INDIANA BANKERS ASSOCIATION

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Consumers Pay for Credit Union Federal Tax Entitlement

The credit union industry has been pushing back against widespread rationale to have credit unions pay federal taxes, despite the fact that other organizations, providing the same services in the same industry, pay their fair share. Even individual taxpayers, who on average pay $7,899 each in annual federal taxes, per the U.S. Census Bureau, pay more than all U.S. credit unions combined.

Credit unions hide behind the claim that they remain the small, humble entities of days gone by. In truth, according to data from S&P Global Market Intelligence, credit unions have grown into a $1.4 trillion industry. It is high time for them to stop mooching off the decades-old provisions of the Federal Credit Union Act of 1934.

Yet credit union advocates keep touting weary excuses. One argument is that credit union members will lose access to rates made artificially low through tax exemption. This overlooks the unfortunate reality that credit unions have long ago strayed from their mandate of serving "persons of small means." On average, today's credit union members earn higher incomes than bank customers, per a study conducted by the U.S. Government Accountability Office.

Another conjured theory is that low credit union rates prevent bank rates from rising. This skewed logic reflects a poor understanding of free market economics. Banks compete not only with credit unions and other financial service entities, but also with each other. It's called fair competition, and banks welcome it.

When other arguments fail, credit union lobbyists fall back on structure, staking tax exemption as a right, due to the member-owned cooperative structure of credit unions. Yet mutual savings banks, which are owned by their depositors, and mutual insurance companies, which are owned by their policyholders, pay their fair share in federal taxes. If these banking industry cooperatives must pay federal taxes, so should credit unions.

In the end, the issue of whether credit unions should pay federal taxes comes down to what is best for consumers, and the answer is in the numbers. According to the Joint Committee on Taxation, some $2.9 billion annually would go to the Treasury, if credit unions paid their due in federal taxes. Furthermore, applying rising annual cost projections, the Committee estimates that the five-year cost from 2016 to 2020 comes to $14.4 billion in lost tax revenue. This figure represents much-needed revenue that could help lower the federal deficit.

While credit union tax exemption may have made sense in the Depression era, modern-day credit unions bear little resemblance to their predecessors. Fourth-quarter 2017 call report figures indicate that, as of year-end 2017, there were 287 U.S. credit unions enjoying in excess of $1 billion in assets and controlling 64 percent of total system assets. Some of these credit unions pay massive salaries, occupy luxurious headquarters, and affix their names to sports stadiums through high-priced naming rights.

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Clearly credit unions have strayed dramatically from their original mission, and banks are simply calling for federal tax laws to catch up. Joining in the chorus are tax watchdog groups, such as the National Taxpayers Union; U.S. Sen. Orrin Hatch, chairman of the U.S. Senate Committee on Finance; and Robert Taylor, president and CEO of ISU Credit Union in Idaho. Mr. Taylor penned an op-ed for the *Credit Union Journal*, titled, “Senator Orrin Hatch may be right,” in reference to Hatch’s questioning of the federal tax exemption of credit unions.

Even credit union associates are critical of the outmoded tax exemption that is ultimately paid for by consumers. In today’s era of historic tax reform, now is the time to end the credit union federal tax exemption entitlement.

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