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My Corner

By Mike Jerman (Due to Howard Stephenson's service in the Utah Senate, this month's My Corner comes from Association Vice President Mike Jerman)

Last week, your Taxpayers Association officially announced its support for tax equity in Utah's financial sector. We've received some feedback from those who disagree with our position. Let me take this opportunity to respond to these concerns

Banks can raise capital tax-free by issuing stock. Credit unions cannot.

Taken to its logical conclusion, this argument would require that *any company* in *any* industry that could not issue stock or had very limited opportunities to issue stock should be tax exempt, and this would include LLCs, sole proprietorships, Sub S, and many large companies that are not publicly traded. Most of these companies compete against stock issuing companies.

Credit unions are member-owned and are non-profit. All profits are returned to the members.

Credit unions are member-owned cooperatives just like Intermountain Farmers, Associated Food Stores, and other cooperatives. However, these companies and many others just like them pay income taxes on retained earnings while credit unions do not.

Credit unions are required by law to maintain certain levels of reserves.

Banks are also subject to reserve requirements but must pay approximately 40% income taxes on these retained earnings.

Credit unions cannot grow without tax-free retained earnings.

This assumes that credit unions need to grow aggressively in order to serve existing customers. The original purpose of a credit union was to serve the needs of its common bond customers, and numerous small credit unions serve needs of existing customers without aggressive growth. Additionally, companies in other industries grow even though they do not issue stock and are required to pay taxes on retained earnings.

Banks are owned by out-of-state shareholders while credit union members live in Utah. It makes sense to tax the non-residents but not Utah residents.

Shareholders are not the only group that pays taxes. Customers and employees also pay taxes, and customers and employees of Utah banks are of course Utah residents. Also, many small Utah banks, like Utah credit unions, are locally owned. Also, while exporting taxes

sounds nice in theory, imposing punitive taxes on non-residents discourages investment by non-residents and ultimately results in jobs, not taxes, being exported.

Banks have advantages that credit unions do not.

Credit unions were not instituted to compete against banks but rather to provide access to credit for underserved populations. Granting a tax exemption to credit unions was done to accomplish a social need, not to allow credit unions to compete unequally with banks. If the original justification for the tax-exempt status is no longer valid, then the exemption should be repealed. If credit unions want to compete against banks, they should be allowed to without restriction – if they pay income taxes like investor-owned banks and member-owned banks.

Credit unions offer better service.

Tax exempt status is not determined by product service or quality, real or imagined. Also, if the credit unions' alleged superior quality is due to the tax exempt status, then that is even more reason to level the playing field.

This is a tax increase. The Taxpayers Association is against tax increases.

The Taxpayers Association is proposing a tax shift. The revenue increase resulting from imposing the credit union tax must be offset by an equal or greater tax reduction elsewhere.

A tax on credit unions is a tax on credit union members. Credit union members will have to start paying fees.

Businesses don't pay taxes. People do. When a bank is taxed, its customers, shareholders, and employees pay the taxes. Credit unions should be no different than their competitors.

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