Idaho Response to Financial Industry Work Group Questions
(October 2008)

My responses to the work group questions are set forth below.

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I. Re: Data comparing "non-passive" interest income as a percent of total income for the financial sector to the same percentage for other economic sectors.

A. Is this type of information helpful to resolving a question currently before the work group?

Yes I think such information could be useful. There is merit in at least exploring the idea of apportioning income based on the type of income producing activity (interest income) rather than just the type of taxpayer (for instance bank or insurance company). If the nature of income is the same it would make sense to apportionment the income in the same manner among various taxpayers. Uniformity may be best served by doing so. But perhaps this is beyond the scope of our group.

More information about the Gramm-Leach-Bliley effect on the interaction with Insurance and brokerage would be helpful. It also may be helpful to examine the affect of the Riegle-Neal Interstate Banking and Branching Efficiency Act which relaxed the standards on the formation of interstate banks by allowing banks to operate branches across state lines. This act coupled with a move in the industry to consolidate (through acquisition and mergers) caused a major or super regional bank sub-sector to emerge in the industry. The majority of the functions of the regional banks usually is centralized in one state.

Thus, circumstances in local banking have changed significantly. Because many loans were generated and serviced by local banks in the past, market states once had those loans assigned to them under the SINAA factors of the Recommended Formula. It may be that with the advent of both consolidations within the industry and technological advances (automation through computerization), market states have fewer loans assigned to them than anticipated under the original Recommended Formula.

B. If this type of information would be helpful to resolving a question currently before the work group, are there suggestions for Elliott and Ann on how to make the data more relevant to our specific question?

Some good points were made at the last teleconference. Interest income is a broad category. It would be helpful to breakdown the types of interest income – from passive investments, from loans, etc. Also it makes sense to compare the interest income to gross rather than net income.

II. Re: Sourcing receipts from trust activities and investment management activities performed on behalf of trusts and persons other than the financial institution.

A. How difficult is it to determine legal domicile of trusts that are managed by the financial institution?

Domicile is difficult to determine because it is fact-intensive and somewhat subjective because it involves the weighing of several factors. This being said, in Idaho trusts report as either resident or nonresident trusts, so there is a determination made by the entities for Idaho income tax purpose.

B. How difficult/expensive is a cost of performance study and how often is such a study generally produced?

I don't know. I have seen studies prepared by large accounting firms that are very complete – providing the history and current events of the industry, interviews with employees and statistical analysis. I assume these types of studies are costly and conducted on an infrequent basis.

C. Does industry have a suggestion for how receipts from such activities could be sourced to the market state?

Not applicable for a state response.

III. Re: Financial Crisis – Does it affect how we should proceed on this project?

I don't know. It may. It is difficult to say what changes the current subprime crisis will cause in the industry.

There is talk about increased federal regulation of financial institutions. The Recommended Formula now sources loans (for property factor purposes) based on the assigning a loan "to a regular place of business consistent with Federal or state regulatory requirements." After the deregulation brought about by the Gramm-Leach-Bliley Act and the Riegle-Neal Interstate Banking Act this phrase has had little significance. Perhaps new regulations would provide some guidance on where the loans should be assigned.