November 18, 1991

Financial Institution Tax -- Average Deposits of Short-Period Returns. THE AMOUNT OF AVERAGE DEPOSITS IN A FINANCIAL INSTITUTION'S SHORT-PERIOD TAX RETURN IS COMPUTED ON A PARTIAL YEAR BASIS.

Advice has been requested as to how the Nebraska financial institution ltax liability is to be determined when a financial institution has a short tax year.

One situation that creates a short tax year is the merger of one (acquired) financial institution into another (acquiring) financial institution. The acquired financial institution must file a return for the resulting short period since it does not include an entire calendar year.

Average deposits are calculated according to the provisions of Neb. Rev. Stat. section 77-3801(2). In the case of a short tax year, average deposits shall consist of:

The total of the deposits held on the last day of the precedingt year, the last day of each complete calendar quarter within the short tax year, and the last day of the short tax year, divided by the number of amounts added together. If the last day of the last complete calendar quarter within the short tax year is also the last day of the short tax year itself, the deposits held on this day shall constitute one amount for purposes of this calculation.

> EXAMPLE 1: Two financial institutions, A and B, compute their income on a calendar-year basis. A acquires B at the end of the third quarter (September 30). B must determine its average deposits and file a return base upon its short tax year. B must determine its average deposits and file a return based upon its short tax year. B must total its preceding year-end deposits (December 31), its first quarter ending deposits (March 31), its second quarter ending deposits (June 30), and its third quarter ending deposits (September 30). This total would then be divided by four to determine B's average deposits.

In a short-period return situation, a financial institution is required to file its tax return and pay its tax liability by the fifteenth day of the third month after the end of its short taxable year. See Revenue Ruling 24-90-1, Financial Institution Tax - Filing Requirements of Short-Period Tax Returns, for further information.

After a merger such as that described above takes place, the deposits of the acquired financial institution become the deposits of the acquiring financial institution for the remainder of the acquiring institution's taxable year. At the end of the acquiring financial institution's taxable year, the calculation of the acquiring institution's average deposits will then be computed according the Neb. Rev., Stat. section 77-3801(2) without any adjustments.

EXAMPLE 2: Two financial institutions, A and B, compute their income on a calendar-year basis. A acquires B at the end of the third quarter (September 30). To determine its average deposits and its four quarterly ending deposits and divide the total amount by five. The amount of A's fourth quarter (December 31) ending deposits will include both the acquired deposits of B and the fourth quarter ending deposits of A.

APPROVED:

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