



Credit Union National Association

CUNA Issue Summary

CREDIT UNION TAX EXEMPTION

ISSUE: In 1937 Congress granted credit unions with a federal tax-exempt status based upon their cooperative structure—that they are 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 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*.

The banking lobby is vigorously opposed to credit unions' federal tax-exempt status, and has listed the elimination of the credit unions' tax "advantage" as a higher priority than enacting legislative initiatives to benefit their own industry. Contrary to the bankers' 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.

CUNA POSITION: The credit union federal tax-exemption is bound by 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. Credit unions' boards of directors are generally unpaid volunteers elected by the membership, and credit unions are restricted in who they can serve. CUNA continues to highlight the "Credit Union Difference," which reinforces the uniqueness of credit unions, in structure *and* service, from other financial institutions.

The banks have aggressively challenged the credit unions' tax exemption. The bankers also have had little difficulty in demanding taxation of credit unions while simultaneously advocating further tax relief for banks. The bankers have been very successful in lobbying Congress for tax changes that greatly enhance the attractiveness and tax position of banks that choose to elect Subchapter S status under the Internal Revenue Code. Bankers are also aggressively pursuing legislative action to allow national banks to organize as Limited Liability Corporations (LLCs). Both LLCs and Subchapter S corporations provide significant tax benefits by eliminating corporate-level taxation. Taxation occurs when these "pass-through entities" pay dividends to their shareholders. CUNA does not oppose efforts by the banking industry to decrease its tax liability, but objects to their hypocrisy in trying to limit the tax benefits of competing institutions.

IMPACT ON CREDIT UNIONS: 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. 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/OUTLOOK: The Ways and Means Committee held a hearing on November 3, 2005, to further review the tax-exempt status of credit unions, with then-Chairman Bill Thomas (R-CA) closing the hearing by stating that he would not try to subject credit unions to federal taxation. Click [here](#) for a complete analysis of the hearing. With the Democratic takeover of the House, Thomas has retired and has been replaced as Chairman by Rep. Charles Rangel (D-NY), a strong credit union supporter.

However, the IRS and the Treasury Department have taken action that brings into question their commitment to the federal credit union tax exemption. On June 28, 2007, Kevin Brown, the former IRS Commissioner, wrote a letter to the Senate Finance Committee detailing numerous abuses by tax-exempt entities. Shockingly, he stated that, "... many tax-exempt credit unions may be hard to distinguish from for-profit banks ...". This drew a swift response from the credit union community and a [response letter](#) from CUNA President and CEO Dan Mica. The CUNA letter details the difference between credit unions and banks and goes further by reminding the IRS that President Bush in 2004 reaffirmed his commitment to preserving the federal tax exemption for credit unions.

On July 23, 2007, former Treasury Deputy Assistant Secretary for Tax Analysis Robert Carroll released a departmental background paper for the July 26, 2007 Conference on Business Taxation and Global Competitiveness. The paper cited several items in the federal tax code that could be eliminated to pay for a decrease in the top corporate tax rate to 27% as well as increased business expensing for American corporations. One of the items suggested for elimination was the federal tax exemption for credit unions. The report estimates that the Treasury would recoup \$19 billion over the next ten years if the tax exemption for credit unions was eliminated. This report also drew a quick and firm response from CUNA President and CEO Dan Mica. In a July 25, 2007 [letter](#) to Treasury Secretary Hank Paulson, Mica pointed out that this policy proposal from Treasury was inconsistent with past statements and letters from the Bush Administration in support of the current tax status of credit unions.

CUNA continues to lobby in favor of the federal income tax exemption for credit unions.

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[The Credit Union Difference](#)

[Why Credit Unions are Tax-Exempt](#)

[March 29, 2005: Comments on the Credit Union Tax Exemption to the President's Advisory Panel on Federal Tax Reform](#)

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