Why Credit Unions are Tax Exempt

Some bankers and their trade associations are asking legislators to tax credit unions. The truth is, a tax hike on credit unions is a tax hike on all American consumers. You may not realize this, but your credit union doesn't pay federal (corporate) income tax.

Here are just a few reasons:

- Credit unions are not-for-profit, democratic, financial cooperatives, owned by their members.
- Credit unions' boards of directors serve as unpaid volunteers, elected by members.

CUs are different

Credit unions were created to provide financial services in a democratic, not-for-profit, cooperative manner—that is, with member ownership and control. Those characteristics are the foundation of the tax exemption. Early in the history of credit unions, the U.S. attorney general declared state-chartered credit unions exempt from federal income taxes because they were "organized and operated for mutual purposes [in which an organization's members share in the profits and expenses] and without profits."

Later on, in the 1930s, legislators passed a law to exempt federally chartered credit unions from federal income tax for the same reason. Today, legislators continue to maintain that status because credit unions, while growing and changing, still operate in this unique way. Credit unions' boards of directors serve as unpaid volunteers, elected by members. Credit unions return all excess income to members, in the form of higher deposit rates, lower loan rates, and lower fees. Credit unions don't need to create profits to pay stockholders, as do banks. The amounts banks pay stockholders dwarf their tax bills: Bank cash dividends to stockholders have exceeded bank applicable income taxes each and every year for more than 20 years, and bank cash dividends have exceeded bank taxes by a total of $416 billion over the past 20 years.

All consumers benefit

All taxpayers, whether members or not, benefit from the presence of credit unions in the marketplace. Credit union competition helps keep bank and savings and loan prices lower. For example, credit unions offering credit cards charge an average one to two percentage points lower interest than other lenders. Imagine how expensive other lenders would make credit cards, or auto loans, if they didn't have to compete with credit union rates. Bankers say the tax exemption gives credit unions an unfair and unwarranted privilege that puts banks at a competitive disadvantage. But in the past two years *alone*, bank assets grew by $1.13 trillion— that's more than credit unions have grown since they began operating in the U.S. more than 100 years ago: Bank assets grew to $14.5 trillion at the end of 2012. Total credit union assets at year-end 2012 were $1 trillion.

Tax repercussions

If credit unions paid income tax, the contribution to state and federal treasuries would make not one penny difference in the taxes you pay as an individual. But the effect such taxes would have on how much you pay for credit union loans for cars, education, and houses, or the dividends you earn on credit union savings, would be significant. Just as banks pass along their tax payments in fees and interest rates, credit unions would have to pass along that expense to members, also in the form of higher fees, higher loan rates, and lower savings dividends. Credit unions, if taxed, also would have to take the money from funds otherwise dedicated to reserves—the cushion protecting all members and the credit union from economic shifts. Again, not-for-profit credit unions aren't like banks, which have profits aplenty.

CUs contribute now

All taxpayers have legitimate concerns about the federal budget deficit, and state deficits as well. Credit unions and members already participate in reducing those shortfalls. You pay taxes on dividends your credit union accounts earn, and your credit union pays all taxes but income tax. Credit unions are not-for-profit, democratic, financial cooperatives that serve members. As long as that's true, they're earning their tax status.