

**CITY OF LOS ANGELES
OFFICE OF FINANCE
TAX AND PERMIT DIVISION
CITY CLERK 'S RULING NO. 16 (NEW SERIES):
SAVINGS AND LOAN ASSOCIATIONS**

Reference: Sections 21.98, 21.99, 21.108, 21.166, 21.167, 21.190 and 21.193 Los Angeles Municipal Code.

GENERAL STATEMENT

Savings and Loan Associations (whether chartered by the State or Federal Government) are not banks as defined in Article 13, Section 16 of the Constitution of the State of California and are, therefore, subject to Los Angeles Business Taxes. This liability is due primarily under Section 21.190 Los Angeles Municipal Code.

The following items of income are examples of receipts which shall be included in the measure of tax paid by Savings and Loan Associations under Section 21.190 Los Angeles Municipal Code:

1. Interest on real estate loans;
2. Loan fees of various kinds, such as, fee for escrow, appraisal drawing papers, and other similar charges;
3. Bonuses received for prepayment of loans;
4. Penalty charges on delinquent loans;
5. Tax service fees;
6. Interest on personal loans to depositors (See Section 21.108(c));
7. Receipts over and above the recovery of principal from the sale of mortgages or other evidence of money due from loans.

The following items of income are examples of receipts ordinarily not includable in gross receipts:

1. Interest and dividends earned from the placing of surplus funds in bonds, securities, or Federal Home Loan Banks;
2. Payments received on the principal amount of outstanding loans;
3. Sale of capital assets, such as office furniture or other property which has been used in the conduct of the business;
4. Payments made to other Savings and Loan Associations which represent their share of interest under loan participation agreements; and
5. Gains or losses on the sale of real estate acquired by foreclosure. Gross receipts from the sale of goods, wares or merchandise must be included in the measure of tax paid under Section 21.166 (Wholesale) and/or Section 21.167 (Retail), whichever section is applicable.

Gross receipts from the rental of commercial buildings or structures or space in commercial buildings or structures, or gross receipts from the rental of dwelling units in the City of Los Angeles are subject to tax under Sections 21.98 and 21.99, Los Angeles Municipal Code, respectively.

Savings and Loan Associations who develop and sell real property are subject to business tax under Section 21.193, Los Angeles Municipal Code.

Savings and Loan Associations who make personal loans other than to depositors are subject to business tax under Section 21.108 Los Angeles Municipal Code.

BRANCH OFFICE OPERATIONS

The activities of the branch offices usually take one of three basic forms:

1. Act only as a service branch for "savings customers", and do not carry on any loan activity or perform other services which produce income.
2. Act as a service branch for "savings customers", and accept and process loan applications which are forwarded to the main office where the loans may be accepted and the monies disbursed. No other services are performed.
3. Act as a service branch for "savings customers", solicit and accept loans on single family homes, perform escrow services, and have other related activities. Large loans such as those made for tracts and commercial buildings are forwarded to the home office for processing.

RULING OF THE CITY CLERK

In order to have a uniform method of allocating gross receipts to Savings and Loan Association branch offices, the following formulas shall be used:

1. Home office and branch offices as outlined in (1), (2) and (3) above:
Apportion gross receipts from interest and other loan activities by applying the percentage derived from dividing the cost of operating the entire association, including the home office.
2. Any of the branch offices and/or the home offices which operate an escrow department or engage in other activities of a related nature, shall charge the gross receipts therefrom directly to the branch office or home office and the expenses of these departments shall be excluded from the allocation percentage calculation. In cases where there is no segregation of the income and expenses of the escrow or other departments, the expense of these departments shall be included in the formula and the income included in gross receipts.

When computing percentages for the allocation of gross receipts to branch offices:

1. The following are some examples of expenses to be included in the allocation formula base:

a. Salaries and Wages

These charges should be allocated to the office where the personnel are assigned and should include all allied items and fringe benefits. Expenses and salaries of executive personnel and accounting or legal department personnel cannot be allocated to the individual branch offices. These are charged directly to the applicable office incurring the expense.

b. Rent or Depreciation on Buildings

When buildings are leased by a Savings and Loan Association for its own use, rental expense should be included. When buildings are owned by the Savings and Loan Association, depreciation expense should be included only for the portion of the building which is used by the Savings and Loan Association.

c. Building Repairs and Service

These expenses should be included and allocated to the individual branch offices. However, if a building is partly leased to others, then the expenses should be allocated as in (b) above.

d. Supplies

These should be allocated to the individual branch office where used.

e. Insurance

e-1. Workers' Compensation

Should be allocated to the individual branch offices. If not segregated, allocate according to the number of employees at each location.

e-2. Fire, Theft, Liability, Etc.

Should be allocated to the individual branch offices. The company should maintain a segregation in instances where buildings are partly rented to others. A portion may apply to portion which is rented to others as in (b) above.

e-3. Security Bonds

Should be allocated to the individual branch offices. These bonds are usually in connection with specific employees, or a specific group of employees.

f. Property Taxes

Should be allocated to the individual branch offices as discussed under (b) above for depreciation.

2. The following are examples of expense items which **should not** be included in the allocation formula base:

- a. Interest on deposits paid to depositors.
- b. Federal Insurance paid to insure the depositors against loss.
- c. Advertising to secure depositors.

I, Rex E. Layton, City Clerk of the City of Los Angeles, pursuant to authority granted me in Section 21.15(h) of the Los Angeles Municipal Code, do hereby adopt and promulgate the foregoing rule and regulation pertaining to the collection of the Los Angeles Business Tax and the enforcement of the provisions of Article 1, Chapter 2 of the Los Angeles Municipal Code.

s/Rex E. Layton

REX E. LAYTON, CITY CLERK

APPROVED:

ROGER ARNEBERGH, CITY ATTORNEY

By s/Richard A. Dawson

Assistant City Attorney

Date December 10, 1971