


September 7, 1966

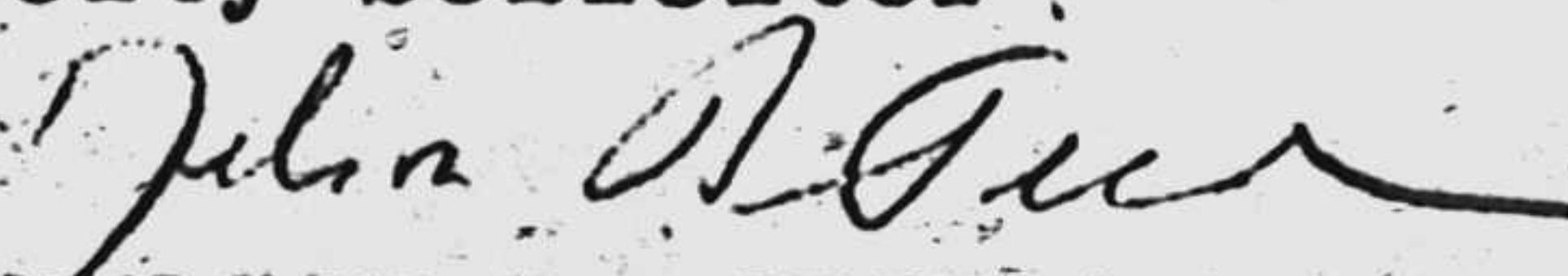
of any local tax by virtue of the fact that they are instrumentalities or agencies of the United States and exempt under well-established constitutional principles. McCulloch v. Maryland, 4 Wheat. 316, e L. Ed. 579; Owensboro National Bank v. Owensboro, 173 U.S. 664. Congress has granted the States and their political subdivisions the right to tax national banks only in certain specified ways, and only once, 12 U.S.C.A. 548. The State of Maryland has chosen to impose a tax upon the shares of national banks. Article 81, Sections 8 (3) and 20. Any other or further taxation is prohibited. National banks are therefore exempt from the City earnings tax.

Such is not the case, however, with state-chartered commercial banks. Such banks are merely ordinary business corporations and do not fall within any statutory or constitutional exemption. Nor did the City Council choose to exempt organizations, whose shares of stock are subject to State taxation.

However, Section 102D5 of the Ordinance exempts interest income in its entirety from taxation. The income of a banking institution, by its very nature, is derived for the most part from interest on its loans and investments. Although a State-chartered bank will have other incidental sources of income, such as safe deposit box charges, trustees' fees, and the like, the impact of the City's earnings tax upon such institutions is greatly lessened by the interest exemption.

Very truly yours,

  
JOSEPH ALLEN  
City Solicitor

  
NELSON B. SEIDMAN  
Assistant City Solicitor

JA:NBS:aba