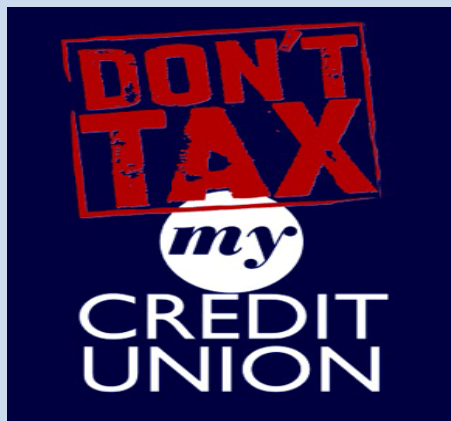


Federal Issue Brief



Background

In 1937 Congress granted credit unions with a federal tax-exempt status based upon their cooperative structure- operated entirely by and for their members. Despite the evolution of products and services and expanded fields of membership, credit unions continue to operate as democratically controlled cooperative institutions, serving only their members, on a not-for-profit basis. Congress has ratified the federal tax-exemption on several occasions, most recently in 1998 with the enactment of H.R. 1151, the *Credit Union Membership Access Act*.

Despite Congress' consistent support of our tax exemption, the banking lobby continues to push to have credit unions' taxed, to benefit their own industry. Contrary to banker arguments, credit unions do pay taxes - payroll taxes, real estate taxes, and some other property taxes. In addition, dividends paid to credit union members are taxed as ordinary income.

In Michigan, more than 4.6 million consumers are member-owners of credit unions. Currently, 293 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 96 million members.

Effect

- **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.
- The federal tax-exempt status is the crux of the credit union movement, and remains the priority issue for all credit unions, regardless of asset size, field of membership, and products and services offered. Many in the credit union movement believe credit unions would not be able to survive as cooperatives if the federal tax status were reversed, which could potentially lead to a sharp decline or elimination of credit unions
- 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.
- It is important to note that credit unions also provide a market alternative that helps moderate increases in bank fees and charges for all consumers. Without credit unions, consumers would be greatly disadvantaged, and in some cases, be forced out of the financial mainstream.

Status/MCUL Position

The credit union federal tax-exemption is rooted in the not-for-profit, cooperative nature of credit unions, not by the size of the credit union or the products and services that are offered. The MCUL & Affiliates and the Credit Union National Association continue to highlight the Credit Union Difference, which reinforces the uniqueness of credit unions, in structure *and* service, from other financial institutions.

Representative Dave Camp (R-04) serves as Chair of the House Ways and Means Committee, Representative Sander Levin (D-12) serves as the Ranking Member. Senator Debbie Stabenow (D-MI) serves as a majority member on the Senate Finance Committee. Chairman Camp released his initial plan in late February, holding the credit union exemption (and credit unions as a whole) harmless.

Michigan credit union members sent over 32,000 "Don't Tax My Credit Union" letters and other communications to the Michigan Congressional Delegation, and the MCUL gathered individual statements of support for the credit union industry and the tax exemption from the entire Michigan Congressional Delegation.

The MCUL & Affiliates will remain an active participant in the Tax Reform conversation as the process continues, and will educate policymakers on the credit union difference as well as the rationale for the exemption.

The MCUL strongly urges lawmakers to continue to support the credit union tax exemption, and work with leadership to ensure that it is preserved in the final version of any tax reform legislation.