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President and CEO

September 11, 2017

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

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

The Honorable Pat Roberts
United States Senate
Washington, D.C. 20510

Dear Senators Thune, Cardin, and Roberts:

On behalf of the more than 5,800 community banks represented by ICBA, I write to thank you for introducing the S Corporation Modernization Act of 2017 (S. 711), 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 However, Subchapter S of the tax code is outdated and unnecessarily restrictive in several respects.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. S. 711 would allow funds held in IRAs to be used to help meet the challenges of the current capital environment.

Another provision of S. 711 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. S. 711 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.

The Nation's Voice for Community Banks.®

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Thank you again for introducing S. 711. ICBA looks forward to working with you to advance this important legislation.

Sincerely,

/s/

Camden R. Fine
President & CEO

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