

## **Credit Unions and Taxes**

by  
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*Valley News Dispatch 3/08/98 - Community Columnist*

If you paid \$1 in federal income tax this year, you paid more than all 12,000 credit unions combined. Credit unions pay no federal income tax.

In a 5-4 decision, the Supreme Court held that the National Credit Union Administration's (NCUA) policy of allowing an occupational federal credit union to include multiple common bonds in its field of membership (in other words, anyone) is illegal. The high court confirmed that members of a federal credit union, by law, must share a single common bond. The four dissenting votes were on the issue of standing, not the merits of the case. Otherwise, the decision would have been unanimous.

What this means is that credit unions can no longer unilaterally decide which laws they want to obey and which they want to ignore. This also means that law-abiding credit unions rightfully retain their tax-free status.

While there are many good credit unions organized across the country that have legally stuck to their common bond charter, there are some conglomerates that have grown far beyond their congressionally mandated mission. Obviously these conglomerates do not want to lose their billion dollar federal subsidy. Tens of thousands of credit union executives and employees have launched a massive campaign to pass legislation overturning the decision and permitting federal credit unions to offer tax-subsidized financial services to virtually anyone.

Banks aren't afraid of competition. They just want fair competition. Credit unions that act like banks ought to pay taxes like banks. It quacks like a duck but claims it is not a duck.

In a recent editorial, this newspaper stated "...large banks, at least, are generally viewed as not interested in providing the kinds of small consumer services that people can get at credit unions." This is not about free choice. This is about a free ride on the backs of American taxpayers. This is about the antithesis of capitalism. This isn't about large banks. This is about the calculated abolition of community banks who are interested in providing the services described.

Community banks in the United States have historically provided a very efficient means of allocating capital. In recent times, they have become synonymous with customer service, profitability, technological innovation and dedication to the community.

Imagine working hard for a small bank whose sole advantage over large banks is to give customers a good rate and better service to keep ahead. Imagine further, these small banks getting whacked on the other side by huge conglomerates allowed to keep 34%

more in profits. How are law-abiding, tax-paying community banks like Allegheny Valley Bank and Apollo Trust Company able to survive despite these difficult odds? I submit the free market place has determined these financial institutions understand customer service and - without a federal subsidy.

The NCUA has decided there is such a thing as a credit union that's too small and yet, small groups are what credit unions were originally designed to serve. If, as NCUA say, credit unions have outgrown their original mission, haven't they also outgrown the special tax and regulatory treatment that went with it?

This case is about big business. It's about a potential \$1 trillion dollar industry (projected 10 year growth rate) wanting their cake and eating it too. It's about big-time credit union lobbyists who don't pay hotel tax when they come to Washington to lobby Congress to let them keep their subsidy.

I support modernization of the financial services industry as a whole. But if credit unions want to formally move away from their intended mission of serving people of modest means and deal with all customers and offer all products, they should pay their fair share of taxes.

Canadian credit unions lost their tax-exemption two decades ago and they continue to prosper. Good credit unions will continue to prosper while enjoying the tax-free status associated with a single common bond.

The Supreme Court has ruled against unlawful socialism in the financial sector. The consumer and taxpayer ultimately win when competition is on a level playing field.



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