

SPECIAL REPORT

BANKING & FINANCE

Credit unions' tax exemption creates an unfair advantage

What impact would an exemption from state and federal income taxes have on *your* business? Think about it for a minute.

But wait, what if it were your competitor who is tax exempt, but not you? Each of your businesses provides the same services, has the same number of employees, and is located in the same area. But, once upon a time, your competitor was "different." Maybe it made a different product, or served a different purpose. However, over the years, the competitor evolved and slowly became more and more like your business. Now, you both offer exactly the same products or services. However, because the competitor once was "different," it will *never* pay taxes.

Well, once upon a time, credit unions were given an exemption from state and federal taxes in order to help them serve groups of individuals with a common bond who were of modest means. Since then, credit unions have also evolved, and now

provide the same services as banks. And now, there are very few people who *don't* qualify to become a credit-union member. But, banks *do* pay their taxes.

For example, the bank where I work is a small community bank dedicated to providing personal attention to the customers we serve. We offer one-on-one interaction with lenders and tellers who know you by name. In 2010, this bank paid 7.1 percent of net income in New York State tax and 34 percent of that income in federal tax. More than 40 percent of net income was used to pay taxes that support the economy at the local, state, and federal levels.

In 2010, credit unions in New York State alone reported more than \$353 million of net income. All credit unions in the United States reported more than \$6.6 billion of net income in 2010. If the credit unions in New York State were held to the same standard as banks — and your business — it could mean more than \$25 million in additional state tax revenue. Similarly, all credit unions in the United States could add more than \$2.2 billion to federal tax revenue. Just think what impact this might have on the tax burden of

your own business and your employees, not to mention the government programs and school budgets that are being slashed.

If you ask them, credit unions will tell you that they deserve an exemption from taxes on their income because they "pass their savings along to members in the form of better interest rates on deposits and loans." I don't find this to be a very compelling argument; any business with the advantage of that extra income, could certainly improve its products and services in a multitude of different ways.

And now, once again, legislation (H.R. 1418 — the Small Business Lending Enhancement Act of 2011) has been introduced in Congress to further expand credit unions' powers, this time by raising their cap on business lending. Expanding their lending powers will displace lending at *all* banks. This decline in lending by tax-paying banks will further reduce tax revenue and will definitely have a negative effect on both business and individual taxpayers.

Your local community banks are happy to compete with other tax-paying institutions, even those "too big to fail" institutions who

have turned "bank" into another four-letter word. However, the credit-union tax exemption creates an unfair advantage. They no longer serve the purpose they were created for and they should pay taxes.

In light of the need to reduce the federal budget deficit, why do our lawmakers continue to ignore this issue? Numerous independent studies have concluded that credit unions are not fulfilling their intended mission and that overall, credit unions serve a lower percentage of households of modest means than do banks.

Credit unions should be held to the same honorable and ethical standards as the citizens they serve. These institutions should stand up to their responsibility instead of hiding behind an outdated image of that "different" function they once served. Their ongoing campaign to become "banks" while avoiding the tax liability is shameful. □

Kathy L. Gilbert is executive assistant at The First National Bank of Groton, which was formed in 1865 and has offices in Groton and Moravia. Contact her at kgilbert@grotonbank.com

KATHY L. GILBERT

OPINION