NAFCU

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B. Dan Berger
Executive Vice President
Government Affairs

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Mr. Scott Hodge
President
The Tax Foundation
529 14th Street, NW
Ste. #420
Washington, D.C. 20045

Dear Mr. Hodge:

I write today on behalf of the National Association of Federal Credit Unions (NAFCU), the only direct membership association exclusively representing the interest of our nation's federally chartered credit unions, on your recently released report entitled "Raising Revenue: The least worst options." As you may know, credit unions are in a unique position to reach traditionally distressed areas across the country and currently serve nearly 95 million member-owners and employ nearly 300,000 Americans. We would like to take this opportunity to comment on the myopic perspective of including and singling out credit unions under "Item 2a ...require federally-owned businesses to pay income taxes," "Item #4 Tax certain untaxed business entities" and "Item #8 Base-broadening" in the report.

First, I must point out clear mis-characterization of credit unions as "federally-owned" in item 2a. Credit unions are no more "federally-owned" than the Tax Foundation is "bank-owned," as credit unions are not-for-profit cooperatives owned and operated by the millions of Americans who are their members.

As you may know, not-for-profit credit unions have been statutorily exempt from corporate federal income taxes since 1937. While NAFCU recognizes the need for a national dialogue about the fiscal future of our country and supports efforts to explore related policy options, we feel that the report does not take into account the broader economic impacts of taxing credit unions. As aptly stated by Thomas Barthold, Chief-of-Staff for the Joint Committee on Taxation, in testimony before the Joint Committee on Deficit Reduction last year, "...the dollar value of tax expenditures, as calculated by the staff of the Joint Committee on Taxation, is not the same as the estimated revenue effect to the Federal Treasury from elimination or reform of any such provision."

In addition, it should be noted that in December 2010, the Senate Budget Committee issued a Congressional Research Service report on tax expenditures that was a compendium of background material on individual provisions. On page 301 of this report, it was estimated that the actual revenue loss to the federal government from credit union tax exemption was only projected to be $500 million for FY2013, far less than the $2-$3 billion estimate your report includes. This would fall more in line with Mr. Barthold's testimony outlined above.

Furthermore, an in-depth study commissioned by NAFCU and conducted by Robert M. Feinberg, Ph.D. and Douglas Meade, Ph.D. looked at the economic impact of taxing credit unions. Their analysis and modeling indicates that removing the credit union tax exemption would actually *cost* the federal government $15 billion in lost income tax revenue over 10 years, due to the negative impact it would have on the economy. In addition, the study found that GDP would be reduced by $148 billion and 1.5 million jobs would be lost over the next decade. I've included a copy of the study with this letter (it is also available on NAFCU's Website http://www.nafcu.org/cutaxexemption/), for your review. This devastating impact on the economy and federal revenues would more than erase any limited revenue raised from taxing credit unions—the very criteria your report cites as the most harmful way to proceed.

In addition, the Feinberg-Meade study quantifies the benefits to all consumers – both credit union members and bank customers – of having a credit union presence in the financial marketplace at nearly $10 billion per year. Given that our country is recovering from the worst financial crisis since the Great Depression, and that it has been widely recognized that the products and services offered by credit unions were not a contributing factor, it seems only fair to mention that some 2,377 banks do not pay corporate federal income taxes themselves because of their Subchapter S status—which, we must point out, your report fails to mention.

In conclusion, we believe that it is clear—by using the very criteria laid out in your report—that taxing credit unions would fall under the most harmful ways to raise new revenues and we hope future iterations of the list will reflect this fact. We would be happy to answer any questions that you may have about credit unions, or provide you with further information on this matter. Please do not hesitate to contact me or NAFCU's Senior Associate Director of Legislative Affairs, Jillian Pevo, at (703) 842-2286 if we can be of assistance.

Sincerely,

B. Dan Berger
Executive Vice President, Government Affairs