

To: Members of the Iowa Legislature's Tax Expenditure Committee
From: Jon Murphy, Director of Government Affairs
Re: Moneys and Credits, Franchise Tax Agenda Item
Date: November 17, 2015

Members of the Tax Expenditure Committee –

As the trade association representing Iowa's credit unions, we welcome the opportunity this Committee has provided to review the state moneys and credits tax and the franchise tax. There are 103 credit unions (102 state chartered, one federally chartered) in the state of Iowa, holding nearly \$13.2 billion in assets, and serving more than one million members. Despite these strong numbers, credit unions hold only about 12% of the deposits in Iowa, compared to almost 88% held by banks.

Credit Union Tax Status is Earned; Iowa Consumers Pocket the Benefit

As not-for-profit financial cooperatives, credit unions are structured differently than for-profit banks. First and foremost, credit unions return their earnings to members in the form of lower rates on loans, better rates on savings and lower fees. This structure is different than for-profit banks, which send profits back to a select group of shareholders. Over the last year, this difference has helped Iowa credit union members save \$100 million of their own money, compared to what they would have paid for similar services at a bank. This structural difference is the main reason why credit unions are taxed differently than banks at the state and federal levels.

Iowa credit unions do pay taxes. Credit unions pay a state moneys and credits tax, which is assessed at .5% of legal reserves. In addition to the moneys and credits tax, credit unions pay several other taxes, including payroll, property and state sales tax. Congress exempts federally-chartered credit unions from state sales and income tax (federal credit unions also would not pay the state moneys and credits tax).

Banks Dominate Market with Record Profitability

For-profit banks have criticized the choice and competition provided by credit unions since Congress passed the Federal Credit Union Act in 1934. Banks have used the same arguments against credit unions for decades, despite the fact that banks have consistently done well. In 2014, for example, Iowa banks recorded record profits (\$849 million) and strong loan growth. Nationally, banks control 93% of the market—Wells Fargo has more assets than the entire credit union movement in the United States combined.

Iowa has strong credit unions. Iowa has strong banks. The ultimate beneficiary of this strength in financial services are Iowans who are able to go out into the marketplace and choose which model works best for them, their business or their family. Clearly, the financial services taxation policies in Iowa are working and should remain in place now and into the future. We ask you support to them during the November 18 meeting of the Tax Expenditure Committee.



CREDIT UNION FACTS:

 safe.  sound.  local.

Save You Money

Credit unions are not-for-profit financial institutions. Meaning they offer many of the same products and services as banks—including savings and checking accounts, loans, ATMs and online banking—but there are also big differences that can save you money.

Credit unions are owned and controlled by their members, not profit-driven shareholders. That means the average credit union can offer better rates and lower fees.

Safe & Sound

Every Iowa credit union carries federal deposit insurance through the National Credit Union Share Insurance Fund (NCUSIF), administered by the National Credit Union Administration (NCUA). The NCUA is like what the FDIC is to banks. This insurance protects members' accounts up to \$250,000.

Local

Credit unions are good corporate citizens and are located within the communities they serve. Credit unions lend more money back to their members thus improving the economy of the communities they serve.

Owned by Members

Every credit union member is an owner of the financial cooperative, not just a customer. All credit union members are owners and elect a volunteer board of directors to represent their interests.

Volunteer Board of Directors

The credit union's board of directors is elected by the membership and from the membership. Each member is allowed one vote. Board members are volunteers and are not compensated for their efforts.

Credit Unions Pay Taxes

Credit unions do pay taxes. Iowa state-chartered credit unions pay a moneys and credits tax, which is based upon the growing reserves of the credit union. State-chartered credit unions also pay property taxes, state sales taxes and employment-related taxes. In fact, Iowa credit unions pay more types of taxes than credit unions in other states and are subject to more types of taxes than other Iowa not-for-profit organizations.

Federally chartered credit unions are exempt from all income and sales taxes imposed at the state level. Federal credit unions do pay property taxes. Despite the federal tax exemption and the fact that credit unions would have substantially lower examination fees, 99 percent of Iowa credit unions remain state-chartered.

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Jon Murphy
Director of Government Affairs
Iowa Credit Union League
Phone: 800.860.6180 x8956
Email: jonm@policyworkslc.com

CREDIT UNIONS IN YOUR COMMUNITY

Iowa credit unions are owned by people who live in the communities they serve and are dedicated to the financial well-being of their members. More than one million Iowans count on their local credit union to help with their financial needs.

Iowa Senate District 2

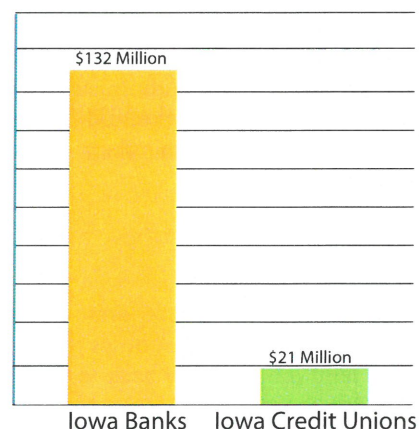
- Registered Voters in district: 40,010
- Credit Union Members in district: 5,150
- Largest Credit Unions in district: (membership): North Star, Veridian, Citizens Community

Credit Unions Help Iowans Save

Credit unions have a positive financial impact on all consumers. **Iowa credit union members saved an average of \$100 million** in 2014 compared to what they would have paid at a bank.

Source: NCUA, CUNA and Datatrac. As of 12/31/2014.

Iowa Median Asset Size by Institution Mid-Year 2015



Iowa Interest Rates Mid-Year 2015

	Credit Unions	Banks
New Auto	2.48%	4.18%
Credit Card	11.80%	16.83%
Used Auto	2.38%	4.12%

Source: Census, NCUA, FDIC, Informa Research Services Inc. and CUNA

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Do Banks Really Want to “Level the Playing Field”?

Banks claim there is an “uneven playing field” due to the fact that not-for-profit credit unions are taxed differently. Policymakers have chosen to tax banks and credit unions differently because the two entities have chosen distinct ownership structures. Credit unions’ choice to do business as not-for-profit cooperatives creates numerous challenges and restrictions that banks do not face. In addition, there are a number of powers that banks have that state and federal laws do not grant credit unions. The playing field is certainly tilted—but it favors the banks.

Powers and Services Banks Have That Credit Unions Do Not:



THE POWER TO...

- offer fiduciary services (such as trust services)
- issue stock to generate capital
- purchase secondary capital in the marketplace
- purchase or sell derivatives
- organize and operate mutual funds
- make certain investments that are not permitted for credit unions
- form holding companies
- issue, underwrite and sell stocks, bonds, debentures, notes and other securities
- make unlimited business loans (credit unions’ are capped at 12.5% of assets)



Operational Changes Banks Must Make to Do Business Like Credit Unions:

- Turn bank ownership over to all customers, not just a select group of stockholders



- Provide each customer one vote in electing the board

- Eliminate compensation for board members—credit union boards are comprised of volunteers

- Restrict their customer base by only serving persons in a specified field of membership

- Turn over excess earnings to all customers, not just stockholders

- Face tougher capital requirements (credit unions can't issue stock or count alternative capital toward regulatory requirements)



If banks truly thought credit unions were advantaged, they would become credit unions. However, they know that the operational and service restrictions would far outweigh any reduced tax liability gained by changing their charter to a credit union.

Banks don't really want a "level playing field," they want to eliminate competition, which is a disadvantage to Iowa consumers.

Membership Benefits Report

CUNA Economics and Statistics

Estimated Financial Benefits for Iowa Credit Unions Mid-year 2015

	Avg. Balance at Credit Unions (1)	Rate Difference vs. Iowa Banks (%) (2)	Total Financial Benefit to Your Members
Loans			
New car loans	822,362,735	-1.70	\$13,988,390
Used car loans	2,267,942,902	-1.44	\$32,590,340
Personal unsecured loans	177,524,857	0.60	-\$1,072,250
5-year adjustable rate 1st mortgage	2,691,732,249	0.10	-\$2,799,402
15-year fixed rate 1st mortgage	830,616,931	-0.14	\$1,171,170
30-year fixed rate 1st mortgage	306,390,831	-0.03	\$94,981
Home equity / 2nd mortgage loans	1,274,355,929	-0.39	\$5,020,962
Credit cards	345,312,885	-5.03	\$16,877,167
Interest rebates			\$0
Total CU member benefits arising from lower interest rates on loan products:			\$65,871,359
Savings			
Regular shares	3,243,815,068	0.07	\$2,338,074
Share draft checking	1,534,903,804	0.85	\$12,995,519
Money market accounts	2,168,005,987	0.14	\$2,948,488
Certificate accounts	3,023,760,912	0.20	\$5,987,963
Retirement (IRA) accounts	657,118,794	0.17	\$1,097,488
Bonus dividends in period			\$0
Total CU member benefit arising from higher interest rates on savings products:			\$25,367,532
Fee Income			
Total CU member benefit arising from fewer / lower fees:			\$8,785,689
Total CU member benefit arising from interest rates on loans, savings products and lower fees:			\$100,024,580
Total CU member benefit / member:			\$96
Total CU member benefit / member household:			\$183

Source: Informa Research Services, NCUA, and CUNA

(1) Average balance as of Mid-year 2015 and Mid-year 2014, according to the NCUA call report.; (2) Source for rates and fees: Informa Research Services;

Iowa Franchise Tax Estimate for Banks Headquartered in Iowa

	Year-to-Date			
	2014Q1	2014Q2	2014Q3	2014Q4
Total Net Income	\$201,975,000	\$418,030,000	\$640,277,000	\$848,176,000
Franchise Tax Estimate	\$10,098,750	\$20,901,500	\$32,013,850	\$42,408,800
Franchise Tax Estimate Payments				\$37,301,015
Franchise Tax Final Payments				\$6,224,477
Franchise Tax Refunds				(\$761,181)
Net Franchise Tax Payments				\$42,764,311
Estimated Franchise Tax Payments by Non-Iowa Headquartered Banks				\$355,511