

SENATE APPROPRIATIONS COMMITTEE

FISCAL NOTE

BILL NO. Senate Bill 742

PRINTER NO. 1671

AMOUNT

See Fiscal Impact

FUND

General Fund

DATE INTRODUCED

June 1, 2023

PRIME SPONSOR

Senator Hutchinson

DESCRIPTION

Senate Bill 742 amends the act of March 4, 1971 (P.L.6, No.2), known as the Tax Reform Code of 1971, to further define the deduction for goodwill that is allowable from the bank and trust company shares tax and which is generated by business combination activity.

The legislation amends section 701.1(b) and (b.1) (relating to ascertainment of taxable amount; exclusion of United States obligations) to allow goodwill to be deducted from the taxable amount of shares (i.e., the bank and trust company shares tax base) in an amount equal to the value of any goodwill recorded in the Reports of Condition of the institution pursuant to generally accepted accounting principles because of an acquisition or business combination.

In addition, Senate Bill 742 repeals section 701.1(c), which lays out certain conditions regarding the deductibility of goodwill. Under current law, section 701.1(c)(2) refers to a combination of two or more "institutions." By allowing the deduction to include any goodwill recorded in the Reports of Condition, which are quarterly financial reports required to be filed by an institution with its primary federal regulator, the deduction will now extend to combinations that occur through bank holding company mergers.

Goodwill is an intangible asset that arises as a result of the acquisition of one company by another for a premium value. The value of a company's brand name, solid customer base, good customer relations, good employee relations and any patents or proprietary technology represent goodwill. Goodwill is considered an intangible asset because it is not a physical asset like buildings or equipment. Under current law, the value of goodwill generated by an acquisition or business combination is deducted from a bank's book value of total bank equity capital when calculating its taxable amount of shares and is also subtracted from total assets when calculating the proportional deduction for United States obligations held by the bank.

Senate Bill 742 shall apply to the ascertainment of the taxable value of shares after December 31, 2024, and to the report and the payment of the bank and trust company shares tax due after March 14, 2025. In ascertaining the taxable amount of shares for a period prior to January 1, 2025, the amount of goodwill deducted shall be determined based on the law in effect prior to the effective date of the bill, without

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any inference that the amendment of the act expanded or confirmed any administrative determination that limited or restricted the extent to which goodwill could be deducted.

This act shall take effect immediately.

FISCAL IMPACT

Senate Bill 742 will reduce General Fund revenues of the Commonwealth. The Department of Revenue estimates the following General Fund fiscal impact:

<i>Millions \$</i>					
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Bank and Trust Company Shares Tax	-23.6	-30.0	-30.9	-31.7	-32.5