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October 19, 2017

The Honorable Orrin G. Hatch
Chairman
Committee on Finance
U.S. Senate
Washington, D.C. 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
U.S. Senate
Washington, D.C. 20510

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

The Honorable Richard Neal
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Hatch, Ranking Member Wyden, Chairman Brady, and Ranking Member Neal:

On behalf of the more than 5,700 community banks represented by ICBA, I write to thank you for undertaking the critical and ambitious policy challenge of comprehensive tax reform. ICBA and community banks strongly support your efforts. We are encouraged by many provisions of Unified Framework (the "Framework"), including the proposed 20 percent corporate tax rate and the maximum 25 percent tax rate for the business income of certain pass-through entities. As you work to put the Framework into legislative language, **we urge you to ensure that the maximum 25 percent rate is available to the nation's more than 2,000 community banks organized under Subchapter S of the tax code.**

Subchapter S community banks are closely-held businesses dedicated to creating prosperity in their communities through the provision of customized loans and other financial services. One half of all small business loans nationwide are extended by community banks in both the C and S corporate model. While available data is limited, ICBA estimates that nearly 1,000 community banks are majority family-owned. In many parts of the country a majority of community banks are family-held and family-run, according to surveys. Approximately one third of all community banks are organized under Subchapter S, which has played a critical role in helping community banks serve their communities, remain independent, and keep the bank in the family across generations.

ICBA believes that tax reform should not create new disparities in the taxation of financial services. Today's community banks compete with multi-billion-dollar credit unions and farm

credit system lenders that leverage their tax advantage with expansive lending and field of membership powers. Under the Framework, large national banks (as well as many community banks) would be taxed at a rate of 20 percent. As noted above, we strongly support this pro-growth tax relief. However, to exclude Subchapter S community bank owners from the maximum 25 percent rate on business income and subject them to a maximum rate of 35 percent would create a wide, anti-competitive tax disparity that would drive more consolidation in financial services to the detriment of consumers, small business borrowers, and communities. Tax reform should strengthen competition in financial services by narrowing the disparities in today's tax code. Applying the proposed 25 percent pass-through rate to the business income of Subchapter S community banks would help to accomplish this critical goal.

What's more, as you craft tax policy it is important to recognize the existing distinction between Subchapter S community banks and personal services companies such as law, engineering, or accounting firms where the principal asset is the reputation or skill of one or more of its employees. While community banks do offer personal services, the variety and types of banking products they offer are just as important as the personal skills of their employees. The principal assets of a community bank are usually the value of its real estate and the future income stream of its loans and FDIC-insured deposit accounts.

Thank you for your consideration. We look forward to working with you on growth-oriented tax reform in the coming weeks.

Sincerely,

/s/

Camden R. Fine
President & CEO

CC: Members of the Senate Finance Committee
Members of the Senate Banking Committee
Members of the House Ways & Means Committee
Members of the House Financial Services Committee

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