

# Wayne Allard

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## **SENATOR ALLARD'S SUBCHAPTER S PROVISION INCLUDED IN FINAL FSC-ETI LEGISLATION**

WASHINGTON, D.C. - U.S. Senator Wayne Allard (R-Colorado) announced that both the Senate and House have approved the final conference version of the Foreign Sales Corporation-Extraterritorial Income (FSC-ETI) legislation that includes his provision designed to expand the ability of small businesses, and small banks in particular, to take advantage of tax rules for which, until now, they were not eligible.

Senator Allard's provision expands eligibility for small businesses to qualify for treatment under Subchapter S of the Internal Revenue Code. Under Subchapter S, small business corporations do not pay corporate income taxes; rather, earnings are passed through to the shareholders where incomes taxes are paid at the individual rate.

"Not only does this reduce the administrative burden on small businesses," Senator Allard said, "but it eliminates the double taxation of small business income as well."

This legislation will strengthen small business and banks in Colorado and the rest of the country, making them more competitive" Senator Allard said. "Small businesses and community banks are the economic engines of America. I believe this provision will prove a huge benefit and boon to our economy."

Subchapter S of the Internal Revenue Code was enacted by Congress in 1958 and has been modified and expanded a number of times over the last two decades, reflecting a desire on the part of Congress to reduce taxes on small businesses. Congress first made small banks eligible for S corporation status in the 1996 "Small Business Job Protection Act." Since first becoming eligible, many small banks have converted from C corporations to S corporations. Unfortunately, many more would like to convert, but were prevented from doing so by a number of remaining obstacles in the tax law.

Senator Allard's legislation builds on and clarifies the Subchapter S provisions applicable to financial institutions and contains several provisions that will make the Subchapter S election more widely available to small businesses in all sectors. For example, it increases to 100 the maximum number of shareholders a small business organization may have to be eligible to elect S corporation treatment. It also contains several provisions of particular benefit to community banks that may be contemplating a conversion to Subchapter S.