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July 24, 2013

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

The Honorable Orrin Hatch
Ranking Member
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Chairman Baucus and Ranking Member Hatch:

On behalf of the 7,000 community banks represented by the Independent Community Bankers of America, we write to recommend an important and necessary area of reform to the tax code. Ending the costly, unfair and outmoded tax subsidies granted to the government sponsored enterprise (GSE) known as the Farm Credit System (FCS) will broaden the tax base and promote greater equality and competition in farm lending. We urge you to review the FCS tax subsidies as part of the tax reform process.

The FCS has continued to grow rapidly in recent years and now has approximately \$250 billion in total assets. Many of the associations of the FCS are large, multi-billion dollar entities that compete against much smaller community banks. Their GSE status allows them to access funds from Wall Street at a subsidized rate only slightly above the Treasury's cost of borrowing. At the same time, their numerous tax exemptions allow them to under price taxpaying community banks and unfairly siphon off their best customers. There is no policy rationale for continuing tax exemptions for multi-billion dollar entities that compete with community banks for the same customers while offering the same or similar products and services.

The FCS tax exemption clearly meets the Joint Committee on Taxation's definition of a tax expenditure. According to the JCT, "the tax exemption for noncharitable organizations that have a direct business analogue or compete with for-profit organizations organized for similar purposes is a tax expenditure."¹ The FCS tax expenditure represents gross inefficiencies that began early in the previous century. No empirically-supported policy rationale can be offered for these tax exemptions and why they should be targeted to mature and profitable FCS entities in lieu of all rural lenders. We believe the time has come to end them.

¹ "Estimates of Federal Tax Expenditures for Tax Years 2012-2017." Prepared by the Staff of the Joint Committee on Taxation. February 1, 2013. Page 8.

In addition, in recent years the FCS has sought to expand beyond agricultural lending to bona fide farmers – their mission as a GSE and the original justification for their tax exemption – and has sought regulatory expansions to enable System lenders to serve a variety of non-farm business customers and activities that have little if any relation to agricultural loan making. A prime example of this mission expansion is the misguided regulatory pilot projects labeled as “Rural Community Investments.”

With over \$4 billion in net profits in 2012, the FCS tax burden should equate to well over \$1 billion annually in tax revenue and \$10 to \$15 billion in potential new revenue over a 10 year budget cycle, a tax expenditure that will only grow larger in the future. This \$10 to \$15 billion in new revenues could be directed to many other purposes including: lowering farm program costs; assisting rural development efforts; enhancing guaranteed farm loan programs; and assisting rural low-income housing needs in remote, rural towns. Targeting these programs would be a more efficient means of supporting rural economies. Alternatively, the additional revenue could be used to lower taxes on American businesses and individuals or to reduce the budget deficit.

We applaud your “blank slate” approach to tax reform and would welcome inclusion of this GSE’s tax exemptions as an inappropriate burden on the American people that must come to an end. Thank you for consideration of our views.

Sincerely,

/s/

Camden R. Fine
President & CEO

CC: U.S. Senate