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Executive Vice President of Government Affairs
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National Association of Federally-Insured Credit Unions

July 14, 2017

The Honorable Orrin Hatch
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Re: Importance of the Credit Union Tax Exemption to Consumers, Job Creation, and the American Economy

Dear Chairman Hatch:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), the only trade association exclusively representing the federal interests of our nation's federally-insured credit unions, I write to formally submit NAFCU's comments in response to your request for feedback on tax reform in 2017. NAFCU applauds you for your efforts to ensure a simpler and fairer tax code for both corporations and individuals.

As member-owned cooperatives providing local communities with basic financial service products, credit unions are proud of their track record in serving Main Street throughout the financial crisis. While meeting the needs of roughly 110 million members, credit unions also provide an important source of capital to our nation's small businesses. All told, the cumulative benefit credit unions provide the greater economy totals over \$16 billion a year, according to an independent study released by NAFCU earlier this year. A copy of this study is enclosed for your review.

As the study also shows, altering the tax status of credit unions would have a devastating impact not only on credit union members across the country, but also on consumers and small businesses in general. 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.

Simply put, the tax exemption is an issue of survival for credit unions. In other countries where the tax exemption has been eliminated for credit unions, the number of credit unions has declined dramatically. If the tax exemption was removed, many would convert to banks or just go away. Without credit unions, which effectively provide checks and balances in the marketplace, for-profit banks would likely increase rates and fees on consumers.

While all financial institutions have grown since the passage of the *Federal Credit Union Act* in 1934, it should be noted that the credit union market share of household financial assets is roughly the same today as it was 30 years ago. The defining characteristics of credit unions remain unchanged today from when


Congress passed the *Federal Credit Union Act* – they are not-for-profit cooperatives that serve a defined field of membership and cannot issue capital stock. These defining characteristics are the same for both the largest and smallest credit union.

Despite what some in the banking industry claim, credit unions actually pay many taxes. They pay property taxes, federal payroll taxes, and various local taxes. Credit union members also pay federal income taxes at the individual rate on the higher dividends that they receive from their credit union. Furthermore, while many in the banking industry claim that credit unions have an unfair advantage, only 2 banks have converted to a credit union, while 38 credit unions have converted to a bank in the last 20 years.

Credit unions help facilitate economic growth through lower loan rates, higher interest on deposits, and lower fees. Any effort to strip credit unions of their federal tax exemption will have a drastic and immediate negative impact on credit unions and their 110 million members. Credit union members will ultimately bear the cost of any new tax imposed on credit unions. Because this issue strikes at the very core of how credit unions have operated since their inception, protecting the credit union tax exemption is the chief priority of NAFCU.

We commend you and the other Finance Committee members for your efforts. We look forward to working with you on tax reform legislation that recognizes the value and importance of credit unions. If my colleagues or I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact me or NAFCU's Vice President of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,



Carrie R. Hunt

Executive Vice President of Government Affairs & General Counsel

cc: Members of the Senate Committee on Finance

Enclosure: 2017 Feinberg-Meade Study on the Economic Benefits of the Credit Union Tax Exemption to Consumers, Businesses, and the U.S. Economy