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Should Credit Unions Be Taxed?

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Summary

Credit unions are financial cooperatives organized by people with a common bond; they are the only depository institutions that are exempt from the federal corporate income tax. As financial cooperatives, credit unions only accept deposits of members and make loans only to members, other credit unions, or credit union organizations. Many Members of Congress advocate a reliance on market forces rather than tax policy to allocate resources. Furthermore, some Members of Congress are interested in additional sources of revenue in order to either reduce the deficit, offset the cost of higher federal outlays, or make up for tax cuts elsewhere. Consequently, the exemption of credit unions from federal income taxes has been questioned. If this exemption were repealed, both federally chartered and state-chartered credit unions would become liable for payment of federal corporate income taxes on their retained earnings but not on earnings distributed to depositors. For FY2006 (October 1, 2005 through September 30, 2006), the Department of the Treasury estimates that federal taxation of credit unions would yield revenues of approximately $1.39 billion. For FY2007 (October 1, 2006 through September 30, 2007), the Joint Committee on Taxation estimates that federal taxation of credit unions with assets of $10 million or more would yield revenue of approximately $1.3 billion.

Credit unions differ in some aspects from other providers of financial services, but financial deregulation continues to lessen these differences. Deregulation has resulted from new legislation and decisions of regulatory agencies.

Proponents of the taxation of credit unions argue that deregulation has led to vigorous competition between credit unions and other depository institutions. They maintain that the tax exemption gives credit unions an unfair competitive advantage over other depository institutions, and there is no market failure that justifies government intervention with a tax subsidy.

Supporters of the tax exemption claim that, despite deregulation, credit unions are still unique depository institutions. They assert that the purpose of credit unions is to serve the financial needs of their members rather than to maximize profits. They argue that taxation would eliminate this service character of credit unions.

In the 109th Congress, as of May 23, 2005, no legislation concerning the tax exempt status of credit unions has been introduced. Treasury Secretary John Snow has made statements that appear to indicate that the Bush Administration supports the tax exemption for credit unions. In the future, technological change and deregulation will likely further increase competition between credit unions and other depository institutions. The income tax exemption for credit unions, therefore, likely will be the subject of further debate.

This report is a broad examination of the issues underlying proposals to tax credit unions. It does not track specific legislative proposals. The report will be updated, however, in the event of significant legislative activity.

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Should Credit Unions Be Taxed?

Credit unions are the only depository institutions exempt from the federal income tax. Deregulation is reducing the unique character of credit unions. Many Members of Congress advocate a reliance on market forces rather than tax policy to allocate resources. Furthermore, some Members of Congress are interested in additional sources of revenue in order to either reduce the deficit, or offset the cost of either higher federal outlays or other tax cuts. Consequently, the exemption of credit unions from federal income taxes has been questioned. If this exemption were repealed, both federally chartered and state-chartered credit unions would probably become liable for payment of federal corporate income taxes on their retained earnings but not on earnings distributed to depositors. For FY2006 (October 1, 2005 through September 30, 2006), the Department of the Treasury estimates that federal taxation of all credit unions would raise approximately $1.39 billion.[1] For FY2007 (October 1, 2006 through September 30, 2007), the Joint Committee on Taxation estimates that taxing only credit unions with assets above $10 million would yield approximately $1.3 billion.[2] Approximately one-half of credit unions have assets of $10 million or less, but these credit unions hold only about 3% of all assets in the credit union industry.[3] The issue of taxation of credit unions is examined in this report by covering the following seven topics: concept of a credit union, tax status, deregulation, arguments for and against taxation, debate in the 108th Congress, debate in the 109th Congress, and trends.

Concept of a Credit Union

A credit union is a nonprofit financial cooperative organized by people with a common bond. As financial cooperatives, credit unions only accept deposits of members and make loans only to members, other credit unions, and credit union organizations.[4] A common bond is a unifying characteristic among members that distinguishes them from the general public. Every member of a credit union is an owner and may vote for credit union officers and policies. Credit unions do not have separate capital stock; instead their capital consists of their members' shares in

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[1] U.S. Executive Office of the President, Office of Management and Budget. *Analytical Perspectives, Budget of the United States Government, Fiscal Year 2006*. (Washington: GPO, 2005), p. 317.

[2] U.S. Congressional Budget Office, *Budget Options,* (Washington: GPO, Feb. 2005), p. 301.

[3] Ibid.

[4] Richard P. Kessler, Jr. "Credit Unions in the 1990s," *Consumer Finance Law*, vol. 47, no. 1, winter 1993, p. 4.

accumulated reserves.[5] Each credit union is governed by a board of directors. The board exercises general supervision over all functional areas including membership and credit applications, interest rate policies, and records. The board elects from its membership a president, a vice-president, a secretary, and a treasurer. No elected official except the treasurer may receive any compensation.[6] Credit unions are either federally chartered or state-chartered.

For year end 2004, the 9,346 credit unions had 86.1 million members and total assets of $668 billion.[7] Thus credit unions had an average of $71.5 million in assets. Although most credit unions are small, some are large. For year end 2004, 249 credit unions had assets of $500 million or more.[8] Approximately, one-half of credit unions have assets of more than $10 million, and these credit unions hold 97% of all assets in the credit union industry.[9]

The concept of a common bond is unique to credit unions. In 1970, the National Credit Union Administration (NCUA) was established by the federal government to regulate the credit union industry. The NCUA has specified four categories of common bonds: single occupational, single associational, multiple common bond, and community. Credit union members in the *single occupational* category are employed by the same enterprise, such as the ABC corporation. A credit union in this category may also serve a trade, industry, or profession, such as all teachers. Members of a *single associational* category belong to groups of individuals who participate in activities that develop common loyalties, mutual benefits, and mutual interests, such as the Knights of Columbus. A single associational group must sponsor activities providing for contact among members. A credit union with a *multiple common bond* consists of a combination of occupational and/or associational groups. Members in the *community* category have a common bond based on employment or residence in a geographic area with clearly defined boundaries.[10]

In the late 1970s and early 1980s, serious economic dislocations threatened the financial stability of many federal credit unions. Hence, beginning in 1982, the National Credit Union Administration made a series of administrative rulings that allowed multiple-group federal credit unions, that is, combinations of existing federal credit unions that do not share a common bond.

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[5] Ibid.

[6] Olin S. Pugh and F. Jerry Ingram, *Credit Unions: A Movement Become an Industry* (Reston, Virginia, Reston Publishing Company, Inc., 1984), p. 7.

[7] Credit Union National Association, *Credit Union Report Year-End 2004*, 2004, p. 5, available from [http://www/fdic.gov/qbp/2004 dec/cb2.html], visited May 3, 2005.

[8] Ibid., p. 11.

[9] U.S. Congressional Budget Office, *Budget Options*, (Washington: GPO, March 2005), p. 301.

[10] National Credit Union Administration, *Chartering and Field of Membership Manual* (Washington, March 2003), pp. 18-19.

In 1990, the American Bankers Association and several small North Carolina banks filed a lawsuit challenging the NCUA's approval of a multiple-group field of membership expansion for federal credit unions. On February 25, 1997, the United States Supreme Court, at the urging of the Clinton Administration, agreed to hear arguments in the case.

On February 25, 1998, the U.S. Supreme Court ruled in favor of the banking industry. Legislation was introduced to address the concerns of the credit union industry. On August 7, 1998, the Credit Union Membership Access Act (P.L. 105-219) was enacted. The act grandfathered all current FCUs and all current credit union members and provided for future multiple-group formations subject to limitations that the NCUA must consider when authorizing charters.[11]

Tax Status

The first credit union in the United States was state chartered in 1909. When the federal income tax was enacted, state chartered credit unions were not specifically exempt. In 1917 an administrative ruling by the U.S. Attorney General exempted state chartered credit unions from federal income taxation.[12] In 1934, Congress passed the Federal Credit Union Act, which authorized the chartering of federal credit unions. This act contained no federal tax exemption and allowed states to tax federal credit unions in the same manner as banks. In 1937, Congress amended the act to exempt federal credit unions from both federal and state income taxes because of their service to members.[13] Until 1951, all savings and loans (S&Ls) were exempt from federal income taxes under the same tax code provision. The Revenue Act of 1951 repealed the tax exemption for S&Ls, but the exemption for federal and state credit unions was continued under a separate tax code provision.[14] But Congress provided S&Ls a *de facto* exemption from federal income taxes by permitting a liberal allowance for bad debt reserves. This *de facto* exemption continued until the Revenue Act of 1962, which reduced the liberal allowance for bad debt reserves.[15]

Federally chartered credit unions are exempt from all taxes (including income taxes) imposed by any state, territorial, or local taxing authority, except for local real

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[11] CRS Report 98-933, *Credit Union Membership Access Act: Background and Issues*, by Pauline Smale, p. 1. This report is available on request from the author.

[12] U.S. Department of the Treasury, *Comparing Credit Unions with Other Depository Institutions* (Washington, Jan.15, 2001), p. 28.

[13] "The Tax Exemption Through the Ages," *Credit Union*, Jan. 1986, p. 9.

[14] U.S. Congress, Joint Committee on Taxation, (Prepared for use of the Committee on Ways and Means and the Committee on Finance), *Tax Reform Proposals: Taxation of Financial Institutions* (Washington: GPO, 1985), p. 43.

[15] Kenneth R. Biederman and John A. Tuccillo, *Taxation and Regulation of the Savings and Loan Industry* (Lexington, MA: Lexington Books, 1976), p. 5.

or personal property taxes.[16] States vary in their tax treatment of state-chartered credit unions. A few states exempt state-chartered credit unions from their state income taxes. Many states tax state-chartered credit unions the same as state-chartered thrifts, and several states tax state-chartered credit unions the same as any other business.[17]

Before the passage of the Tax Reform Act of 1986, numerous specific tax preferences were given to depository institutions (except credit unions which were and are exempt). The primary justification for these tax preferences was the extensive regulations imposed on depository institutions. These tax preferences reduced the effective tax rate on operations of depository institutions below the effective tax rate on operations of average U.S. corporate businesses.

Proponents of the Tax Reform Act of 1986 contended that the tax system should be neutral concerning economic decision making. They believed that the market forces of supply and demand could more efficiently allocate resources than the tax system; consequently, tax preferences for specific industries or sectors should be eliminated or curtailed. They argued that the elimination or reduction of tax preferences would broaden the tax base and permit lower marginal tax rates; therefore, economic resources would be allocated more efficiently. Financial deregulation had been reducing both the differences among depository institutions and between depository institutions and other industries. Thus, tax preferences for depository institutions were more difficult to justify if the tax system is to be more neutral and resources are to be allocated by market forces rather than federal regulations. Consequently, the Tax Reform Act of 1986 curtailed or eliminated tax preferences of depository institutions. The three most important of these tax preferences were deductions for additions to bad debt reserves, the deduction for interest to carry tax exempt obligations, and special rules for net operating losses. The more neutral federal tax system heightened criticism of the tax exemption of credit unions.

How does credit union taxation compare with that of other firms in economic terms? For a typical corporation, income taxes are paid on income from equity-financed investment whether retained or paid in dividends. Shareholders (equity owners) pay individual income taxes on dividends and capital gains taxes on the nominal appreciation (if any) in the value of their stock in the year that the stock is sold. Income from debt financed investment is tax exempt at the corporate level; interest paid on bonds is a deductible expense to the corporation but taxable income to bondholders. Most corporate equity investment is thus taxed twice, debt once.

Commercial banks and thrift institutions are taxed like other corporations except for the tax treatment of depositors. In compensation for their deposits, depositors receive a mix of interest payments and free or below cost services. Interest payments received by depositors are subject to the individual income tax. Free or below cost services are not subject to the individual income tax, but the cost of providing these

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[16] National Credit Union Administration, *Letter of Exemption*, Alexandria, Va., revised May 2003.

[17] Pugh, pp. 51-52.

services are expenses to the commercial bank or thrift. Since it is not administratively feasible to allocate the reduced cost of financial services among depositors, it is not possible to levy income taxes on these services.[18] Thus, at least part of banks' income from debt is exempt from both corporate and individual tax. Bank equity income is taxed twice; debt once, at the most.

Income of credit unions is exempt at the corporate level, whether retained or distributed. And as with banks, a portion of the income distributed to members in compensation for their deposits, called member "dividends," is subject to individual income tax, while the portion distributed as enhanced member services is not taxed. Thus, in contrast to corporations — including corporate banks — no credit union income is taxed twice; credit union income is taxed once, at the most, under the individual income tax. Taxing credit unions in a manner similar to corporate banks would require, at least, applying corporate tax to retained credit union earnings.[19]

Finally, this discussion of financial institutions has thus far omitted the tax treatment of another type of financial intermediary: life insurance companies.[20] Life insurance companies receive special treatment under the corporate income tax; they are subject to a low level of tax compared to other financial intermediaries (excepting, of course, credit unions). Further, the earnings of depositors (i.e., policyholders) are lightly taxed under the individual income tax because the inside buildup — growth of cash values — on insurance policies is not subject to tax.

Deregulation

Over the past 30 years, most of the distinctions between credit unions and other depository institutions have been eliminated or reduced because of deregulation; consequently, the justification for the tax exemption for credit unions has been increasingly questioned.

Proponents of deregulation argue that resources can usually be more efficiently allocated by market forces than government regulations. They do not advocate the elimination of all regulations but rather a greater reliance on market forces. Proponents maintain that deregulation increases competition which benefits customers through better access to services at lower prices. Furthermore, deregulation leads to more integrated financial markets, which improves national economic efficiency. Both federally-chartered and state-chartered credit unions have

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[18] Most developed nations with value-added taxes exclude financial services from taxation because it is not administratively practicable to measure value-added received by customers.

[19] In theory, it might be argued that since members are also equity owners of credit unions, a portion of income and benefits accruing to stockholders is actually distributed credit union equity-like earnings, and simply taxing retained earnings would apply tax to only a part of income from equity-like investment. However, it is not administratively feasible to assess the value of these distributed equity-like benefits, and proposals to tax credit unions have been limited to applying the corporate income tax to retained earnings.

[20] For an overview of the taxation of life insurance, see CRS Report RL32000, *Taxation of Life Insurance Products: Background and Issues,* by Andrew D. Pike (consultant).

been deregulated as discussed in the following section. The discretionary powers of state-chartered credit unions compared with those of federally-chartered credit unions vary among states.

Deregulation can be divided into price, geographic, and product deregulation. *Price deregulation* concerns the loosening or elimination of restrictions on interest rates that depository institutions may pay on supplies of funds and charge on loans. Price deregulation has caused credit to be rationed more by price than by availability. Many individual savers benefitted from price deregulation because they could earn higher interest rates on their deposits.

Geographic deregulation has been particularly important to commercial banks and bank holding companies which were prevented by federal and state banking laws from offering full service interstate banking. The Office of the Comptroller of the Currency made rules that have expanded intrastate bank branching. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (P.L. 103-328) authorized nationwide interstate banking through the holding company format effective September 29, 1995. Effective June 1, 1997, under this law, the federal bank regulatory agencies may approve mergers between banks in different states unless the home state of one of the banking institutions has opted out by enacting a law explicitly prohibiting merger transactions involving out-of-state banks that applies equally to all out-of-state banks.[21]

In 1991, the National Credit Union Administration permitted credit unions to share branches, thus giving them an inexpensive way of expanding their geographic coverage.[22] In May 1992, the Office of Thrift Supervision permitted nationwide branching by all thrift institutions.[23]

But credit unions still have some restrictions on branching. For example, a federal credit union may not establish a new branch office for the purpose of adding a group [combining with another credit union through a multiple-group charter].[24]

Product deregulation is blurring the distinctions among products offered by different types of depository institutions (e.g., checking accounts, credit cards, mortgages, etc.). Product deregulation has been accelerated by the mergers of some large financial and nonfinancial firms. Also, many firms have found methods of circumventing existing laws in order to offer additional financial products. The enactment of the Gramm-Leach-Bliley Act (P.L. 106-102) in 1999 facilitated "affiliation among banks, securities firms, and insurance companies, permitting financial conglomerates to cross-sell a variety of financial products to their customers

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[21] CRS Report 94-744 A, *The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994*, by M. Maureen Murphy, pp. 1-2. This report is out of print but available on request from the author.

[22] Dean F. Amel, "Trends in the Structure of Federally Insured Depository Institutions, 1984-94," *Federal Reserve Bulletin*, vol. 82, no. 1, Jan. 1996, p. 4.

[23] Ibid.

[24] Kessler, p. 10.

(one-stop shopping)."[25] This act also allowed "national and state banks to create financial subsidiaries for diversification into insurance sales and full-service securities activities under specified conditions."[26] In addition, this act permitted banking ("financial holding") companies to invest in nonfinancial businesses for a share of the profits.[27]

Deregulation has resulted in the rapid expansion of most services offered by credit unions. Larger credit unions tend to offer a wider range of services than smaller credit unions. Deregulation has been implemented by legislation and rulings by the National Credit Union Administration. But credit unions, compared to other depository institutions, still have restrictions on their powers to lend and invest funds. For example, the Credit Union Membership Access Act (P.L. 105-219) limits business loans to members to 12.25% of total assets.[28] Also, credit unions may only "extend lines of credit to their members, to other credit unions, and to credit union organizations."[29]

The Treasury compared the basic statutory and regulatory rules applied to depository institutions across four broad categories: institution powers, safety and soundness, regulatory enforcement authority, and consumer protection. The Treasury concluded that

> Federal credit unions generally operate within the same legal framework as other federally insured depository institutions. Most differences between credit unions and other depository institutions derive from the structure of credit unions. We found this to be most likely in the case of safety and soundness rules, where credit union operations interact directly with the operation of the rules. With regard to enforcement and consumer protection rules, few differences exist. Credit unions have fewer powers available to them than do banks and thrifts, but through CUSOs [credit union service organization], credit unions may provide their members with a panoply of sophisticated financial services and products that rivals the offerings of banks and thrifts.[30]

Arguments For and Against Taxation

Proponents of taxation of credit unions argue that deregulation has caused extensive competition among depository institutions. These institutions actively

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[25] CRS Report RL30375, *Major Financial Services Legislation, The Gramm-Leach-Bliley Act (P.L. 106-102): An Overview*, by F. Jean Wells and William D. Jackson, p. 2. This report is out of print but is available on request from the author.

[26] Ibid.

[27] CRS Report RS21134, *Merchant Banking: Mixing Banking and Commerce Under Gramm-Leach-Bliley Act*, by William D. Jackson and Gary W. Shorter.

[28] CRS Report 98-933, *Credit Union Membership Access Act: Background and Issues*, p. 3.

[29] Kessler, p. 5.

[30] U.S. Department of the Treasury, *Comparing Credit Unions with Other Depository Institutions*, p. 24.

compete for deposits by offering the best terms, including the highest rate of return to depositors. Depository institutions also compete for borrowers by offering the best loan terms including the lowest interest rates. Proponents of taxation argue that the concept of the common bond has continued to weaken. For example, the OmniAmerican Federal Credit Union

> ... counts 137,000 members employed at 1,300 businesses and organizations, ranging from the Boy Scouts of America to Pier One Imports. At the end of 1996, assets totaled $517 million....[31]

Tax proponents maintain that vigorous competition between credit unions and other depository institutions justifies the same tax treatment for all institutions. They argue that, for market forces to allocate resources efficiently, depository institutions should have a level playing field. But the income tax exemption for credit unions gives them a competitive advantage over other depository institutions. Credit unions pay no income taxes on earnings whether distributed or retained. Credit unions can earn tax free interest on their retained earnings. Proponents assert that credit unions have lower operating costs because of their tax exemption. Consequently, credit unions can pay depositors higher rates of return and charge borrowers lower interest rates. It can be argued that the income tax exemption for credit unions has enabled them to grow more rapidly than other depository institutions.

Supporters of the credit union tax exemption emphasize the uniqueness of credit unions compared to other depository institutions. Credit unions are nonprofit financial cooperatives directed by volunteers for the purpose of serving their members. Credit unions provide many services free or below cost in order to assist members. These services include small loans, financial counseling, and low balance share drafts. The NCUA argues that the taxation of credit unions would create pressure to eliminate these subsidized services. Furthermore, taxing credit unions would raise the cost of credit to many people without an alternative source of credit. Concern has been expressed in Congress about the access of lower income families to basic depository services.

The American Bankers Association (ABA) cites surveys that concluded that members of credit unions had higher average incomes, higher average educational levels, and a higher rate of home ownership than non-members.[32] Hence, the ABA argues that the credit union industry is giving a faulty image of their membership.[33] Yet an official of the Credit Union National Association cites a recent survey conducted by Gallup for the ABA that found that the average household income of bank customers was $51,000 per year compared to $46,000 per year for credit union members.[34]

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[31] Kenneth N. Gilpin, "Piggy Banks with Muscles," *New York Times*, vol. 146, no. 50,715; Feb. 26, 1997, p. B1.

[32] American Bankers Association, *Credit Union Reality Check*, 1996, p. 2.

[33] Ibid.

[34] Fred Stokeld, "Banks Getting Testy Over Competition from Credit Unions," *Tax Notes*, (continued...)

Finally, supporters of the tax exemption argue that credit unions are subject to certain regulatory constraints not required of other depository institutions and that these constraints reduce the competitiveness of credit unions. For example, 'credit unions are not subject to the internal control reporting requirements that the Federal Deposit Insurance Corporation Improvement Act of 1991 ... imposed on banks and thrifts."[35] These restrictions arguably impose an implicit tax on credit unions.

Debate in the 108th Congress

In the 108th Congress, top officials of trade associations representing credit unions and commercials banks advocated the interests of their members on the issue of the tax exempt status of credit unions.[36] On February 23, 2004, Treasury Secretary John W. Snow stated that the Bush Administration opposed taxing credit unions.[37] In a letter dated March 31, 2004, to the Credit Union National Association, Senator John F. Kerry reportedly stated that he would "oppose any efforts to change the existing tax-exempt status of credit unions."[38] On March 16, 2004, Donald E. Powell, Chairman of the Federal Deposit Insurance Corporation stated that

> ... credit unions ought to pay taxes. The playing field has shifted in recent years. We've gone from 20 credit unions with assets of more than $1 billion ten years ago to 83 such institutions today. More and more we're seeing credit union advertising touting the benefits of membership over doing business with a bank. In my view, if they are going to compete with banks then we should do our best to ensure that the competition is fair.[39]

On June 2, 2004, three major banking trade groups announced that they had jointed forces to campaign against the tax-exempt status of credit unions. The American Bankers Association, the Independent Community Bankers Association (ICBA), and the America's Community Bankers established the Inter-Trade Credit Union Coordinating Council to campaign against what they considered to be unfair competitive advantages of credit unions, including their tax exempt status.[40]

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[34] (...continued)
vol. 75, no. 1, April 7, 1997, p. 46.

[35] U.S. General Accounting Office, *Credit Unions: Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management*, report GAO-04-91 (Washington: Oct. 2003), p. 6.

[36] Marcia Kass, "CUNA Outrage at ABA Priority to Remove Credit Union Tax Exemption Gets Shrug," *Daily Tax Report*, no. 79, April 26, 2004, p. G9.

[37] Marcia Kass, "Snow Praises Credit Unions' Economic Role, Says Administration Opposes Taxing Them," *Daily Tax Report*, no. 35, Feb. 24, 2004, p. G4.

[38] "Kerry, in Letter to CUNA, Defends Tax-Exempt Status of Credit Unions," *Daily Tax Report*, no. 71, April 14, 2004, p. G7.

[39] Donald E. Powell, "Remarks before the Independent Community Bankers Association," *FDIC Press Release*, March 16, 2004, p. 1.

[40] "Three Banking Trade Groups Unite to Challenge Credit Unions' Tax Break," *Daily Tax*
(continued...)

Debate in the 109th Congress

In the 109th Congress, the tax exempt status of credit unions continues to be debated. On February 23, 2005, Dale Leight, Chairman of the Independent Community Bankers Association (ICBA) stated in a press release that

> Given the enormous size of the tax subsidy credit unions are receiving, there should be clear and solid evidence that credit unions are fulfilling some unique or extraordinary need in today's highly competitive financial services sector — yet that is not the case.[41]

Mr. Leight was referring to a Tax Foundation report sponsored by the ICBA, which was critical of the tax exempt status of credit unions.[42] In response, the Credit Union National Association (CUNA) published an analysis of the Tax Foundation report. CUNA defended the tax exempt status of credit unions and argued that the Tax Foundation study was flawed.[43]

On March 1, 2005, before the Credit Union National Association, House Ways and Means Committee ranking Democrat Charles Rangel asserted his support for the federal tax exemption for credit unions.[44] On February 28, 2005, before CUNA, Treasury Secretary John Snow said that

> this administration understands the basic economic principle that you get less of anything you tax, and we don't want less of what you do. That principle and position remain true.[45]

Secretary Snow's statement appeared to express the Administration's continued support for the tax exempt status of credit unions.

As of May 23, 2005, no legislation had been introduced in Congress concerning the tax exempt status of credit unions.

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[40] (...continued)
Report, no. 107, June 4, 2004, p. G5.

[41] Robert T. Zung, "ICBA Cites Study in Push to Eliminate Tax Exemption Granted Credit Unions," *Daily Tax Report*, no. 38, Feb. 28, 2005, p. G8.

[42] John A. Tatom, *Competitive Advantage: A Study of the Federal Tax Exemption for Credit Unions*, Tax Foundation, (Washington: Tax Foundation, 2005), 28 p.

[43] Credit Union National Association, *CUNA Analysis of ICBA/Tax Foundation Study of the Federal Credit Union Tax Exemption*, (Washington, CUNA, March 24, 2005), p. 1.

[44] Alison Bennett, "Lawmakers, Officials Express Support for Credit Union Federal Tax Exemption," *Daily Tax Report*, no. 40, March 2, 2005, p. G8.

[45] Ibid.

Trends

In the future, technological change and deregulation will likely further increase competition between credit unions and other depository institutions. It should be noted that thrift institutions were exempt from the federal income tax until 1951. The tax exemption for thrift institutions was eliminated because Congress felt that the relationship between thrifts and their members had substantially changed. In the 1980s, 1990s, and early 2000s, the credit union industry grew more rapidly than other depository industries, and this more rapid growth may continue. Since many believe that an economically neutral tax system requires that financial institutions engaged in similar activities should have the same tax treatment, the income tax exemption for credit unions likely will occasion continuing debate