



May 15, 2018

The Time Has Come for Credit Unions to Pay Federal Corporate Taxes

For years we've been talking about it – eliminating the credit union federal corporate tax exemption, because credit unions no longer serve their tax-exempt purpose. Now, in this season of historic tax reform, the time has come.

Even a credit union executive questions the exemption. Robert Taylor, president and CEO of ISU Credit Union in Idaho, expressed in the *Credit Union Journal*: “Senator Orrin Hatch may be right,” referencing a letter Sen. Hatch sent to the chairman of the National Credit Union Administration. The senator wrote: “The credit union industry is evolving in ways that take many credit unions further from their original tax-exempt purpose.”

That original tax-exempt purpose, per the Federal Credit Union Act of 1934, was for credit unions to serve “persons of small means,” united by common bond provisions, such as employment or geographical location. Yet for years credit unions have been pushing the boundaries of common bond requirements, to where contrived fields of membership, for example joining a “financial fitness” organization for \$10, render common bond provisions meaningless.

The expansion of fields of membership allowed financially savvy consumers to flee to the benefits that only untaxed institutions could offer. As a result, many credit union members are no longer “persons of small means.” In fact, modern-day credit union members on average enjoy higher incomes than their bank customer counterparts, according to a study conducted by the U.S. Government Accountability Office.

Some credit union advocates claim that the federal tax exemption is not based on size or income, but on the member-owned structure of credit unions. Yet hundreds of mutual savings banks, which are owned by their depositors, pay federal taxes, as well as mutual insurance companies, which are owned by their policyholders. If these cooperatives can pay their fair share in federal taxes, so can credit unions.

The biggest loser in this outmoded system is the U.S. taxpayer, who must make up the \$2.9 billion annually that would be going into the Treasury – according to the Joint Committee on Taxation – if only federal credit unions paid their portion. Additionally, due to rising annual cost projections, the Committee estimates that the five-year cost from 2016 to 2020 will come to \$14.4 billion in lost tax revenue.

Today's largest credit unions bear little resemblance to their Depression-era predecessors. According to fourth-quarter 2017 call report figures, at year-end there were 287 U.S. credit unions with more than \$1 billion in assets, accounting for 64 percent of total system assets. Some of these mega institutions pay outlandish salaries, purchase luxury headquarters, and even buy naming rights to major sports stadiums.

Clearly, credit unions are not what they used to be. Now is the time for lawmakers to take the next logical step in tax reform and repeal the federal tax-exempt status of the credit union industry.

Amber R. Van Til
President and CEO

8425 Woodfield Crossing Blvd.
Suite 155E
Indianapolis, IN 46240
phone/fax 317-387-9380
indianabankers.org
@indianabankers