

International Banking Facilities

JLARC Staff 2017 Tax Preference Performance Evaluation

Business & Occupation Tax Preference

Objectives (inferred)

Encourage the establishment of International Banking Facilities (IBFs) in Washington, keeping them from moving “offshore.”

Results

Mixed. Currently one IBF in Washington. Recent changes in tax laws may make the preference unnecessary.

IBFs: Separate set of accounts established by certain banks to serve foreign customers

Customers include:

- Foreign residents, such as governments, corporations, and other banks.
- U.S. offices of the IBF’s parent institution.
- Other IBFs.

IBFs allow certain U.S. banks to compete with foreign banks without moving offshore. **Earnings from these accounts are not taxed due to the preference.**

JLARC staff identified one IBF in Washington

Taiwan Cooperative Bank, Ltd., a U.S. branch of a foreign bank.

Benefits of preference may have diminished after changes in other tax laws

Most IBF customers are likely located outside of Washington. With more recent changes in tax laws (apportionment), earnings from these customers would not be taxed. Estimated FY16 beneficiary savings are \$30,000.

Preference continues to benefit IBFs when they generate income from any WA-based customers.

Legislative Auditor recommendation: Review & Clarify

Legislature should provide an explicit public policy objective and metrics to determine if the objective has been achieved. In addition, the Legislature should determine the relevance of the preference given changes to Washington’s apportionment laws.

The complete report is on the JLARC web site.

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