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Consumers Lose With Tax On Credit Unions

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Even though the banking industry is enjoying record profits, it is trying to convince lawmakers to take steps against its competition by adding new taxes to credit unions, which are consumer-owned cooperatives. Increasing taxes on credit unions would effectively be increasing taxes on the more than 2 million consumers in Indiana who belong to them. This attempt to saddle credit unions with more expenses comes in a year when the U.S. banking industry is estimated to enjoy a $23 billion reduction in expenses from the new tax law.

Banks hold 93% of all assets of financial institutions, yet still want Congress to hurt credit unions by targeting them with new taxes. Consumers need to be aware that the banking industry wants to gain at their expense.

Here's why consumers will lose if banks win on this issue. Credit unions on average offer better rates and lower fees than banks because—due to their member-owned not-for-profit cooperative structure—earnings not needed for reserves are returned to members through offering lower prices; as contrasted to most banks where profits are generated to benefit stockholders, not customers. In Indiana, credit union members receive a combined annual financial benefit of over $126 million compared to if they had to use banks instead. The presence of credit unions also causes banks to offer better pricing to their customers than would otherwise be the case, so this issue has implications for all consumers.

Credit unions remain locally-rooted in the communities where they operate. The banking industry, on the other hand, has seen the largest 100 U.S. banks grow to 75% of all bank assets, when 25 years ago that group held just 41%. Out-of-state banks already control 40% of total bank deposits in Indiana.

Given the cooperative structure and mission of credit unions, the current types of taxes paid are appropriate, new taxes are not. The Competitive Enterprise Institute stated in a letter sent in May to a tax policy leader in Congress, "While credit unions are not taxed at the corporate level, their individual member-owners are fully taxed on the proceeds distributed by credit unions as they are taxed on interest (earnings)." Instead of trying to hinder competition from credit unions by lobbying for higher taxes on them, perhaps the banking industry should instead focus more on issues such as why it has paid more than $240 billion in penalties stemming from the financial crisis, and work to remedy those problems.

Just as credit unions have a different tax status because they differ from banks by being structured as member-owned cooperatives, there are 1,965 Subchapter S banks that also have a different tax status from other banks and don't pay taxes at the corporate income level. So, there are different tax treatments for different types of banks, just as there is a different tax treatment for good reasons for credit unions.

A typical bank could eliminate its corporate tax expense by converting to a credit union, but it would have to be willing to allow all of its depositors to become its owners instead of being owned by a separate group of stockholders. Banks don't want to turn over ownership and control to all of the consumers who deposit money there. Instead, their lobbying efforts to increase taxes on credit unions are an attempt to benefit by hindering competition. The more than 2 million Hoosiers who belong to Indiana credit unions, and all consumers, will lose if banks win. Credit unions and their associations are working hard to make sure Congress says no to banks and yes to consumers on this issue.

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