FEDERAL LEGISLATIVE BRIEF

Protect the Credit Union Not-For-Profit Tax Status

Background

In 1937, Congress granted credit unions a not-for-profit tax status based on their cooperative structure. To this day, credit unions continue to operate as democratically controlled cooperatives 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 not-for-profit entities, 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 and unrelated business income tax.

In Michigan, more than 5.3 million consumers have chosen to become a member at one of our 229 state- or federally-chartered credit unions. Nationally, credit unions serve more than 110 million members.

Not-for-Profit Credit Unions Benefit Everyone

Credit unions are the only consumer-owned financial cooperatives in the marketplace. Cooperatives are voluntary, self-governed associations of people that work together for a common goal. As such, credit unions have a longstanding tradition of protecting their members' interests.

The credit union not-for-profit tax status is good public policy that benefits all Americans. Not-for-profit tax status 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 not-for-profit tax status also helps drive down costs for consumers at all financial institutions.

The Joint Committee on Taxation estimated that the credit union not-for-profit tax status costs the government $1.7 billion in 2018, 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.

Credit union members generally get better deals from credit unions than they would from 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.

Investor-owned financial institution board members are compensated, whereas Michigan credit union board members are volunteers. Despite consolidation, credit unions remain relatively small, community-based institutions, governed by their membership and volunteer board of directors.

The mission of credit unions is to promote thrift and provide their members with access to credit for provident purposes.

MICHIGAN CREDIT UNION LEAGUE & AFFILIATES

Opponents of the industry argue against the credit union not-for-profit tax status, however, credit unions do pay real estate, payroll and, in some states like Michigan, sales and property taxes. In addition, dividends paid to credit union members are taxed as ordinary income. Congress bases the credit union tax exemption on credit unions' structure as not-for-profit financial cooperatives and their mission to promote thrift and provide access to credit for provident purposes.

Commercial Banks and Credit Unions: The Facts

Credit Union Assets vs. Large Bank Assets

The first credit union in the United States was established in 1908. Since that time, credit union industry assets have grown to more than $1.4 trillion. There are four banking institutions (J.P. Morgan Chase, Bank of America, Citibank and Wells Fargo) that are larger than the total assets of the entire credit union movement. Each of these banking institutions control total assets exceeding $1.8 trillion.

Bankers claim credit unions make it difficult for them to compete.

More than 4,500 new banking institutions were chartered since 1986, and over 550 institutions have been 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. They do not take advantage of this because in doing so it 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.

Legislative Status

In December of 2017, Congress passed and the President signed into law H.R. 1, the Tax Cuts and Jobs Act (PL. 115-97). The act made significant changes to this country's tax code and was the first major piece of legislation to do so in more than 30 years. While the bill did impact many popular tax provisions, as a way to offset the cost, it did not change the credit union not-for-profit tax status.

MCUL Position

The not-for-profit tax status is rooted in the 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.

Credit unions must remain vigilant as those opposed to the credit union not-for-profit tax status will continue to advocate for change.

During your meetings with lawmakers, MCUL asks that you do the following:

- Thank the lawmaker for their 2017 statement in support of the credit union not-for-profit tax status. Each member of the delegation provided a statement.
- Ask the lawmaker for their continued support of the credit union tax status and urge them to work with leadership to ensure that it is preserved in the future.