Tax Relief and Reform Legislation Passes Congress!

CBAI congratulates the United States House and Senate for passing the most sweeping tax relief and reform since 1986 (H.R. 1 -- the Tax Cuts and Jobs Act). In today's early hours (Wednesday, December 20th), the bill passed the Senate by a vote of 51 to 48, and early this afternoon the House passed the bill by a vote of 224 to 201. The measure now heads to President Trump's desk for his signature.

At the core of this legislation is a large and permanent reduction in the corporate tax rate from 35% to 21%. The bill also reduces the individual rates for all income levels. Other provisions in the legislation that are of interest to community banks relate to the Subchapter "S" pass-through rate, business interest deduction, mortgage interest deduction, estate taxes, corporate Alternative Minimum Tax, and tax deductions for FDIC premiums.

While this legislation includes many provisions supported by CBAI and community banks, there are several sections we do not agree with, and several of our priorities were not addressed. CBAI sincerely appreciates the many community bankers who engaged in this effort and responded to our Action Alerts. CBAI will continue to work with the Illinois Congressional Delegation, the Independent Community Bankers of America (ICBA), and community bankers to gain additional tax and regulatory relief for Illinois community banks.

CBAI is pleased with the improvement agreed to in the Conference Committee to bring greater tax parity between "C" and "S" Corporation community banks. Approximately one-third of all community banks are organized under Subchapter "S". The agreement allows Sub "S" shareholders to deduct 20% of their business income, which will be taxed at the new reduced ordinary individual rates. This deduction will be limited to 50% of W-2 compensation paid by the business. The limitation will not impact joint filers with taxable income less than $315,000 or individual filers below $157,500 bill. CBAI was concerned that this treatment would not be available to shares held in trusts and estates, but the agreement now applies to those shares.

A victory for community banks was the successful resolution of an issue raised during the Senate's consideration of the bill that would force community banks to pay a tax on mortgage servicing assets when the servicing right is created, and not over the years the income is collected. A similar provision was not included in the House bill. Community banks are more responsive to their customers and more willing to work with distressed borrowers. The mortgage market needs more community banks servicing loans, not less, and this tax increase would have discouraged community banks from servicing loans. This provision was removed from the legislation.

Another victory for community banks concerned non-qualified deferred compensation plans used to supplement compensation for key employees. Both the original House and Senate bills would have effectively ended deferred compensation by taxing the benefit when is vested. This provision was also removed from the legislation.

Unfortunately, the tax disparity between community banks and credit unions and the Farm Credit System was not addressed in either the House or Senate bills. Congress missed a perfect opportunity to level the playing field between community banks and these taxpayer-subsidized entities. On a positive note, however, a lower corporate tax rate will reduce the competitive advantage enjoyed by credit unions and Farm Credit System lenders. CBAI will continue to highlight this discrimination against tax-paying community banks. Read Community Bank Scorecard.