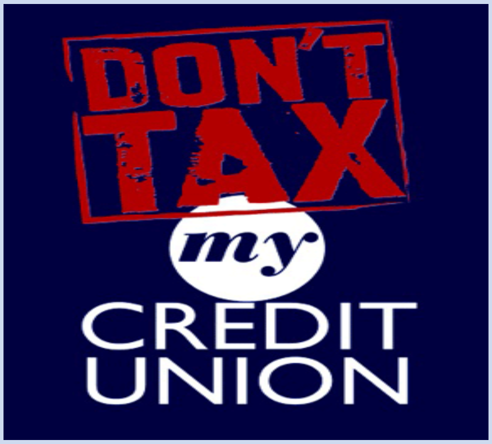
MCUL & Affiliates Government Affairs

Credit Union Tax Exemption

2015

Federal Issue Brief



Background

In 1937, Congress granted credit unions a federal income tax exemption based upon their not-for-profit, cooperative structure. To this day, credit unions continue to operate as democratically controlled cooperative institutions, serving their members on a not-for-profit basis. Michigan credit unions are operated entirely by and for their members and governed by volunteer boards of directors.

While credit unions are exempt from federal income tax, they pay payroll taxes, real estate taxes, and property taxes. In addition, dividends paid to credit union members are taxed as personal income. State chartered credit unions pay sales taxes.

In Michigan, more than 4.7 million consumers have chosen to become a member at one of our 258 state or federally chartered credit unions. Nationally, credit unions serve more than 102 million members.

Not-for-Profit Credit Unions Benefit Everyone

The credit union tax status is good public policy that benefits all Americans – whether you are a credit union member or not. The federal income tax exemption enables all credit unions, regardless of asset size, field of membership, or products and services offered, to provide high quality, low cost financial services to their members. The tax status also helps drive down costs for consumers at all financial institutions.

The Joint Committee on Taxation estimated that the credit union tax status only costs the government $.8 billion annually while providing consumer benefits totaling $8-10 billion annually (over the five years from 2013-to 2017, source: NCUA, FDIC and CUNA). Benefits come in the form of lower loan rates, lower fees, higher rates of return on deposits, and increased member service.

Consumers, particularly low-income credit union members, generally get better deals from credit unions than banks. A recent CUNA study found that banks collect an average of $218 in annual fees for low balance checking accounts compared to $90 on high balance checking accounts. The average charge for credit unions' low-balance accounts was only $80.

Credit Unions are Different Than Investor-Owned Financial Institutions

- Credit Unions are democratically governed, not-for-profit, cooperative financial institutions with no stockholders demanding market rate return on their investment. Earnings are passed along to member owners rather than outside investors.
- Executives are fairly (not lavishly) compensated, and Michigan CU directors are volunteers.
- Despite consolidation, credit unions remain relatively small, locally controlled institutions.
- The mission of credit unions is to promote thrift and provide access to credit for provident purposes to their members.

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Commercial Banks and Credit Unions – The Facts

Credit Union Assets vs. Large Bank Assets

The first credit union in the United State was established in 1908. Since that time, credit union industry assets have grown to $1.03 trillion by year-end 2012. In 2012 alone, U.S. banking assets grew by over half this much, $559 billion.

Overall, four banking institutions (J.P. Morgan Chase, Bank of America, Citibank and Wells Fargo) are larger than the entire credit union industry. Each of these banking institutions controls total assets exceeding $1.25 trillion.

Bankers claim credit unions make it difficult for them to compete

More than 4,500 new banking institutions were chartered since 1986, and more than 550 institutions were chartered since 2006. Bankers simply wouldn't be chartering new institutions if credit union competition was as stifling as bank trade groups claim.

If bankers really believed that credit unions had unfair competitive advantages, they would convert their institutions to credit union charters. None do this however because doing so would expose them to democratic ownership and control, would likely cause banker salaries to decline dramatically, and would force these institutions to adhere to a more restrictive regulatory regime, including higher capital standards.

MCUL Position

The credit union federal tax-exemption is rooted in the not-for-profit, cooperative structure of credit unions, not by the size of the credit union or the products and services that are offered. MCUL and CUNA are proud of the Credit Union difference, which reinforces the uniqueness of credit unions, in structure *and* service, from other financial institutions. **MCUL strongly urges lawmakers to continue to support the credit union federal income tax exemption, and work with leadership to ensure that it is preserved in any future tax reform legislation.**

Legislative Status

In early 2015, the Senate Finance Committee and the House Ways and Means Committee began taking steps to consider tax reform. Senate Finance Committee Chairman Orrin Hatch (R-UT) established five working groups to produce bipartisan recommendations on various parts of the tax code. Credit unions, other tax-exempt organizations, and financial institutions were placed under the purview of the Business Income Tax Working Group, which includes Senator Debbie Stabenow (D-MI) as a member. On July 8, 2015, the working group released their report which contains no recommendations affecting credit union's tax status. The MCUL supports this outcome.