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President Paints Tax Target On Big Banks, Financial Firms

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Among the new proposals touted last week by President Obama to boost the nation's middle class were free tuition for community colleges, expanding paid sick leave, and giving working families tax breaks.

To fund the programs, Obama suggested that Congress increase capital gains taxes on inheritance and institute a 10-year tax on the biggest banks and financial companies.

It brings to mind that famous quote when a reporter asked bank robber Willy Sutton why he robbed banks: "Because that's where the money is."

Now I'm not comparing Obama to Sutton, but if you're going to look at an industry that may have some extra cash lying around, the nation's biggest financial institutions might fit the bill.

The tax would apply to bank investment firms and insurance companies with $50 billion or more in assets. It entails imposing a 7 basis point fee on liabilities, or the institution's deposits.

Now that may not sound like much, but if the deposits involve billions, and in some cases trillions, of dollars, that's some pretty hefty cash flow. Reports said the tax could generate $110 billion over 10 years.

Naturally, bankers solicited on the merits of the tax weren't supportive…to say the least.

"It's certainly something our industry would be adamantly opposed to," said Beth Mills, spokeswoman for the California Bankers Association in Sacramento.

Most of the megabanks contacted said it was still a proposal so they wouldn't comment. A spokeswoman for Bank of America referred this writer to a group BofA belongs to that is advocating corporate tax reform called Alliance for Competitive Taxation.

According to its website, ACT says it agrees with Obama that our nation's tax code needs reforming, just not by increasing taxes, especially on banks.

"While we support the idea of ending corporate tax breaks to help pay for corporate reform, the U.S. economy does not need new taxes on banks that will end up harming workers, businesses and their customers," ACT said.

David Ely, a finance professor at San Diego State University, said should the tax on the largest financial entities be approved, "part of that could very well be passed on to customers of the financial institutions."

The amounts of the increases to interest rates on loans, or the decreases on rates for deposits and other banking services may not be large, Ely said. “There’s no mechanism to prevent (the banks) from passing on part of the tax at the expense of customers.”

The banking industry probably isn’t fretting the tax proposal too much. With Republicans firmly in control of both the House and Senate, instituting any new tax, even one on an industry that is doing quite well now, isn’t going very far.