



Senate Finance Committee

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BILL SUMMARY

SENATE BILL 97, PN 132 (SENATOR D. WHITE)

Summary:

Amends the Tax Reform Code of 1971, by allowing banks involved in mergers or acquisitions to exclude goodwill from the book value of total assets generated as a result of combinations.

Section 701.1(b) is amended to exclude goodwill recorded as a result of the use of purchase accounting for an acquisition or combination from the value of shares reported on tax returns due on January 1, 2008 and thereafter. Only institutions with combinations occurring after June 30, 2001 may disregard this goodwill in their value of shares.

Section 701.1(c)(2) is amended to state that a combination is one that “shall include any acquisition required to be accounted for [by the surviving institution under the pooling of interest method] by using the purchase method in accordance with generally accepted accounting principles or a statutory merger of consolidation.”

Senate Bill 97 shall take effect in 60 days or December 31, 2007, whichever is sooner.

Background:

In 2001, the Financial Accounting Standards Board (FASB) issued a ruling (FAS 141 Business Combinations), which made purchase accounting mandatory for business combinations after June 30, 2001. As a result of the purchase accounting rules, taxable equity and goodwill are now taxable when banks are merged.

Goodwill is the excess amount paid above “fair market value” for bank stock during an acquisition or merger. It is an “intangible asset.”

Senate Bill 97 amends the bank shares tax to clarify that the bank shares tax should not be imposed upon the goodwill generated under the purchase method of accounting for acquisitions. This change is necessary because banks headquartered in Pennsylvania are taxed for “goodwill”, while other states with similar bank tax structures do not impose the tax on goodwill. By taxing goodwill, Pennsylvania is encouraging banks to move headquarters out of state. Moreover, banks who remain headquartered in Pennsylvania find this tax to be a discouragement for future mergers and acquisition.

Prior Legislation:

This legislation was introduced by Senator Don White as Senate Bill 1269 of the 2005-06 legislative session.

This legislation was also introduced as House Bill 2774 of the 2005-06 legislative session by Representative Dave Reed. House Bill 2774 passed the House of Representatives by a vote of 193 to 0 on October 18, 2006.