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July 19, 2016

The Honorable Kevin Brady
Chairman
Committee on Ways & Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Brady:

On behalf of the more than 6,000 community banks represented by ICBA, I write to express our views on the “Better Way for Tax Reform” Blueprint. Tax reform is an ambitious public policy initiative with the potential to fundamentally reshape the American economy. We appreciate your willingness to embrace this critical challenge and are committed to working with you as the process unfolds. We are grateful for your openness to the community bank perspective on this important issue.

ICBA strongly supports many features of the Blueprint, including significantly lower tax rates for businesses, a lower and simplified rate structure for individual filers, tax relief for capital gains, dividends, and interest income, immediate expensing of investments, and repeal of the corporate and individual alternative minimum tax. Repeal of the estate tax is a long-held priority for ICBA. These changes will provide critical tax relief and tax simplification for American businesses and individuals and spur investment and hiring.

ICBA looks forward to working with the Ways and Means Committee to develop special rules for the taxation of community banks and other financial services firms. Community bank lending supports business and farm investment and job creation. Community banks also facilitate home ownership as well as saving for retirement, higher education, and other financial goals. Tax relief and workable tax rules will help community banks provide these vital services.

ICBA has also identified provisions of the Blueprint that present serious concerns for community banks. We hope to work with you to address these concerns and improve the proposal. Foremost among our concerns is the treatment of net interest expense for non-financial businesses. Community banks have long enjoyed a strong partnership with America’s small businesses and provide approximately half of all small business loans. Community bank credit is a critical – and frequently the only viable – source of capital for small businesses, which typically have very limited or no access to equity capital, especially in the early stages of their development. Moreover, community bank credit allows small business owners to invest and grow their businesses without diluting their control. Many small businesses are closely held to retain control over strategic decision making and direction. Outside equity capital would change the essential character of these businesses.

The Nation’s Voice for Community Banks.®

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Eliminating the deduction for net interest expense amounts to double taxation of interest. Interest would be paid from taxable income and taxed a second time as income to the recipient. This proposal would make community bank credit significantly more expensive for small business borrowers and leave many of them with no viable alternative source of capital. This tax on interest has the potential to stunt the formation and expansion of small businesses that are vital to the American economy. It also represents a threat to the ongoing viability of thousands of community banks that specialize in small business lending, having been priced out of consumer lending by tax-subsidized credit unions and lacking the scale to lend to larger businesses.

The tax on interest significantly outweighs positive features of the Blue Print. A lower individual tax rate for interest income would have a negligible impact on a community bank's cost of deposits in the current low interest rate environment. Even in a normal interest rate environment, a lower cost of deposits would have little value if weak loan demand – as a result of a tax on interest payments – were to deprive community banks of the interest income they need to sustain their business model. We respectfully ask you to reconsider the elimination the deduction of net interest expense.

Approximately 2,000 community banks, one-third of all banks, are organized under Subchapter S of the tax code. ICBA applauds the significant business rate reduction of the Blueprint, which narrows the rate differential between C corporations and pass-through entities such as Subchapter S banks. We also strongly support the Blueprint provisions that would reduce the double taxation of corporate income by reducing the tax rates on capital gains and dividends. ICBA has long held the view that rate parity, which would ensure that one business form is not disadvantaged relative to another, should be an important goal of tax policy.

Finally, we hope that you will not allow this once-in-a-generation opportunity to pass by without reviewing the generous taxpayer subsidies given to credit unions and Farm Credit System lenders. The credit union subsidy alone was recently valued at nearly \$27 billion over 10 years by the Office of Management and Budget. Many of today's credit unions and FCS lenders are multi-billion dollar entities – some as large as \$75 billion – that compete against much smaller taxpaying community banks. They are the equivalent of banks and should be taxed equivalently. We hope you will revisit this issue as the process moves forward.

Thank you again for taking up the challenge of tax reform and for providing the opportunity for community banks to comment. Small businesses and the community banks that serve them have a great deal at stake in the details of tax reform. We look forward to working closely with you as the Blueprint takes shape.

Sincerely,

/s/

Camden R. Fine
President & CEO

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