April 15, 2013

The Honorable Dave Camp
Chairman
Committee on Ways and Means
United States House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
United States House of Representatives
1106 Longworth House Office Building
Washington, DC 20515

The Honorable Adrian Smith
Financial Services Working Group
Committee on Ways and Means
United States House of Representatives
2241 Rayburn House Office Building
Washington, DC 20515

The Honorable John Larson
Financial Services Working Group
Committee on Ways and Means
United States House of Representatives
1501 Longworth House Office Building
Washington, DC 20515

The Honorable Kenny Marchant
Debt, Equity and Capital Working Group
Committee on Ways and Means
United States House of Representatives
1110 Longworth House Office Building
Washington, DC 20515

The Honorable Jim McDermott
Debt, Equity and Capital Working Group
Committee on Ways and Means
United States House of Representatives
1035 Longworth House Office Building
Washington, DC 20515

Dear Chairman Camp, Ranking Member Levin and Congressmen Smith, Larson, Marchant and McDermott:

The undersigned regional banking organizations are submitting this letter in support of efforts to enact comprehensive tax reform by the Ways and Means Committee and other members of Congress. Specifically, we strongly support revenue-neutral corporate tax reform with the goal of lowering the tax rate and broadening the base. We believe this would provide a tremendous boost to the economy and revitalize American job market.

Regional banking organizations[1] employ more than 400,000 Americans and have more than 22,000 branches and offices throughout the country. We are committed to providing traditional banking services—deposits, consumer and commercial loans, including residential mortgages, and trust and asset management services—to millions of consumers and businesses of all sizes. Our primary mission is to serve the personal and commercial banking needs of our local communities.

There is significant evidence to suggest that reducing the corporate tax rate and broadening the base will spur faster economic growth, help create jobs in the U.S., increase the income of working families, and improve the global competitiveness of U.S. companies.

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[1] We are U.S. bank holding companies that have more than $50 billion in consolidated assets, but that are predominantly composed of one or more insured depository institutions.

At the same time, we believe that any base broadening efforts should avoid proposals that run counter to the economic growth and job creation objectives of tax reform. Specifically, this would include proposals to limit the ability of businesses of all sizes to deduct interest on commercial loans, and to impose an arbitrary tax on a small group of banks.

Proponents of proposals that limit the deductibility of business interest contend that it will raise significant revenue while reducing distortions caused by the different treatment of debt and equity. We believe the negative consequences to the economy will far outweigh the perceived benefits.

1. Interest is an ordinary cost of doing business. To properly measure economic income, business interest expense must be deductible. That is why the deduction for business interest has never been considered a tax expenditure by the Treasury Department or the Joint Tax Committee. Failure to provide a full deduction for business interest expense will overstate a taxpayer's economic income and result in over-taxation.

2. Limiting the deductibility of interest will adversely impact new investment and inhibit growth. An Ernst & Young study (attached) suggests that limitations on the deductibility of interest would impede new investment and would reduce corporate capital stock, thereby inhibiting economic growth and productivity. For example, the study found "the Wyden-Coats tax plan to [reduce the corporate rate and] limit the interest deduction to its non-inflationary component would have a significant negative effect on the cost of investing in the United States."

3. Limiting interest deductibility would run counter to the purposes of corporate tax reform - such a change would make our tax system an outlier relative to other countries. The current allowance of a full deduction for business interest is in line with the tax systems of our largest trading partners (i.e., Canada, Japan, the United Kingdom, France, Germany, and Australia). Thus, imposing a limitation on the deductibility of interest would "be unique among developed countries" and make us less competitive globally.

4. The types of companies that depend on regional banks for investment capital are small and mid-sized firms. Most of these firms depend on loans and do not have access to alternative forms of capital. As a result, our customers tell us that limiting interest deductibility would result in reduced investment, supporting the conclusion that a reduction in interest deductibility would result in less investment to expand economic activity and, therefore, reduce the economic benefit of lowering the tax rate.

We also have concerns about introducing a so-called "Financial Crisis Responsibility Fee" into the tax reform debate. During the height of the financial crisis, the Troubled Asset Relief Program (TARP) was created to support and invest in a number of financial institutions, automobile manufacturers, and to help struggling homeowners. The law also contemplated that after 5 years, if the Treasury had not recovered its investment, Congress should consider a tax on the banking industry to ensure that taxpayers are made whole. The good news is that after four years the Treasury Department made a profit on the bank support programs. As of April 8, 2013, the banking industry has returned $270 billion on the taxpayers' investment of $245 billion.

Despite this fact, some have suggested that a Fiscal Crisis Responsibility Fee still be imposed as a means to increase tax revenue rather than recoup any losses in the program. This would be an arbitrary tax imposed on only one sector of the economy, and it would fall predominantly on the customers of institutions that had nothing to do with the cause of the financial crisis. Moreover, it flies in the face of one of the important goals of tax reform, which is to eliminate rules that favor (or disfavor) one industry over another in order to make the tax code more efficient.

The undersigned regional banks thank the Chairman and members of the Ways and Means Committee for their efforts to pass corporate tax reform. We look forward to being helpful in supporting that effort, and would welcome the opportunity to discuss these issues with you in greater detail.

Sincerely,

BBVA Compass Bancshares
Capital One Financial Corporation
FifthThird Bank
The PNC Financial Services Group
Regions Financial Corporation

Attachments:
Regional Banks
Ernst and Young Tax Treatment of Debt