

Credit Union Tax Exemption

Issue: The *Federal Credit Union Act* (FCU Act) states credit unions receive a tax exemption because “credit unions are mutual or cooperative organizations operated entirely by and for their members.” Credit unions are eligible for tax-exempt status if they operate on a not-for-profit basis, are organized without capital stock, and are operating for mutual purposes. The defining characteristics of a credit union, no matter what the size, remain the same today as when the FCU Act was enacted in 1934. In December 2017, President Trump signed the *Tax Cuts and Jobs Act* into law, keeping the credit union tax exemption fully intact. This historic legislation is a testament to the value and strength of credit unions.

It is important to note that credit unions do pay many taxes and fees, among them payroll and property taxes. It is also important to note that share dividends paid to credit union members are taxed at the membership level. Critics argue that credit unions today are no different than banks. However, credit unions are restricted in where they can invest their members' deposits and are subject to stringent capital requirements. While a bank has stockholders, a credit union's shareholders are its members and each member has one vote, regardless of the amount on deposit.

In January 2017, NAFCU released an independent study showing the positive impact that the credit union tax exemption has on consumers, businesses, and the overall economy. The study found that credit unions provide over \$16 billion a year, on average, in total benefit to the U.S. economy. As the study also shows, eliminating the credit union tax exemption would result in the loss of 900,000 jobs over the next decade, a shrinking of the GDP and a net *loss* of revenue to the federal government.

If credit unions are taxed, over time there will be many consequences for credit union members. Possible outcomes include:

- **Loss of Identity:** By losing their not-for-profit, cooperative structure, credit unions would be forced to focus on increasing profits instead of serving their member-owners.
- **Higher Rates and Fees:** If the exemption is repealed, it would adversely impact savings and borrowing rates as well as increase fees for the 114 million credit union members.
- **Increased Industry Risk:** Further restraint on the ability to raise capital would potentially impact safety and soundness of the credit union industry.
- **Erosion of the Volunteer Base:** If credit unions became more like banks, the self-help, volunteer characteristic of credit unions, and the community as a whole, would become less distinct.

Legislative Outlook: In the 115th Congress, the *Tax Cuts and Jobs Act* was passed and signed into law, keeping the credit union tax exemption fully intact. Following the passage of tax reform, the Senate Finance Committee conducted a review of all tax-exempt industries, including the credit union industry. Chairman Hatch wrote both the National Credit Union Administration (NCUA) and the IRS positing that “larger” credit unions should have to file Form 990 information returns to the IRS. NAFCU believes that such an action would be a new regulatory burden with very little benefit, as credit unions already provide financial data to their federal regulator (NCUA) and have information available to their member-owners. There has been no proposed legislation on the subject, but it is something that NAFCU continues to closely monitor.

NAFCU Ask: We ask all members of Congress to support the credit union tax exemption and protect the tax status of credit unions in any tax reform package. We also urge members of Congress to not add additional paperwork requirements to the ever-growing regulatory burden credit unions face. You can read the NAFCU Study on the benefits of the credit union tax exemption at: www.nafcu.org/cutaxexemption.