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National Association of Federal Credit Unions | www.nafcu.org

April 9, 2013

The Honorable Sam Graves
Chairman
Committee on Small Business
United States House of Representatives
Washington, D.C. 20515

The Honorable Nydia M. Velazquez
Ranking Member
Committee on Small Business
United States House of Representatives
Washington, D.C. 20515

Re: Small Business Tax Reform and the Importance of the Credit Union Tax Exemption to American Small Businesses

Dear Chairman Graves and Ranking Member Velazquez:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions, I write in conjunction with tomorrow's hearing entitled "Small Business Tax Reform: Growth Through Simplicity." NAFCU applauds both the Small Business and Ways and Means Committees on their efforts to ensure a simpler and fairer tax code for our nation's small businesses. NAFCU is closely following tax reform developments emerging from both committees and looks forward to Chairman Camp's testimony tomorrow.

As member-owned cooperatives providing local communities with financial service products, credit unions are not only small businesses themselves, but also important partners to many other small businesses. The key to economic growth, particularly with regard to small business, is access to capital. Our nation's credit unions are proud of their track record in serving Main Street America and believe this basic principle needs to be remembered as part of the tax reform debate.

Credit unions are an important source of capital to our nation's small businesses and benefit the economy to tune of over \$10 billion a year according to an independent study released by NAFCU last year. The study also indicated that altering the tax status of credit unions would have a devastating impact not only on the 95 million credit union members across the country, but also on consumers and small businesses in general. Eliminating the credit union tax exemption would result in the loss of 150,000 jobs a year over the next decade, a shrinking of the GDP and a net *loss* of revenue to the federal government.

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NAFCU believes that protecting the credit union federal tax exemption is paramount in any tax reform debate. We support efforts to simplify the tax code for small businesses where appropriate and look forward to working with both the Small Business and Ways and Means Committees moving forward. If my colleagues or I can be of assistance to you, or if you have any questions regarding this issue, please feel free to contact me or NAFCU's Vice President of Legislative Affairs, Brad Thaler, at (703) 842-2204.

Sincerely,



B. Dan Berger
Executive Vice President, Government Affairs

cc: Members of the House Committee on Small Business
Members of the House Committee on Ways and Means

Enclosure: One-Pager on the Economic Benefits of the Credit Union Tax Exemption to Consumers, Businesses, and the U.S. Economy

Key Findings on the Economic Benefits of the Credit Union Tax Exemption to Consumers, Businesses, and the U.S. Economy

Background: The National Association of Federal Credit Unions (NAFCU) commissioned a study to examine *what would happen to the U.S. economy if the credit union federal income tax exemption is eliminated*. Previous studies demonstrated that changes to the credit union tax status in Canada and Australia led to a severe reduction in the number of credit unions. NAFCU's commissioned study shows that reduced competition for consumer financial services leads to higher interest rates on consumer loans and lower interest rates on deposits for consumers.

The results were then modeled by Inforum's Long-term Interindustry Forecasting Tool (LIFT) to estimate the broader economic impact of the loss of the federal tax exemption on consumers. The model estimated the total direct and indirect losses of personal income and consumption from the elimination of the credit union federal tax exemption.

Key Findings:

- Eliminating the federal credit union tax exemption will reduce U.S. GDP by about \$148 billion (in 2010 dollars) over the next decade (\$14.8 billion per year); resulting in a loss of 150,000 jobs per year, or a total of 1.5 million jobs over the next decade.
- The total benefit to U.S. consumers from the presence of the federal tax exemption for credit unions is approximately \$10 billion per year. From 2005-2011, the direct consumer benefit totaled \$72.6 billion.
- \$1.5 billion per year in federal income tax revenue will be lost due to the reduction in consumers' personal income as a result of the anticipated reduction in the number of credit unions in the marketplace. This number is three times the Senate Budget Committee's 2010 estimate of lost revenue from the credit union federal tax exemption (\$500 million for FY'12) – forecasting that the Federal Government will ultimately lose revenue by imposing a federal income tax on credit unions.
- Credit union savings and loan rates outperform bank rates across the board. Total direct benefits to credit union members from these better loan and deposit rates for the period 2005-2011 are estimated at nearly \$43 billion.
- Bank customers benefit from better credit union loan and deposit rates due to increased competition. The study estimates that if the credit union market share was reduced by 50%, the total cost to bank customers of higher loan rates and lower deposit rates would have totaled almost \$30 billion over the seven year period examined, 2005-2011.

The authors of the study are Robert M. Feinberg Ph.D., professor of economics at American University; and Douglas Meade, Ph.D., director of research at Interindustry Economic Research Fund, Inc.

For additional information, please contact NAFCU's Director of Research and Chief Economist David Carrier, Ph.D. at dcarrier@nafcu.org or visit www.nafcu.org/cutaxexemption.

