BUSINESS

# Banks think the IRS should collect income tax from credit unions. Here's why

Russ Wiles
Arizona Republic

Published 6:01 a.m. MT Oct. 22, 2023 | Updated 6:01 a.m. MT Oct. 22, 2023

Credit unions have largely operated under the radar lately, with no major failures or other controversies.

But banks would like to put credit unions back in the headlines, at least in regards to the latter's partial tax-exempt status.

Credit unions don't pay federal income taxes, an exemption that banks view as unfair, especially as credit unions for years have been offering most of the same consumer products and services such as credit cards, checking accounts, saving accounts, auto loans and mortgages, while often competing with banks in these and other areas.

Some credit unions are larger than most banks, though the largest banks dwarf the biggest credit unions by a comfortable margin. Credit unions do pay property, unemployment insurance and other types of taxes but not federal income taxes.

Lately, some credit unions have acquired banks or have used their tax-exempt revenue for expenditures such as stadium-naming rights, complained Robert Flock, vice president of strategic engagement at the American Bankers Association.

He cited Mountain America Stadium, formerly Sun Devil Stadium on the Arizona State University campus in Tempe, as an example. The sponsoring entity is Mountain America Credit Union, one of the nation's largest, which is headquartered in Utah and operates in six states including Arizona, counting 1.1 million members and $17 billion in assets.

Credit union officials don't see that as a problem. "Any business has to do marketing to keep growing," said Mike Schenk, chief economist at the Credit Union National Association, a trade association. Stadium-naming rights are "one way to market the brand and the name," he said.

## Survey reveals confusion over tax status

The American Bankers Association recently surveyed consumers about the tax status of credit unions, apparently with the aim of having Congress look at the exemption again. If credit unions had to start paying taxes, it could crimp the yields they pay on interest-bearing accounts and result in slightly higher rates on loans.

Bankers say a change is warranted.

“Since Congress last convened a hearing on the credit union tax exemption in 2005, the credit union industry has undergone a metamorphosis,” said Flock. “Credit unions have a congressionally mandated mission to prioritize service to lower- and middle-income communities. However, they increasingly prioritize growth by advocating for changes to membership rules, raising money from investors and even buying banks.”

He said results from the survey indicate consumers want Congress to examine credit unions again to ensure that their activities justify the tax exemption, although most Americans seem oblivious to the issue. In the September poll of more than 2,200 adults sanctioned by the ABA, only 18% of respondents said they were aware credit unions do not pay federal taxes, while the other 82% said they weren’t aware of credit unions’ tax status or mistakenly thought they did pay federal income taxes.

When informed of the issue, 49% of respondents agreed that credit unions should pay federal taxes just like banks, compared to 18% who disagreed, with the rest not knowing or voicing an opinion. According to the poll, most consumers also said credit unions should be subject to community reinvestment reporting requirements like banks.

## Credit unions straying from mission?

The mandate for credit unions is to provide basic financial services for moderate-income people in a certain geographic area or for those with an employment connection or some other affiliation, but increasingly credit unions have strayed from that, often putting them in direct competition with banks, Flock said.

Credit unions counter that their tax status is justified and that they continue to serve customers of modest means primarily, including those with relatively low credit scores.

In many cases, members can earn higher rates on deposits by dealing with a credit union or pay lower interest rates on loans compared to banks. Deep-subprime borrowers could save about $11,000 in interest payments over the life of a typical five-year auto loan by doing business with a credit union rather than a bank and around $70,000 in interest over the life of a 30-year mortgage, according to Schenk. Borrowers with stronger credit profiles also would earn more or save more with credit unions, he said, though the differences would be smaller.

Credit union advocates also say borrowers often have an easier time securing loans from those institutions compared to banks, especially people with lower credit scores. "Credit unions are firmly focused on helping people of modest means the most," Schenk said, adding that he has seen no recent momentum in Congress for changing credit unions' income-tax status.

## Some bank, credit union failures this year

Both banks and credit unions have felt a few bumps this year in terms of failures. Five small credit unions have liquidated or needed federal regulators to take control of their operations so far in 2023. Four banks, generally much larger, also have gone under this year, highlighted by the demise of First Republic Bank and Silicon Valley Bank.

The Federal Deposit Insurance Corp., which backs bank deposits, recently unveiled a publicity campaign to raise awareness of the protections provided to the public.

“In light of concerns raised by the bank failures earlier this year, this is an important moment for the FDIC to reach out to the public and ensure that more consumers understand deposit insurance and how it protects their money," said Martin Gruenberg, the agency's chairman, in a prepared statement. Roughly 99% of bank deposit accounts are covered, he added.

More on the deposit-insurance awareness campaign can be seen on the fdic.gov website.

As with banks, the vast majority of credit union accounts are federally insured, through the National Credit Union Administration, up to at least $250,000 per depositor.

*Reach the writer at russ.wiles@arizonarepublic.com.*