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DATE: **March 26, 2018**

TO: **All Uniform Bank Performance Report (UBPR) Users**

FROM: **Thomas Wilderman, UBPR Coordinator**

SUBJECT: **March 2018 UBPR Tax Rate Change**

We are changing the tax rate used in the UBPR for the March quarter due to the federal tax rate change recently enacted. The UBPR tax rate beginning in 2018 will be 21% for all banks. The tax benefit factor beginning in 2018 for tax-exempt income will be 26.6% based on the formula Tax Benefit Factor equals (Tax Rate / (1 – Tax Rate)). The prior tax rates and tax benefit factors used in the UBPR were based on the following table:

Annualized Net Income ($000)	Marginal Tax Rate (%)	Tax Benefit Factor (%)
up to 50	15	17.6
50–75	25	33.3
75–10,000	34	51.5
over 10,000	35	53.8

Tax Rate Change Impact on Taxable Equivalent Calculations

The UBPR calculates and reports numerous tax equivalency (TE) calculations. The tax equivalency calculations are performed by taking an institutions tax exempt income times their tax benefit factor and adding this amount to their income as reported on their Call Report.

In 2017, nearly 95% of institutions were taxed at a marginal tax rate of 34% or 35% with a tax benefit factor just over 50%. This change to a 21% tax rate with corresponding tax benefit factor of 26.6% results in the tax benefit on tax free income to be roughly cut in half for most institutions. Tax equivalency is described in the UBPR Users Guide Technical Manual and summarized below.

Tax-Equivalency Overview

Virtually all banks have some income that is exempt from federal or state taxes. The tax benefit derived from this tax-exempt income is a significant element in determining the true return on investment. Banks may differ both in the amount of tax-exempt assets held and in their ability to use tax-exempt income. In order to reduce distortions and allow meaningful comparisons of different banks' income (and of a single bank's income at different times), the tax benefit is added to book operating income so that pretax income figures for all banks are presented on a tax-equivalent basis. The tax benefits from municipal loans, leases, and municipal securities are used in the UBPR to compute the tax-equivalent income. Because interest income from these obligations is normally the largest component of tax- exempt income for commercial banks, the adjustments made using this data normally produce a close approximation of the true tax-equivalent position. In essence the UBPR tax equivalent adjustment "grosses up" tax-exempt income so that it approximates taxable income.

Questions

UBPR users should address any questions regarding these tax rate changes to the CDR helpdesk at cdr.help@ffiec.gov or 1-888-237-3111.