April 25, 2018

The Honorable Orrin Hatch
Chairman, Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Hatch and Members of the Committee:

Even as the Tax Cuts and Jobs Act is implemented, many opportunities remain to not only simplify the Tax Code, but also reduce the economic distortions that have become evident through provisions in the law over time. On behalf of the undersigned organizations, we write regarding one such provision — the corporate income tax exemption granted to credit unions. Our organizations are concerned that some large credit unions have strayed from their intended purpose, as defined by the Federal Credit Union Act of 1934. We urge your committee to thoughtfully examine this exemption to ensure adherence to the original intent of the statute. This discussion must not be the pretext for selectively raising federal revenues or tax burdens; rather, it should be viewed as a way to foster broader-based, long-term tax relief and cultivate greater economic efficiency.

The separate treatment of credit unions in the Tax Code was born in the midst of the Great Depression with the goal of helping unbanked and lower-income individuals obtain access to financial services. This tax-exempt status was granted with requirements to limit their depositors to groups holding a common bond, such as an occupation, community, or association, and to avoid high-risk, high-reward investments. While the overwhelming majority of credit unions still conform to these founding principles by providing specific financial services to specific groups, some of the larger institutions more closely operate as regular banks than credit unions. These particular entities have eased their membership requirements and accepted customers who do not meet their original qualifications, which they set themselves. In doing so, they may have undermined the "common bond" requirement.

A tax exemption gives these select few credit unions a distinct edge over taxpaying banks and creates an uneven playing field, particularly over smaller community banks, which compete for similar customers.

The budget and revenue implications of current policy are significant. If preserved in its entirety, the credit union tax exemption's revenue impact will be $35 billion over the next decade, according to the Office of Management and Budget. About 75% of the tax advantage flows to the top 5% of credit unions, which are worth over $1 billion. These facts illustrate one of many areas where reform could open up avenues for making permanent or strengthening tax policies that benefit entire business sectors.

As with any industry, the realm of finances has grown and changed over the past several decades, and it is important for Congress to regularly review the governing tax and regulatory provisions. From this perspective we urge the

Finance Committee to evaluate the tax exempt status for large credit unions, so that it remains aligned with the intent of Congress and the interest of sound economic principles.

Sincerely,

Pete Sepp, President
National Taxpayers Union

David Williams, President
Taxpayers Protection Alliance

Matt Kandrach, President
Consumer Action for a Strong Economy (CASE)

Palmer Schoening, Chairman
Family Business Coalition

Seton Motley, President
Less Government

John M. Palatiello, President
Business Coalition for Fair Competition

Andrew F. Quinlan, President
Center for Freedom and Prosperity

Mario Lopez, President
Hispanic Leadership Fund

Colin Hanna, President
Let Freedom Ring

George Landrith, President
Frontiers of Freedom