INDEPENDENT COMMUNITY BANKERS of AMERICA®

July 15, 2016

The Honorable David G. Reichert
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Ron Kind
U.S. House of Representatives
Washington, D.C. 20515

Dear Representatives Reichert and Kind:

On behalf of the more than 6,000 community banks represented by ICBA, I write to thank you for introducing the S Corporation Modernization Act of 2016 (H.R. 5754), which would update the laws governing S corporations to facilitate capital formation and charitable contributions, among other provisions.

More than 2,000 community banks in the United States – approximately one third of all banks – have chosen to organize under Subchapter S of the Internal Revenue Code, simplifying their taxation so that they may better serve their customers. However, Subchapter S of the tax code is outdated and unnecessarily restrictive in several respects. For example, it prohibits individual retirement accounts (IRAs) from holding shares in an S corporation. Many S corporation bank owners would like to be able to tap their IRAs to inject capital into their banks. This is particularly important as community banks are currently facing regulator demands for higher capital levels under the Basel III Capital Accords and other regulations. With limited or no access to the equity markets and a shareholder limit of 100, community banks have limited means of raising capital. H.R. 5754 would allow funds held in IRAs to be used to help meet the challenges of the current capital environment.

Another provision of H.R. 5754 would allow deductions for charitable contributions made by an S corporation to flow through to shares held in electing small business trusts (ESBTs), which are used for estate tax planning. This change would equalize the treatment of S corporation charitable contribution deductions for individual shareholders and shares held in ESBTs and would encourage charitable giving. H.R. 5754 contains additional provisions which would modernize and enhance the S corporation model. The ultimate beneficiary of these changes will be the customers and communities served by S corporation community banks and other businesses.

Thank you again for introducing H.R. 5754. ICBA looks forward to working with you to advance this important legislation.

Sincerely,

/s/

Camden R. Fine
President & CEO

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