

**February 2025**

ICBA Legislative Update: Tax Legislation in 2025

# Need for Legislation

The individual provisions of the 2017 Tax Cuts and Jobs Act are scheduled to expire at year-end 2025. Without legislative action:

* Individual tax rates will increase. For example, the top rate will increase from 37 percent to 39.6 percent.
* The estate tax exemption will be reduced by half. (Today it stands at about $13 million per individual or $26 million per married couple.)
* The 20% deduction for pass-through businesses such as S-Corps will sunset.

Other important provisions will expire as well. The 21 percent corporate rate is permanent law and will not increase absent legislation. Extension of all expiring provisions is estimated to cost over $4 trillion over a period of 10 years.

# What ICBA Seeks in 2025

# Legislation will likely not be limited to extension of expiring provisions but will trigger broader legislation to revise the tax code and offset revenue losses. ICBA’s goals in any tax legislation include:

* Extension of expiring “pro-taxpayer” TCJA provisions.
* A reduction in the corporate rate.
* Blocking any “payfors” or offsets that target community banks (e.g., information reporting designed to close the “tax gap” or deductibility of FDIC premiums).
* Enactment of ACRE Act.
* Taxation of credit union income or credit union acquisitions of banks.

**Talking Points**

* Any tax increase on community banks, as a result of failure to extend key provisions of the TCJA or the enactment of offsets targeting our industry, would adversely impact lending, employment, capital investments, and other critical services provided by community banks.
* Many community banks have made the S corporation election. Section 199A supports community banks’ ongoing independence in a consolidating industry and helps community banks remain competitive with larger financial institutions.
* S corporation banks would be further strengthened by additional changes to Subchapter S.
  + Under current law, individual retirement accounts (IRAs) are not permitted to purchase or hold shares in Subchapter S corporations. Many bankers who would like to use their personal IRAs to inject capital into their banks and solicit capital from IRAs owned by others.
  + Subchapter S banks should be allowed to issue preferred shares, which allow a bank to raise capital without diluting ownership (preferred shares are non-voting) so that the bank may retain its character as a closely held institution focused on its community.
  + The shareholder limit should be increased to support capital raises. In particular, banks that wish to award shares to employees, giving them a stake in the company, are constrained by the current limit.
* Expiring TCJA provisions should be made permanent to promote long-term business planning.
* The tax code should create parity among all providers of financial services. Credit unions, Farm Credit System lenders, and community banks offer similar products and services and should be taxed equivalently.
* Enactment of the Access to Credit for our Rural Economy (ACRE) Act would create cheaper borrowing for struggling farmers, ranchers, and rural communities. The bill would provide that interest on loans secured by agricultural land is tax exempt. The same treatment would apply to residential mortgages in rural communities under 2,500 population.
* The corporate tax rate should be reduced to build on the success of TCJA in promoting economic growth and job creation.

