

Section 128A  
Annotated Code of Maryland  
(1980 Replacement Volume)

Preamble

WHEREAS, The General Assembly hereby declares that it would be in the general welfare of the People of the State that the State become a center for international finance. Presently, there is little incentive for financial institutions to establish branches in Maryland because of the State franchise tax on net earnings of financial institutions and because of present regulations of the Board of Governors of the Federal Reserve System. The State franchise tax on financial institutions means that an institution engaged in international finance would pay higher income tax on foreign transactions conducted in Maryland than would be paid in London, in the Carribean, or in other off-shore locations. The regulations of the Board of Governors of the Federal Reserve System prohibit payment of interest on deposits of less than 30 days and require financial institutions to maintain a minimal amount as a reserve. Thus, the General Assembly finds that continuing this franchise tax on the income from international financial transactions is strong incentive for financial institutions to continue to locate in foreign locations and not in the State of Maryland; and

WHEREAS, This Act is being enacted to help attract the international banking business, and the attendant jobs and personal income back to the United States, and particularly to Maryland and to improve Maryland's reputation as a financial and commercial center. Therefore by enacting this legislation the General Assembly intends to permit financial institutions to establish facilities based in the State for the purpose of making loans to or accepting deposits from certain foreign customers free from either interest rate restrictions or reserve requirements, and the State franchise tax. Related foreign exchange transactions would also be eligible. To prevent favorable tax treatment on income from loans which should properly be made through domestic financial institutions, proceeds from loans to foreign branches of a domestic corporation or foreign affiliated corporation of a domestic corporation must be used outside of the United States or in an approved foreign trade zone. These provisions permit a domestic bank to make loans to and accept deposits from specified foreign customers through its Maryland-based international banking facility under essentially the same conditions which exist outside the United States where that business is now being conducted; now, therefore,

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND, That section(s) of the Annotated Code of Maryland be repealed, amended, or enacted to read as follows: