American Bankers Association
Building Success. Together.

Rob Nichols
President and CEO
202-663-7512
rnichols@aba.com

April 18, 2016

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
Washington, DC 20515

Dear Chairman Brady:

Today, millions of Americans will file their tax returns. The income from these taxes will pay for our nation's defense, veteran benefits, law enforcement, and responses to disasters, just to name a few. While there is much disagreement in this country, the one thing I think we can all agree on is the need for comprehensive tax reform.

We thank you for the work you are doing at the helm of Speaker Ryan's task force on tax reform. We appreciate the mission statement and policy goals you released last month, as well as the subcommittee hearings held so far. We hope this will be the first step toward Congressional action to reexamine our outdated tax system. We especially appreciate your commitment to close loopholes and eliminate special-interest carve-outs, so that businesses large and small have a competitive tax system.

The depression era credit union tax exemption, especially for large, complex credit unions, is a prime example. As you know, the credit unions have grown into a *$1.1 trillion industry*, and as the Government Accountability Office (GAO) has noted, the historical distinction between banks and credit unions "has continued to blur." Lax credit union regulators have allowed credit unions to expand their membership, business lending, and complexity of operations, causing the cost of the tax subsidy to explode.

The Treasury Department puts the ten year cost of the credit union tax exemption at nearly *$27 billion*, making it one of the single largest corporate tax loopholes. For perspective, this year the federal government will subsidize credit unions at a level that approaches spending on lifesaving research into heart, lung, and blood diseases.

At least 260 credit unions today have assets over $1 billion. More fundamental to the tax debate, these 260 credit unions—just four percent of the entire credit union industry—account for nearly 60 percent of the tax subsidy. These large, fast-growing, and increasingly complex institutions often no longer use "credit union" in their names and advertise that they are just like banks.

The "changing face" of the credit union industry should raise serious questions about whether the tax exemption continues to serve a legitimate policy goal. While credit unions were created to serve people of modest means, the benefits of the tax subsidy skew to affluent consumers; the Prochnow Foundation found that 61% of the consumer benefits go to households with incomes over $95,000.

Many of the benefits are never seen by consumers at all. A study by the non-partisan Tax Foundation concluded that very little of the benefits from the credit union tax exemption are passed through to customers. Most of the tax benefit was retained by credit unions themselves, which went either towards higher salaries or to increasing the size of credit unions. Indeed, credit unions have leveraged their tax subsidy to pay their CEOs millions ($11 million, Public Service Credit Union, Denver, CO; $9.3 million, Eastman Credit Union, Kingsport, TN) and build large headquarters buildings ($164 million, Pentagon Federal Credit Union, Tysons Corner, VA; $71 million, Pennsylvania State Employees Credit Union, Harrisburg, PA). One even bought naming rights to an NBA arena ($120 million, Golden1 Credit Union, Sacramento, CA).

As Ed Speed, former CEO of a large credit union in your district, Texas Dow Employees Credit Union (TDECU), has written: “The only impact taxation would have on TDECU is that we will double in size every seven years instead of every five years.” Thus, eliminating the tax subsidy does not have to impact credit union customers.

Credit unions say that because they are customer-owned, they deserve their tax status. However, other financial institutions with cooperative, customer-owned structures have been subject to federal income taxes for decades, including mutual insurance companies, mutual savings banks, and mutual savings and loan associations. **Credit unions still maintain their tax status because, as Senator Tom Coburn pointed out in 2014, of “the momentum of the status quo.”**

The status quo is unacceptable. On this day, when individuals and businesses will settle up with the government for nearly $2 trillion in federal income taxes, it is simply not fair that the entire credit union industry pays nothing. The public policy justification disappeared long ago and taxpayers should no longer subsidize these large aggressive credit unions.

Serious work related to making American business competitive through the tax code requires serious consideration of the credit union tax status. Previous administrations – both Democratic and Republican – have long recommended ending the credit union industry’s tax exemption. Repealing the credit union tax exemption would be a fiscally sound way to help reduce the U.S. debt.

We urge you not to let the status quo stop the committee from ending this outdated tax exemption.

Sincerely,

Rob Nichols

Rob Nichols
President and CEO

cc: Members of the House Committee on Ways and Means
Members of the Senate Finance Committee