The Credit Union Value Proposition

Did You Know?

- Credit unions are exempt from Federal and most State income taxes because they are member-owned, democratically operated, not-for-profit cooperatives, generally managed by volunteer boards of directors with a specified mission of promoting thrift and providing access to credit for provident purposes. This rationale for the tax-exempt status has been reaffirmed by Congress several times since it was first enacted in 1937.
- Even though credit unions are exempt from Federal income tax, they pay other types of taxes. Credit union members pay taxes on dividends (interest) that their accounts earn. Federal credit unions pay real property taxes, tangible personal property taxes (referred to as "ad valorem" taxes in some states), payroll taxes for their employees. In addition, state chartered credit unions also pay unrelated business income tax (UBIT).

Our Ask:

- Members of Congress should be outspoken in their support for the credit union tax status, and should not use the tax status as a mechanism to prevent improvements to the Federal Credit Union Act.

What are the Policy Implications?

- **A tax on credit unions would be a tax increase for millions of credit union members.**
  - Today, 96 million Americans use credit unions to conduct financial services – building savings and accessing credit, and a tax on credit unions would adversely affect them.
- **The credit union tax status still serves the purpose for which it was created**.
  - For a modern day example of how important the credit union option is for Americans, look no further than how credit unions responded during the financial crisis.
    - During and following the financial crisis, Americans saw credit unions as a safe haven in the financial services sector -- more than 2 million Americans joined credit unions in 2012!
    - Credit unions continued to lend to consumers, homebuyers and small businesses when other lenders were unable or unwilling to do so.
    - This counter-cyclical effect – the ability to continue to provide credit during crisis – is one of the key reasons that credit unions were originally established by Congress as an alternative to the for-profit banking sector.
- **The credit union tax status is good public policy**.
  - Credit unions employ the tax status to the benefit of all Americans -- credit union members and those who are not credit union members.
    - While the Joint Committee on Taxation estimates that the credit union tax expenditure "costs" the federal government of $500 million annually, consumers benefit to the tune of $8 billion annually because credit unions are tax-exempt.
    - Credit union members see this benefit in terms of lower rates on loans, lower fees on services, and higher returns on deposits.
    - Non-members benefit as well because credit union competition helps keep bank savings rates higher and loan prices lower. Imagine how expensive other lenders would make credit cards or auto loans, if credit union competition did not exist!

What are the Implications for Credit Unions?

- **Eliminating the credit union tax status eliminates credit unions.** It is that simple.
  - Credit unions are people helping people. They exist to serve their members, as opposed to banks which exist to make profit for their shareholders.
  - If credit unions are taxed, there would be no incentive for them to remain not-for-profit; the large credit unions would likely convert to banks; the small credit unions would likely liquidate; and our economy will lose the only sector of the financial industry that is not driven by profit, but rather driven by a dedication to serve its members.
  - It would be poor public policy, resulting in negative consequences for millions of savers and borrowers.

Credit unions are the best way for consumers to conduct their financial services. Taxing credit unions takes this option away from consumers, and will drive up the cost of financial services for all.