American Bankers Association

Building Success. Together.

ICBA

Independent Community Bankers of America

One Mission. Community Banks.®

March 10, 2014

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

Dear Chairman Camp:

Thank you for beginning the process of comprehensive tax reform. We continue to analyze your recent discussion draft and its impact on the banking industry in greater detail. As the process unfolds in the coming months, we strongly urge you to use this opportunity to reexamine existing tax advantages that are outdated, no longer serve the public interest intended, and create competitive inequities between taxed and non-taxed firms. The credit union tax subsidy—especially for large, complex credit unions – is a prime example. While we were extremely disappointed that your proposal did not eliminate this depression era subsidy, we understand that this initial proposal is only the beginning of the process and would argue for its inclusion as the process moves forward. The evidence clearly shows that the tax exemption is outdated, subsidizes wealthy credit union members, and distorts economic competition among financial firms offering exactly the same loans and deposit services.

Credit unions were never intended to be tax-free banks, but that is what they have become. The most compelling fact is that the public does not differentiate credit unions from banks. So why should tax policy be used to favor one over the other? If tax reform is about the principle of making the tax code fairer, then Congress should end the corporate tax exemption for credit unions.

Taxpayers should not be subsidizing a $1 Trillion industry

Today, 208 credit unions have assets over $1 billion. Each one of these credit unions is larger than 90 percent of taxpaying banks. More fundamentally to the tax debate, these 208 credit unions—just 3 percent of the entire credit union industry—account for 62 percent of the tax subsidy. These large, fast-growing, and increasingly complex credit unions have diversified to the point that they bear no resemblance to the traditional credit unions that Congress envisioned to be worthy of preferred tax status. They often no longer use “credit union” in their names and advertise that they are just like banks.

The cost to American taxpayers is very large. The Office of Management and Budget recently estimated the credit union tax exemption at ***almost $12.8 billion over the next five years***. With our nation’s debt levels rising, we can no longer afford to give preferential tax benefits to the credit union industry which now has total assets over $1 trillion.

The credit union tax-exemption is outdated and no longer serves its intended purpose
According to the Tax Foundation study, ***only 12 percent*** of the credit union tax subsidy is being passed through to consumers. The other 88 percent is going to fund large corporate headquarters, to pay executive salaries, to buy naming rights to arenas and ballparks, and to fuel growth of credit unions.

Moreover, available evidence shows that credit unions serve a wealthier population than banks. Thus, the small portion that is being passed through is ***not*** predominately going to "people of small means" which was the original purpose of the tax break. Why should the 200 million taxpayers in this country pay to subsidize financial services for the wealthy credit union members?

Importantly, credit unions have never had to document that this tax subsidy was actually used as intended and there is no examination by credit union supervisors to assure compliance. With such a lack of oversight protecting taxpayer dollars, it is no surprise that the tax exclusion has grown and been directed to purposes Congress never intended.

Eliminating the tax-exemption for credit unions does not have to impact the pricing of credit union products
Credit unions have a choice—they can continue to provide the same rates to their members but earn a slightly smaller profit, while growing at a slower pace; or they can raise their loan rates and cut their savings rates to maintain their profits and grow more aggressively. As Ed Speed, former CEO of Texas Dow Employees Credit Union (TDECU), said: "The only impact taxation would have on TDECU is that we will double in size every seven years instead of every five years." Thus, eliminating the tax subsidy should have no impact on credit union customers.

There is a precedent for repealing outdated subsidies for financial firms
In the 1940s and early 1950s, Congress faced a similar situation of tax-exempt financial institutions—mutual insurance companies and mutual savings banks—that had outgrown their original purpose and competed head-to-head with taxpaying institutions. What public policy decision did Congress make? It eliminated the tax exemption for mutual insurance companies in 1942 and for mutual savings banks in 1951. Importantly, removing this tax exemption did not drive mutual savings institutions out of business or hurt their customers.

In conclusion, your efforts to put forward true tax reform are very commendable. We feel strongly that the Committee will fail the American taxpayer if you do not repeal the credit unions depression era tax break. Simply put, the time has come for Congress to abolish this exemption for credit unions that has grown beyond recognition. It would be a fiscally sound way to help reduce the U.S. debt and eliminate distortions in the financial services industry.

Sincerely,

Frank Keating	Camden R. Fine
President and CEO	President and CEO
American Bankers Association	Independent Community Bankers of America

cc: Members of the Committee on Ways and Means