Credit Unions No Longer Serve Their Original Tax-Exempt Purpose

- The historic basis for credit union federal tax exemption is that credit unions were to serve “persons of small means” united by common bonds, as mandated by the Federal Credit Union Act of 1934.
- Today, credit union membership is not limited to persons of small means. A study conducted by the U.S. Government Accountability Office revealed that, on average, credit union members earn higher incomes than bank customers.
- Modern-day membership criteria are meaningless:
  - Unwieldy fields of membership often exceed the boundaries of entire states.
  - Common bond requirements have been watered down to where membership is available through contrived means, such as joining a financial fitness club for $8.

Credit Unions Have Strayed From Their Humble Beginnings

- Credit unions have grown into a $1.4 trillion industry, according to S&P Global Market Intelligence.
- 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.

Collateral Credit Union Industry Arguments in Favor of Tax Exemption Are Weak

- Credit union advocates rationalize that tax exemption is due to the member-owned structure of credit unions. This justification overlooks the fact that mutual savings banks, owned by their depositors, and mutual insurance companies, owned by their policyholders, do pay federal taxes.
- A theory floated by the credit union industry is that low credit union rates prevent bank rates from rising. This line of thinking is illogical, since banks compete not only with credit unions and other entities, but also with other banks. It is overall free market competition, welcomed by banks, that keeps rates competitive.

There Is Precedent for Credit Unions Paying Taxes

- Canada repealed its federal tax exemption for the credit union industry in 1972, and Australia similarly repealed its exemption in 1994.
- Indiana, a fiscally responsible state, collects state taxes from credit unions.
Multiple Entities Beyond Banks Question Credit Union Federal Tax Exemption

- Sen. Orrin Hatch, chairman of the U.S. Senate Committee on Finance, wrote a letter in January to the chairman of the National Credit Union Administration, expressing concern that the credit union industry has moved away from its original tax-exempt purpose.

- Robert Taylor, an executive of ISU Credit Union in Idaho, echoed the senator’s concerns in an article, “Senator Orrin Hatch may be right,” published in the Credit Union Journal last February.

- A consortium of 10 organizations – including the National Taxpayers Union, the Taxpayers Protection Alliance, and Consumer Action for a Strong Economy – wrote a joint letter to Sen. Hatch in April, requesting increased scrutiny of the possibility of credit union taxation.

Consumers Pay the Price of Credit Union Entitlement

- Federal tax revenue lost to credit union exemption amounts to approximate $2.9 billion annually that would go into the Treasury if credit unions paid federal taxes, according to the Joint Committee on Taxation. Additionally, per rising annual cost projections, the committee estimates that the five-year cost from 2016 to 2020 amounts to $14.4 billion in lost tax revenue.

- The U.S. Census Bureau estimates that each individual taxpayer, on average, pays $7,899 in annual federal taxes. By contrast, all U.S. credit unions combined pay zero dollars in federal taxes.

The Time for Reform Is Now

- The Tax Cuts and Jobs Act of 2017 supports an environment of tax reform.

- The Federal Credit Union Act of 1934 has provisions long overdue for review.

- Addressing outdated federal tax exemption of credit unions is the next logical step in tax reform.

For more information:
Contact the Indiana Bankers Association Government Relations Team of Dax Denton, Eric Augustus or Josh Myers at 317-387-9380.

Additional resources:
- Independent Community Bankers of America: http://bit.ly/2OG4mKA