

Federal Issue Brief



Background

In 1937, Congress granted credit unions with a federal exemption from income tax based upon their not-for-profit, cooperative structure. Credit unions are operated entirely by and for their members. Credit unions continue to operate as democratically controlled cooperative institutions, serving only their members on a not-for-profit basis. While credit unions are exempt from income tax, they are subject to payroll taxes, real estate taxes, and property taxes. In addition, dividends paid to credit union members are taxed as ordinary income.

In Michigan, more than 4.7 million consumers are member-owners of credit unions. Currently, 269 state- and federally-chartered credit unions provide essential financial services to their members, helping them save and invest for the future. Nationally, credit unions serve more than 100 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 Joint Committee on Taxation estimated that the credit union tax expenditure “cost” the federal government \$2.1 billion annually, but benefitted consumers by \$8-10 billion annually (source: NCUA, FDIC and CUNA data). Benefits come in the form of lower rates on loans, lower fees, higher returns on deposits and better service.

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. The 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. **The 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 tax reform legislation.**

Legislative Status

In 2014, previous House Ways and Means Committee Chairman Dave Camp (R-MI) released his tax reform discussion draft, holding the credit union exemption (and credit unions as a whole) harmless.

In early 2015, the Senate Finance Committee and the House Ways and Means Committee have begun taking steps to move on tax reform. Senate Finance Committee Chairman Orrin Hatch (R-UT) recently established five working groups to produce bipartisan recommendations on various parts of the tax code. Credit unions, other exempt organizations, and financial institutions will be under the purview of the Business Income Tax Working Group, of which Senator Debbie Stabenow (D-MI) is a member.