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Bank tax not likely to see light of day, observers say

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A fee on financial companies' liabilities was proposed Feb. 2 as part of the White House's 2016 annual budget, but observers say it has already hit a red light with a Republican-controlled House and Senate.

At issue is a 7-basis-point fee on liabilities of a group of large financial firms that, according to a White House press release, will encompass about 100 companies. The proposal is aimed at taxing financial firms with assets over $50 billion and is expected to raise $112 billion over 10 years. The purpose of the tax is meant to mitigate excessive risk-taking by the largest U.S. and foreign banks, the release stated.

The list of targeted businesses includes bank holding companies and nonbanks such as insurance companies, savings and loan holding companies, exchanges, asset managers, broker/dealers, specialty finance corporations, and financial captives.

The Treasury Department said the fee would be applied to covered liabilities of a financial entity and would be deductible in computing corporate income tax, effective Jan. 1, 2016.

"It's a tax on the 'perceived rich' idea," Oliver Ireland, a partner at Morrison Foerster, told SNL. "It winds up costing everybody money."

Ireland said that the tax is unnecessary in terms of risk-taking because the Dodd-Frank Act already regulates the banks on that point. As for insurers, the American Council of Life Insurers similarly said in a statement that existing regulations already prevent risk-taking among insurers.

"The basis for the tax — to curb financial firms' allegedly risky activities — is misguided," the statement said. "By their very nature, life insurance companies avoid risky financial behavior and speculative leveraging activities. They're also prohibited by law in every state from engaging in excess or risky leveraging."

Ireland said the cost of the tax would be "passed right back" to the public. That opinion is shared by House Financial Services Committee Chairman Jeb Hensarling, R-Texas, who said in a Jan. 20 statement the tax will "trickle down" to customers, making it harder for consumers to buy cars, homes, major appliances; save for college; or start a small business. The ACLI stated that the same would be true for insurance customers, saying that higher costs of doing business "would make products and services less affordable and accessible."

"It's a purely political move," Ireland said. "This administration has had a pattern, since the financial crisis, of attacking large financial institutions and that is because their polling is telling them that it's popular with large segments of voters."

While the proposal is early in the process, some industry observers do not see the tax actually passing through the Republican-controlled Congress.

Isaac Boltansky, an analyst at Compass Point, said in a note the proposal has "no path to passage."

"We've seen proposed taxes on large payments and things that try to tax transactions in the core financial system, and it usually doesn't go anywhere," Ireland said. "I'd be surprised if it passes." *i*