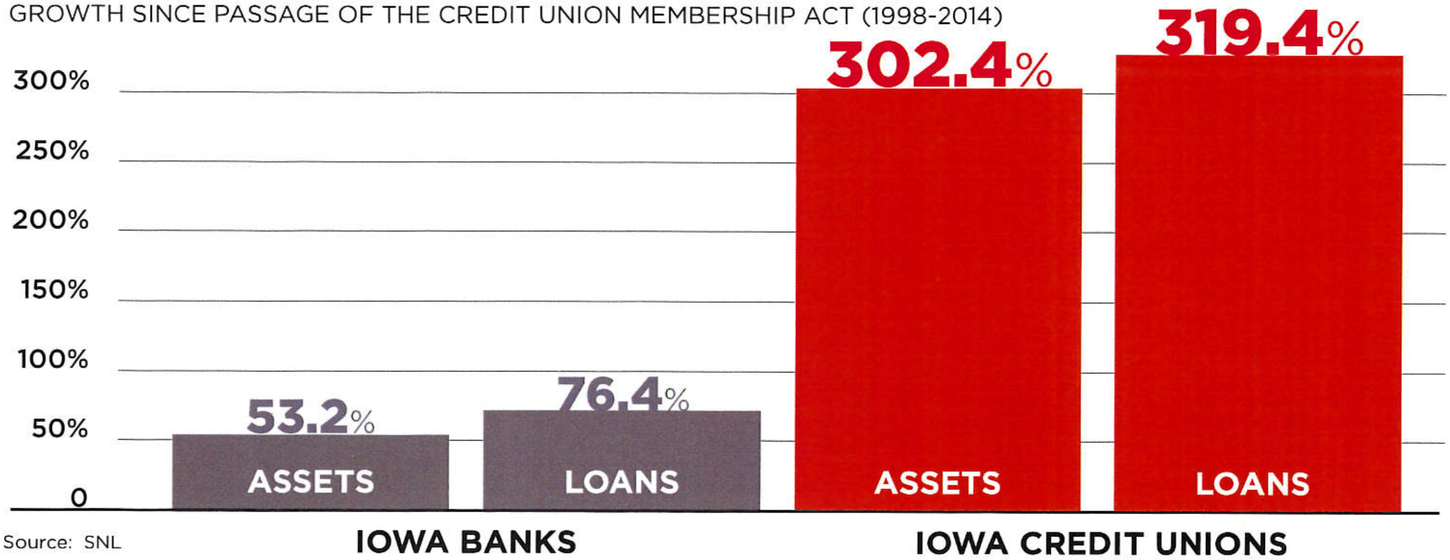
IOWA CREDIT UNION FACT SHEET

Unequal taxation distorts the marketplace.

When policymakers provide a statutory advantage to one competitor over another, it impacts and distorts the marketplace. It allows one sector to grow at the expense of another.

GROWTH SINCE PASSAGE OF THE CREDIT UNION MEMBERSHIP ACT (1998-2014)



Source: SNL

High Profits, Low Taxes

Institution	Assets	Net Income	Income Taxes Paid
Bankers Trust	$3.1 billion	$28.2 million	$14.4 million
Veridian Credit Union	$2.6 billion	$24.6 million	$370,688
University of Iowa Community Credit Union	$2.6 billion	$38.7 million	$339,294
Hills Bank and Trust	$2.3 billion	$27.4 million	$11.4 million
MidWest*One* Bank	$1.8 billion	$20.5 million	$7.8 million

Source: SNL,2014; Credit Union Tax: Blackhawk and Johnson County Treasurers

Big Business Lenders

Institution	Business Loans	% of Total Assets
Iowa Bank Industry Average	$72,013,000	23%
Dupaco Community Credit Union	$250,122,000	20%
University of Iowa Community Credit Union	$434,359,000	17%
Community 1st Credit Union	$60,811,000	12%
Collins Community Credit Union	$93,085,000	11%

Source: SNL, 2014, By Percent of Assets; Percent represents Commercial & Industrial and Commercial Real Estate loans

There is no accountability.

Taxpayers have a **right** to know, and policymakers have a **responsibility** to know.

THIS TAX PREFERENCE IS NO LONGER SERVING ITS PURPOSE.

	Credit Union Customers	Bank Customers
Low Income	14%	**24%**
Moderate Income	17%	16%
Upper Income	**49%**	41%

Source: *Government Accountability Office, 2006*

ONLY 6 PERCENT OF CREDIT UNIONS PRODUCE 77 PERCENT OF INDUSTRY PROFITS.

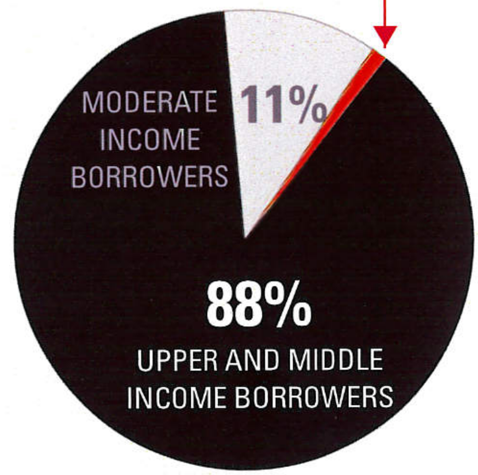
Credit unions with more than $1 billion in assets.

Source: *National Credit Union Administration data, 2012*

THE CREDIT UNION TAX SUBSIDY HAS COST TAXPAYERS AN ESTIMATED $20.5 BILLION SINCE 2001 AND WILL COST TAXPAYERS ANOTHER $10 BILLION IN THE NEXT 5 YEARS.

ONLY 1%

OF IOWA CREDIT UNION MORTGAGE LOANS GO TO LOW-INCOME BORROWERS.



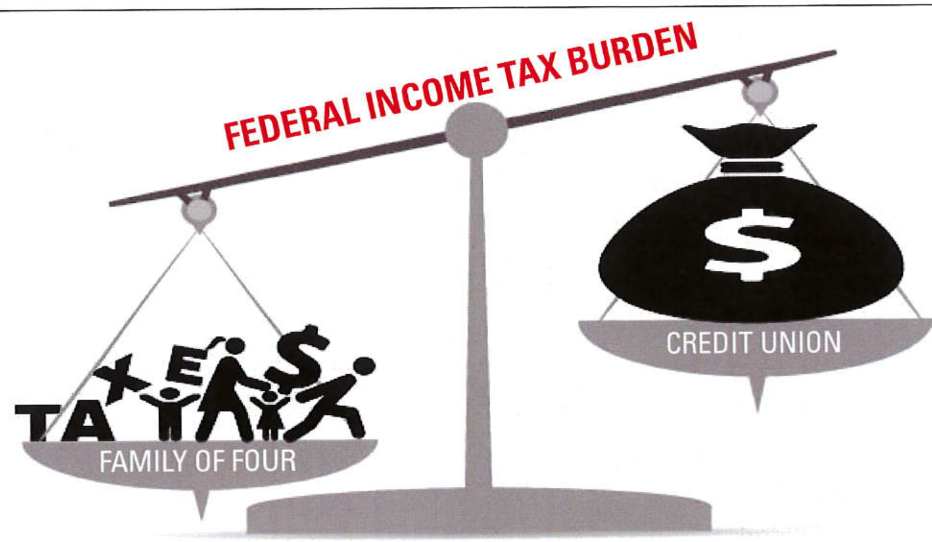
How is the tax subsidy helping low-income borrowers?

Source: Home Mortgage Disclosure Act data, 2014

Iowans get it.

A survey of Iowans found that a majority favored eliminating the credit union tax exemption.

Source: 2015 Victory Enterprises Survey



PAYS $11,402

PAYS $0

Sources: Internal Revenue Service, Average Total Income Tax Paid Per Return, 2011 (Most Recent Data) and NCUA Call Report Data, 2014

Why are credit unions tax exempt?

Credit unions say they are tax exempt because they are member owned.

But if someone starts a member-owned chain of gas stations with an all-volunteer board, it cannot qualify for a tax exemption - so **it isn't about member ownership**.

Credit unions say they are tax exempt because they are democratically controlled.

But taxed corporations with voting shareholders embrace the same ideals. Democracy is a good thing, but **it makes no difference to an organization's tax status**.

Every nonprofit organized in the U.S. fulfills some sort of civic or social role.

In the case of credit unions, the social mission was to provide financial services to those consumers who might not otherwise have access to credit. That was the goal, but it is no longer the reality.

So are credit unions fulfilling the mission?

Not according to the most recent study of credit unions done by the U.S. Government Accountability Office (GAO). (NCUA is the National Credit Union Administration)

"NCUA Programs Target Individuals of Low- and Moderate-Income, but Limited Data Preclude an Evaluation of Actual Service to Those Individuals."

"NCUA Encouraged Growth of Low-Income Credit Unions and Adoption of Under-served Areas, but Cannot Quantify Impact of Programs on Use of Credit Union Services by Individuals of Modest Means."

"NCUA Has a Pilot Survey to Measure Income of Credit Union Members, but Will Not Be Able to Use Results to Determine What Services Members at Various Income Levels Receive."

"Federal Reserve Survey Data Suggest that Credit Unions Continued to Serve a Lower Proportion of Low- and Moderate-Income Households than Banks."

"Credit Unions Offered Better Interest Rates on Some Products, but the Extent to Which the Benefits of Tax-Exempt Status Have Been Passed to Members Is Unclear."

"Lack of Guidance and Criteria for Applying UBIT to State Credit Union Activities Makes Determining Compliance with the Requirement Difficult."

"Group Filings Make It More Difficult for IRS to Scrutinize the Activities of Individual Credit Unions."

"Public Reporting of Executive Compensation for Federal Credit Unions Is Limited and Regulator Scrutiny of Compensation Is Primarily Reviewed for Safety and Soundness Concerns."

AS A RESULT

- **Low-income people still struggle with access to financial services.**
- **All taxpayers have an increased tax burden because of an exemption that no longer serves its intended purpose.**

FOR MORE INFORMATION:

Sharon Presnall, Senior Vice President, Government Relations and Compliance
Iowa Bankers Association
515-286-4382 | spresnall@iowabankers.com

Bank taxes support the community. *What about credit unions?*

Sub S Banks vs. Credit Unions: An Unfair CU Tax Advantage

Exposing the Credit Union Myth About Subchapter S

Credit unions prefer not to talk about their industry's multi-billion-dollar federal and state income tax exemptions. Instead, to avoid closer scrutiny by policymakers over the repeal of unnecessary subsidies, credit union representatives try to steer the discussion toward the tax treatment of Subchapter S banks.[1] Their claim: Sub S banks have the same tax benefits as credit unions. Nothing is further from the truth.

Banks' Earnings Are Always Taxed—Not So For Credit Unions

A critical distinction between Subchapter S banks and credit unions is that a bank's shareholders are still required to pay taxes on Subchapter S earnings whether or not those earnings are distributed (paid out through dividends or capital gains). Credit unions can avoid taxation by retaining their earnings, meaning their earnings don't go to the members, but are used to grow the institution. The potential tax revenue from credit unions' income, then, is lost forever.

Take, for example, a Subchapter S bank with $1 million of retained earnings. The shareholders could pay close to $400,000 in income taxes. The tax liability for a comparable credit union with $1 million in retained earnings would be $0.

For the Subchapter S bank, there is also a looming double tax. The built-in gain income from the disposition of certain assets and excess passive investment income is taxed twice—once at the corporate level and again as a tax on individual shareholders. Not so for credit unions.

Another important distinction: Every one of the 6,752 credit unions is eligible for tax-exempt status—regardless of how big they are or how much they offer bank-like products. In contrast, Sub S institutions are under complex and restrictive IRS rules and only about 2,227 mostly smaller, community banks have elected this structure. Again, the balance is skewed in favor of tax-advantaged credit unions. Comparing the two is like comparing apples to oranges.

1. Subchapter S of the Internal Revenue Code allows eligible small businesses to obtain tax benefits equivalent to those of a partnership while being allowed to take advantage of the limited liability aspects of the corporate structure. All earnings are subject to current taxation at the shareholder level whether or not those earnings are distributed. Unlike a clear-cut income tax exemption, the eligibility rules under the Subchapter S regime include significant restrictions, such as limits on the number and type of shareholders, that have the effect of limiting the number of banking institutions eligible for subchapter S status.

Banks as Good Corporate Citizens

Subchapter S banks are typically smaller, serving local communities. As good corporate citizens, their taxes on earnings help build healthy, viable communities by paying for such things as improved schools, more teachers, better roads and more police and fire fighters.

Credit unions, on the other hand, enjoy tremendous growth while often avoiding contributing to the tax base integral to maintaining these community services. And as the credit union industry continues to grow at the expense of non-subsidized private-sector competitors, more and more dollars flow away from supporting these essential community services. Does this make sense when federal, state and local governments face rising budget deficits?

Subchapter S Status Can't Compare to CUs' Tax Exemption

It is no secret that many modern credit unions, particularly those that have sought to aggresively expand their product base and membership rolls, are indistinguishable from banks in terms of the products and services they offer and the population base they serve—which makes federal and state income tax exemptions hard to justify. In essence, they have become nothing more than "tax-exempt banks." The tax exemption—and the government subsidy it represents—drives aggressive growth of many credit unions, and crowds out their community bank tax paying competitors. And with that growth comes an ever-expanding tax subsidy.

Subchapter S banks simply cannot compete with this powerful—and growing—credit union tax exemption.

Why Not Let Credit Unions Adopt Something Like Subchapter S Status?

If Subchapter S is such a boon for eligible banks, maybe credit unions should adopt a similar approach to taxation. Traditional tax methods such as Subchapter S, cooperative, limited liability company or partnership taxation ensure that taxes are paid on earnings while minimizing anti-competitive market effects. The credit union federal tax exemption doesn't do that. Subchapter S banks and thrifts pay their fair share of the tax burden. Credit unions do not. By adopting Subchapter S or a similar form of taxation, these previously tax-exempt institutions would join tax-paying institutions in strengthening America's communities. What could be fairer?

Taxation of S Corporations vs. Tax-Exempt Status of Credit Unions

	Subchapter S Bank	Credit Union
Corporate-Level Taxes	Pays taxes on excess passive income and built-in gains income	No taxes paid
Retained Earnings	Shareholders pay taxes on income—whether distributed in dividends or not	No taxes paid
Interest Income	Bank customers pay taxes on interest paid	Same as Subchapter S Banks