

Credit Unions Under Fire: Why Taxing Them Could Hurt Communities and Consumers

By Robin Hess



For nearly a century, credit unions have enjoyed a federal tax exemption designed to support their mission: serving people of modest means through a cooperative, not-for-profit model. Today, as credit unions grow larger and more bank-like, the question of whether this exemption still makes sense has resurfaced. Recent studies, surveys and policy

proposals reveal a heated debate with significant implications for consumers, communities and the financial industry.

The Economic Impact Argument

Research by economists Robert Feinberg and Douglas Meade suggests that removing tax exemption could have severe consequences:

- GDP loss: \$266 billion over 10 years
- Jobs lost: 822,000
- Consumer cost increase: \$234.6 billion due to higher loan rates and lower deposit yields

Goal: Demonstrate that taxing credit unions would harm consumers and the economy.

Debate: Critics argue these studies are industry-funded and overstate benefits, while banks claim the exemption creates an uneven playing field.

The Fairness & Competitive Balance Argument

Reports from the Tax Foundation and banking associations highlight that credit unions now hold **\$2.2 trillion in assets** and avoid roughly **\$4 billion in annual federal taxes**. They argue:

- Large credit unions compete directly with banks but pay no taxes.
- Bank acquisitions by credit unions reduce state tax revenues.

Goal: Push for tax parity between banks and credit unions.

Debate: Credit unions counter that banks enjoy their own tax breaks (e.g., Subchapter S status) and that their cooperative model still fulfills a public-service mission.

Policy Proposals

Industry groups like ICBA (Independent Community **Bankers** of America) advocate ending exemptions for credit unions with assets over \$1 billion or all federal credit unions, estimating \$30 billion in revenue over 10 years.

Goal: Increase transparency and reduce deficits.

Debate: Credit unions warn this would harm rural and underserved communities, citing international examples where taxing credit unions led to closures and reduced access.

Consumer Opinion

A recent ABA (American **Bankers** Association) survey found:

- 67% of consumers support Congress reexamining credit unions' tax status.
- 58% believe credit unions should pay taxes like banks.
- Only 17% know credit unions are tax-exempt.

Goal: Build momentum for Congressional oversight of the federal tax exemption credit unions.

Debate: Credit union leaders call the survey misleading, noting that informed consumers overwhelmingly support preserving the exemption. When consumers learn why credit unions are tax-exempt, because they share earnings with members and keep money in local economies, support for the exemption jumps to 78%.

The Big Picture

This debate boils down to two competing visions:

- **Advocates for taxation:** fairness, transparency, fiscal responsibility.
- **Defenders of the exemption:** consumer benefits, economic stability, community impact.

As Congress considers whether to revisit this issue after 20 years, the stakes are high, not just for credit unions and banks, but for millions of Americans who rely on affordable financial services.

This isn't just about taxes. It's about preserving a financial model that prioritizes trust, transparency and community impact. Credit unions aren't chasing quarterly profits, they're helping families buy homes, small businesses grow and communities thrive.