disposition of tangible personal property

Appendix F (continued)

Bank Shares Tax Receipts Factor Calculation

	Category	**Numerator**	**Denominator**
		Receipts from the sale or disposition of real property if the property is in Pennsylvania	All receipts from the sale or disposition of real property
		Receipts from the sale or disposition of intangible personal property if the commercial domicile or billing address of the purchaser or recipient is in Pennsylvania	All receipts from the sale or disposition of intangible personal property
(xv)	Receipts not provided for in this section	Other receipts if the benefit to the customer is received in Pennsylvania, OR;	All other receipts
		Other receipts if the billing address of the customer is in Pennsylvania when the benefit location cannot be determined, the commercial domicile in in Pennsylvania, or there is no commercial domicile***	All other receipts

*To be included in the receipts factor: Interest from Federal funds sold and securities purchased under resale agreements must exceed interest expense on Federal funds purchased and securities sold under resale agreements. Interest, dividends, gains, and other income from trading assets and activities, including assets and activities in the matched book, in the arbitrage book, and foreign currency transactions, must also exceed amounts paid in lieu of interest, amounts paid in lieu of dividends and losses from the assets and activities.

**Once a method is chosen, it cannot be changed in subsequent tax years without the consent of the Department of Revenue.

***If receipts are not received by a customer, they shall be excluded from the numerator and denominator.

Additional Note:

- For purposes of determining the location where benefits are received under (xii) and (xv), if a service/activity provides benefits to more than one recipient located in different states, the location where the benefits are received may be estimated using reasonable procedures.