

Statement of William McC. Martin, Jr.
Chairman of the Board of Governors of the Federal Reserve System
Before the Senate Banking and Currency Committee
on H. R. 7491, S. 2906, and Related Proposals
September 24, 1969

I appreciate your invitation to present the views of the Board of Governors with respect to H. R. 7491, S. 2906, and related proposals concerning State taxation of national banks. While this is a subject on which the Treasury Department can speak with more authority, we hope that some observations on our part will be helpful to your Committee in its deliberations on the important questions involved in these bills.

We understand that the immediate cause for the concern about changing the present law on this subject is that the Supreme Court has recently ruled in two cases that national banks are exempt from certain forms of taxes imposed by their home States. The second of these two rulings, according to the Comptroller of the State of Florida, involves a potential revenue loss of such serious proportions in that State that remedial legislation is needed as soon as possible.

The Treasury Department has submitted for your consideration a draft amendment to subject national banks to nondiscriminatory sales and use taxes in the home State, and has indicated in its letter accompanying the draft that the language could be broadened to cover other taxes, such as those specified in S. 2906. The Board agrees

with the Treasury that "a national bank should be subject to the same taxation in its home State as a State chartered bank." We have no recommendation as to whether it is best to add to the statutory list of permissible taxes, as Senator Holland and the Treasury propose, or subject national banks to home-State taxation with listed exceptions, as others have proposed. Either approach runs the risk of requiring an amendment in case unforeseen problems arise. We believe that there is merit, however, in excluding two forms of tax: taxes on intangible personal property and taxes for which the State has substituted another tax (or imposed another tax at a higher rate) in the case of banks. A tax on intangible personal property hits hardest those financial institutions whose assets consist almost wholly of intangibles; so a tax that appeared to be nondiscriminatory could operate unfairly in practice if applied to banks. And we believe that recognition should be given to the fact that some States have exempted State banks from any tax that national banks need not pay, and have then taken this exemption into account in fixing other taxes that both State and national banks must pay; repeal of the exemption should not operate to subject banks to double taxation.

On the question of taxation outside the home State, we are inclined to agree with the Treasury, particularly in view of the urgency of the need for action, as expressed by the Comptroller of the State of Florida. The issue of multistate taxation of

corporations is complex, and one on which we have limited knowledge. It is not involved in the two Supreme Court decisions that prompted introduction of the various bills before you. We believe equal treatment in the home State is clearly needed now; determination of whether changes should be made in other States can await further study.

In summary, the Board endorses the amendment submitted by the Treasury, with the qualifications mentioned above.