

Bank Taxes Cause High Loan Interest Rates Here

A banker's view of taxation as it affects accommodations to business and accumulation of capital

By ALLEN L. DWYRE

Assistant Treasurer, Peoples Bank & Trust Co.



ALLEN L. DWYRE

We have all heard the story of the banker with the kindly light in his glass eye. As with most stories of that nature, there is a reason why the banker had that type of a light in his eye. A banker first and always must remember that he is dealing with other people's money. A merchant with a stock of goods, if not owned outright by himself, at most will not be indebted to more than a couple of dozen concerns in more or less small amounts. But a bank is the conservator of the savings of thousands of individuals whose deposits represent the results of sacrifice and denial over long periods of time, and the guardian of the surplus funds and profits accumulated in industry and agriculture.

"The poor banker! He borrows money from his depositors at two to four per cent interest and loans it to others at nine per cent and then claims he cannot make any profit!" How many times the bankers have heard the above words or words to the same effect, and in nine cases out of ten, I suppose that the casual listener has agreed with the speaker. I wonder how many realize just why the banker claims that all is not as it appears. NO BANK IS A SAFE BANK UNLESS OVER A PERIOD OF TIME IT IS ABLE TO MAKE A PROFIT. Every depositor

should realize that if his bank is not making money and continues in such a condition, his deposits, sooner or later, will be jeopardized.

In many banks in the United States, where the bankers have found that by law they are prohibited from charging interest rates above a certain percentage, they have found it necessary to require borrowers to keep on non-interest-bearing demand deposits with them certain portions of the funds loaned to them by the bank. This directly increases the cost of borrowed funds. As yet, the banks in the Philippine Islands have not found it necessary to resort to any such practices.

However, we find out here that interest rates are comparatively much higher than it would seem necessary. Why is it that the banks in the Philippines find it necessary to charge such comparatively high rates of interest in order to make a profit for their efforts? In the opinion of the writer, we do not have to look far for the cause.

Banks in the Philippine Islands labor under a tax imposition that in any other up-to-date country would be considered oppressive. A bank operating in the Philippines can actually be losing money (and remember what has been said about a losing bank) and still be required to pay taxes that supposedly should arise out of the profits from its business. For every peso on deposit with a bank in the Philippines, 2/3 of 1% must go to the Government every year. Add to this burden the additional tax of 1% per year levied on the capital employed by the bank in the conduct of its business, capital supplied by the stockholders, and add to the above two classes of taxes the further tax on a bank's income. When these major

the year, of which the export was 3,371,648 board feet with a customs-declared value of ₱82,075, there is noted an increase of 65% in volume and 103% in value. Although the general conditions during the month under review have shown some slight signs of improvement, slack demand for lumber or timber and low prices still prevail actually.

The exports to the different countries is seen in the table below, show that during October, 1932, Japan imported 3,887,656 board feet of timber as against 2,312,920 board feet for the same month last year, or an increase of 70%. Our exports, however, with the other important countries show no improvement. Shipments to China decreased 16%, Great Britain 40%, and the United States 98%. It is also noted that six other countries that imported Philippine lumber during October, 1931—British Africa, Canada, Portuguese Africa, Ireland, Netherlands and Hongkong—did not import at all during October this year. The instability of lumber exports to Great Britain has been accentuated by the weakening in the rate of exchange while the persistent limited business with the United States seems to be due to buyers hesitating to enter into fresh commitments until the market conditions have become normal. While the return to normalcy is not expected to be immediate, there is hope for a bigger demand of lumber from that country next year. As a matter of fact, inquiries are now being received by some lumber firms but the prices offered are too low. However, lumbermen are optimistic that as market conditions in that country continue to improve, lumber business in the islands is bound to have its share.

The actual conditions in the 46 mills show that production was 10,016,334 board feet, deliveries 11,238,103 board feet and inventories

25,442,595 board feet. For the same month last year, the production was 15,433,309 board feet, deliveries 16,013,270 and inventories 28,938,026, or a decrease of 35%, 30% and 12%, respectively. Compared with the previous month, the production increase 11%, deliveries 11%, and inventories 1%. Although the deliveries exceeded the production by 11%, it could be seen from these statistical data that stocks on hand are ample to supply the present limited demand.

The local trade has shown no indications of revival as yet, and conditions last month continued to prevail during the month under review.

The following statements show the lumber and timber exports, by countries, and mill production and lumber inventory for the month of October, 1932, as compared with the corresponding month the previous year.

Lumber and Timber Exports for October

Destination	1932	
	Board Feet	Customs-Declared Value
Japan	*3,887,656	₱ 64,228
China	1,231,296	65,834
Great Britain	387,536	32,239
United States	56,815	3,949
Guam	4,964	74
Hawaii		15
British Africa		
Canada		
Portuguese Africa		
Ireland		
Netherlands		
Hongkong		
TOTAL	5,567,968	₱166,989

Destination	1931	
	Board Feet	Customs-Declared Value
Japan	2,312,920	₱ 62,297
China	1,457,288	88,309
Great Britain	650,840	55,346
United States	2,676,712	182,573
Guam		
Hawaii		
British Africa	457,496	36,051
Canada	40,280	4,400
Portuguese Africa	36,040	4,059
Ireland	12,296	1,017
Netherlands	8,480	786
Hongkong	424	44
TOTAL	7,652,776	₱434,882

NOTE: *This represents mostly solid log scale, that is, 424 board feet to a cubic meter.

For 46 mills for the month of October

Month	Lumber Deliveries from Mills	
	1932	1931
October	11,238,103	16,013,270
	Lumber Inventory	
	1932	1931
October	25,442,595	28,938,026
	Mill Production	
	1932	1931
October	10,016,334	15,433,309

NOTE:—Board feet should be used.

taxes have been paid, a bank is then required to pay real estate taxes and the various types of documentary stamp taxes with which we are all familiar. Except for interest paid to depositors and, in some cases, salaries of employees, the tax charge is larger than any other expense item in a bank's budget.

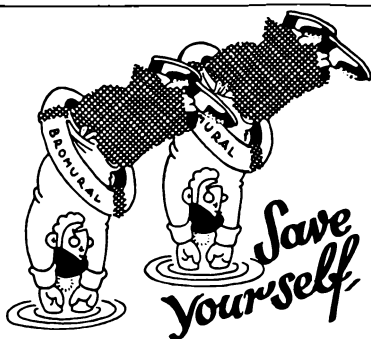
Under the National Banking Law of the United States, national banks may be taxed by the State Governments. However, the State Government must decide which class of tax it desires to impose; it cannot doubly or triply tax a national bank. If a tax on capital is imposed, no income tax nor tax on deposits may be levied. If the State desires to tax the income of the national bank, no deposit or capital tax can be collected. Such is not the case in the Philippine Islands. Banks are taxed not only on their income, but also upon the amount of capital employed in their business and upon the average amount of deposits held by them. A few figures may be enlightening.

The bulk of a bank's deposits on which it depends for loanable funds is represented by savings accounts. Because the overhead for maintaining savings account records is less and because the deposit reserve required by law is less than for demand deposits, the banks pay the savings account depositors a higher rate of interest. The criticism is sometimes heard that this rate is too low. If it is, the cause should not be hard to find. Say that ₱100 is deposited in a savings account. The bank must immediately place ₱5 in its vault not to be touched. That amount is what is known as the legal reserve against deposits and is represented by a bank's cash on hand. In reality, this reserve is always maintained much above that figure as a further safeguard to depositors. We will therefore add to the ₱5 an additional amount of ₱2.50 so that the bank has net loanable funds of ₱92.50. However, it must pay interest on the full ₱100. Here is the way it works:

Deposit	Reserve	Loanable Fund	Interest paid at 4-1/4%	Interest received at 9%
₱100	₱7.50	₱92.50	₱4.25	₱8.22

This leaves ₱3.97, from which must be deducted the 2/3 of 1% deposit tax of ₱0.67, leaving ₱3.30, from which a bank must pay its tax on capital employed, salaries, insurance, rent, repairs, real estate taxes, depreciation, reserve for bad debts and other losses, and if there is anything left, for additions to surplus and dividends. The ₱3.30 is a maximum figure, only obtainable when all loanable funds are earning interest for the bank 365 days a year. This is never the case, as we all know the loan figures of a bank fluctuate constantly as loans are paid or new loans are made.

The total deposits of all banks operating in the Philippines on September 17, 1932, were ₱107,768,076.80. This figure, too, possibly represents a low figure, as at that time the sugar farmers of the country were in the midst of the growing season, at which time funds are being withdrawn from the banks in order to finance the cultivation of the growing crop. Bank deposits tend to increase during the sugar milling season and reach a maximum towards the end of the season when the proceeds from sugar have been obtained. But taking the above figure as an average for the year, we see that the Government collects ₱718,553.00 yearly from banks alone on one type of tax. The capital and surplus of all local banks (ex-



The knocks and pinpricks of your daily life madden you, your work is a constant rush, the distraction you seek only makes your nerves worse. Since you cannot escape, defend yourself.

Take BROMURAL TABLETS.

Bromural is so harmless that it can be given to infants and to the oldest and most enfeebled persons. Take Bromural Tablets. You will find your nerves poised and robust; you will forget your troubles and their causes. Bromural Tablets are quite harmless however long they are taken. A few tablets at bedtime will ensure sound sleep. Tubes of 10 and 20 tablets can be obtained from any good class chemist.



KNOLL A.-G., Ludwigshafen-on-Rhine.
Monobromosalicylylcarbonbato-Gir. 0.85

cluding foreign banks operating here on which figures are not available) amounted to ₱33,351,559.65 on September 21, 1932. This figure yields to the Government another ₱333,545 annually. These two taxes combined total ₱1,052,908 and are paid yearly to the government. This money must come from someone and that someone is obviously the bank's customer. The banker must pass this expense on to its borrowers and depositors and indirectly to everyone with whom he deals. These customers may not realize it but their bank must recover the money in order for it to keep its doors open. This charge is represented in high interest rates to the merchant and the farmer; it is represented by the bank's demand that depositors keep on deposit certain minimum balances on which the bank pays no interest; it is represented by various service charges which banks out here are gradually adopting. Lately, it has been represented by a definite movement of all banks out here towards a lowering of interest rates which the banks are able to pay to their depositors.

Now, we all realize the necessity for taxes and the tremendous demands that are made on our government, but do we realize just what this particular type of tax represents? It represents a penalty on savings and thrift when brought to its final analysis. It is a levy on the accumulated capital of the country. A growing country—any country that is not retreating—has an insatiable demand for capital and more capital. It should be the object of the government in every way to encourage the accumulation of that capital and its concentration in the banks of the country which, in reality, are only the reservoirs from which the stream of the country's life blood flows to all parts of the country, and when released from the temporary demands of industry, again flows back to the central pumping station to be again pumped out to where it is most needed.

Is it necessary to resort to such extreme measures to finance our government?



PERSONALITY

VIGOROUS health and a sunny disposition do not usually go with strained vision.

Headaches, insomnia and other ills are often caused by faulty vision and leave their mark upon the countenance.

Consult CLARK & CO.'S Optometrists and get the facts about the condition of your eyes.

Always the best in quality
but never higher in price.

CLARK & Co.
SCIENTIFIC OPTICIANS
90-94 ESCOLTA MANILA, P.I.
MASONIC TEMPLE