



INDEPENDENT COMMUNITY
BANKERS of AMERICA®

September 20, 2016

The Honorable John Thune
United States Senate
Washington, D.C. 20510

The Honorable Benjamin L. Cardin
United States Senate
Washington, D.C. 20510

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CAMDEN R. FINE

President and CEO

Dear Senators Thune and Cardin:

On behalf of the nearly 6,000 community banks represented by Independent Community Bankers of America (ICBA), I write to express our support for Thune-Cardin Amendment #1 to the Retirement Enhancement and Savings Act of 2016, which would update the laws governing S corporations to facilitate capital formation, among other provisions. ICBA strongly supported this amendment as a stand-alone bill, the S Corporation Modernization Act of 2016 (S. 3181), and is very pleased that it will come before the Finance Committee. ICBA urges all members of the Committee to vote in favor of this important amendment.

Subchapter S of the tax code is outdated and unnecessarily restrictive in several respects.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 community bank owners would like to be able to tap 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. The Thune-Cardin amendment would allow funds held in IRAs to be used to help meet the challenges of the current capital environment. Income distributed from the bank to the IRA would be subject to unrelated business taxable income (UBIT). The amendment would potentially benefit the more than 2,000 community banks in the United States organized under Subchapter S.

The amendment would also ensure that IRA-held shares in banks that convert to Subchapter S status may be purchased by the IRA's beneficiary during a limited, 120-day window and transferred out of the IRA without being deemed a "prohibited transaction" under the Internal Revenue Code. Shareholders who do not wish to have their shares held through an IRA should have the opportunity to make this transfer.

Thank you again for offering this amendment to the Retirement Enhancement and Savings Act. ICBA looks forward to working with you to advance this important legislation.

Sincerely,

/s/

Camden R. Fine
President & CEO

The Nation's Voice for Community Banks.®

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