To State Member Banks, Bank Holding Companies, Financial Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Offices in the Twelfth Federal Reserve District

Federal Banking Regulators Finalize Joint Supplemental Guidance on Income Tax Allocation Agreements

On June 13, 2014, Federal banking regulators issued final supplemental guidance on income tax allocation agreements involving holding companies and insured depository institutions, unchanged from the proposal issued late last year. An aim of the guidance is to reduce confusion regarding ownership of tax refunds, in response to disputes between holding companies in bankruptcy and failed depository institutions regarding such ownership. Courts have come to differing conclusions regarding the ownership of tax refunds between holding companies and depository institutions based on their interpretation of language in tax allocation agreements.

The regulators issued an interagency policy statement on income tax allocation in 1998. That statement said that a holding company that receives a tax refund from a taxing authority obtains these funds as agent for its subsidiary insured depository institutions and other affiliates. This guidance supplements the policy statement by instructing insured depository institutions and their holding companies to review their tax allocation agreements to ensure the agreements expressly acknowledge that the holding company receives any tax refunds as an agent. In addition, all banking organizations are asked to insert specific language in their tax allocation agreements to further clarify tax refund ownership.

The guidance also clarifies how sections 23A and 23B of the Federal Reserve Act, which establish certain restrictions on and requirements for transactions between depository institutions and their affiliates, apply to tax allocation agreements.

Institutions and holding companies should implement the guidance as soon as reasonably possible, which the regulators expect would not be later than October 31, 2014.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco’s website, at http://www.frbsf.org/banking-supervision/publications/district-circular-letters/.

For additional information, please contact:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
415-974-3100