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Credit Unions Should Pay Their Fair Share

The banking industry has long argued that the federal tax exemption for credit unions is obsolete, as these institutions have outgrown their original mission. Now, the overreach has become so pronounced that others have joined in the movement.

In January Sen. Orrin Hatch, chairman of the U.S. Senate Committee on Finance, wrote a letter to the chairman of the National Credit Union Administration (NCUA), stating: "I am concerned that the credit union industry is evolving in ways that take many credit unions further from their original tax-exempt purpose." Hatch cited the chiseling away of field-of-membership constraints and a general watering down of the common bond requirement.

His argument was so strong that even a credit union executive agreed. Robert Taylor, president and CEO of ISU Credit Union in Idaho, admitted in an opinion piece in the *Credit Union Journal*: "Senator Orrin Hatch may be right." Taylor noted the stretching of common bonds at the expense of smaller-sized credit unions, conceding: "I have colleagues from other small credit unions who share my frustrations."

In April a consortium of 10 organizations – including the National Taxpayers Union, the Taxpayers Protection Alliance, and Consumer Action for a Strong Economy – authored a joint letter to Sen. Hatch, asking for greater scrutiny of credit union taxation. These organizations contend that the current tax-reform environment provides an ideal backdrop for re-evaluating the exemption.

When Congress passed the Federal Credit Union Act of 1934, it mandated that credit unions serve "persons of small means," defined by common bonds, such as working for the same employer or living within specific geographic boundaries. Because of this mission, credit unions were granted federal tax exemption.

That was almost 85 years ago. Today, common bonds have loosened to where some credit unions brazenly advertise the ease of joining, with membership made simple by signing up for a financial fitness organization for \$10, or by living within a geographic area larger than an entire state. These meaningless bonds allow affluent consumers to join; indeed, a study conducted by the U.S. Government Accountability Office revealed that, on average, credit union members earn higher incomes than bank customers.

Prosperous credit union members reap the benefits intended for "persons of small means," and credit unions likewise have been cashing in. Fourth-quarter 2017 call report figures reveal that, at year-end, there were 287 credit unions in the United States with more than \$1 billion in assets, accounting for 64 percent of total system assets. The largest of these organizations pay exorbitant salaries, outfit luxury headquarters, and even buy naming rights to sports stadiums.

A time-worn argument offered by some credit union advocates is that the federal tax exemption is based on the member-owned structure of credit unions, rather than size or income. That rationale does not hold, however, because mutual savings banks, owned by their depositors, and mutual insurance companies, owned by their policyholders, do pay their fair share in federal taxes.

The price of this tax-exempt injustice is borne by the U.S. taxpayer. The Joint Committee on Taxation estimates that some \$2.9 billion annually would be going into the Treasury if credit unions paid their due. The Committee additionally estimates that, per rising annual cost projections, the five-year cost from 2016 to 2020 will amount to \$14.4 billion in lost tax revenue.

June 26 marked 84 years since the enactment of the Federal Credit Union Act of 1934. Clearly, much has changed since then. Credit unions are not what they used to be. Let's catch up our tax laws to match.



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