



Testimony on Senate Bill 1400
Expansion of PA Sales and Use Tax
Senate Finance Committee
July 26, 2012

The Pennsylvania Bankers Association appreciates the opportunity to describe its concerns regarding Senate Bill 1400, which would subject many products and services to PA's Sales and Use tax. We understand this legislation is being proposed as a means to reduce school district property taxes.

The Pennsylvania Bankers Association is the statewide trade association representing approximately 155 financial institutions of all sizes located throughout the Commonwealth including national and state banks, bank and trust companies, trust companies, savings institutions, and their subsidiaries and affiliates.

While PBA fully appreciates the long standing efforts in the General Assembly to eliminate or significantly reduce school district property taxes and the time and effort put into the development of S.B 1400, we remain concerned that expanding the sales and use tax to include financial and other professional services, despite the exceptions contained in the legislation, will be burdensome on our members as well as consumers.

As PBA has previously noted in testimony before the Senate and House in prior legislative sessions on similar legislation:

- Services are regularly provided to businesses with multiple locations. Which locations are using the services is frequently unclear. Because many services are conducive to electronic delivery, the delivery location is often unknown to the service provider. Banking services are often provided to entities with operating locations in one state, corporate headquarters in another, and collateral in another. With such fact patterns it would become difficult to determine where the transaction should be sourced for sales tax purposes.
- Expanded Sales Tax proposals would present a significant administrative burden upon financial institutions to collect sales and use tax on "financial institution fees." Financial institutions' tax burden would include significant outlays to change and manage processes to capture and pay sales and use tax on fee based financial services. Financial institution's software has been built without the components necessary to determine what services are subject to sales tax, let alone collect sales tax. Entire systems and computer programs would need to be redesigned for this purpose and due to the complexities of sourcing, the software would need to be substantially more sophisticated than typical point-of-sale software.
- We are concerned that it will be left up to regulatory interpretation to determine exactly what constitutes a financial service that will now be subject to sales tax. To attempt to be in compliance with this bill, financial institutions would be forced to use manual spreadsheets to determine how much sales tax to collect and remit. A large portion of financial institutions' business is comprised

of low fees on a high volume of transactions. A single regional financial institution can have over one million transactions per year related to ATM transactions alone. Additionally, there are transactions and fees for savings and checking accounts, account service fees, overdraft fees, and loan making fees.

- This new tax burden on Pennsylvania citizens will force those who are sophisticated enough to move their banking business and depository dollars to out-of-state financial service providers and depository institutions to avoid payment of the tax. We do not believe it is the intent of any such proposed legislation to encourage an outflow of what could be substantial dollars away from Pennsylvania's economy to other states. But in an increasingly mobile and price-sensitive society in which consumers may move their banking business and savings with ease through use of the Internet and mobile banking, we feel that this could be a very real outcome of the legislation.
- Businesses with locations in multiple states would also be incented to conduct their banking affairs outside of Pennsylvania. In the current economy, businesses are increasingly forced to conduct their banking business with whichever institution is able to provide the lowest rates and fees, irrespective of prior relationships or loyalty. The increased costs associated with the administrative burden of this proposed legislation, the increased cost for banking operations due to the sales tax to be paid by the bank as a user of services, as well as the levy of sales tax on the final transaction with customers would place Pennsylvania banks at a competitive disadvantage with banks operating in neighboring states.
- Our neighboring states to the north, south, east and west have seen fit to exempt services from sales tax. If Pennsylvania imposes a tax on services such as these, which are mobile and electronic, it will place Pennsylvania based banks on an unequal footing with their counterparts in neighboring states, raise prices and interest rates for Pennsylvania consumers and business without the means or ability to conduct their affairs elsewhere, and it will incent other consumers and business to conduct business that they would otherwise do in Pennsylvania, elsewhere.
- The imposition of a sales tax on banking products and services may place a greater tax burden on Pennsylvania's low-income citizens and senior citizens because they either lack the means to move their accounts through the Internet or lack the financial education required to take the steps needed to reduce the sales tax.

For the reasons listed above regarding our concerns with subjecting many financial services to sales tax, we request that members of the Senate Finance Committee oppose Senate Bill 1400.

The Pennsylvania Bankers Association appreciates the opportunity to provide these views on Senate Bill 1400 to the Senate Finance Committee.