DCUC
DEFENSE CREDIT UNION COUNCIL

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*Chief Advocacy Officer*

**July 30, 2025**

The Honorable Kenneth Kies
Assistant Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, D.C. 20220

Dear Assistant Secretary Kies:

On behalf of the Defense Credit Union Council (DCUC), I write to urge the Treasury Department to conduct a formal study on the implications of banks' use of Subchapter S corporation status. DCUC represents more than 200 defense-focused credit unions serving over 40 million members – including active-duty servicemembers, veterans, Department of Defense civilians, and military families – through not-for-profit, member-owned financial cooperatives. We are deeply concerned that **banks' exploitation of the Subchapter S election** is creating **regulatory loopholes, competitive imbalances, and transparency deficits** in our financial system, effectively allowing certain banks to **evade a fair contribution to the system's well-being**. These issues warrant the same level of scrutiny that some have recently demanded for credit unions' tax status. Simply put, if fairness and integrity are the goals, then *all* significant tax-advantaged frameworks in banking – not just credit unions' – deserve a hard look.

As you know, Subchapter S status allows eligible banks to **avoid federal corporate income tax** by passing income directly to shareholders. This **special tax treatment**, originally intended to help small businesses, has been aggressively leveraged by the banking industry. **Over 2,000 banks – including some large institutions – use the Subchapter S election to entirely bypass corporate taxes, saving an estimated $1.8 billion in 2022 alone.** This figure underscores that Subchapter S is not a minor niche, but a widespread practice with major fiscal implications. Yet, while Congress has not formally revisited credit unions' tax treatment in nearly 20 years, banks' use of Subchapter S has *never* undergone an equivalent public examination in recent memory. The result is a growing segment of the banking industry operating under the radar of comprehensive policy review. We believe the Treasury Department, under your leadership, should correct this oversight by studying whether banks' current utilization of Subchapter S aligns with the intent of the tax code and the safety, soundness, and fairness expected in our financial system.

Our concerns extend beyond the obvious matter of tax revenue. **Regulatory loopholes** appear to have emerged alongside Subchapter S usage. Banks electing S-corp status enjoy certain **regulatory accommodations** that warrant examination. For instance, industry observers have noted that S-corp banks often distribute a large share of their earnings as shareholder dividends (to cover those shareholders' personal tax liabilities), a practice that might be **constrained under normal prudential rules** for capital retention. In effect, the S-corp framework may enable institutions to work around regulatory norms intended to bolster bank resilience. We urge Treasury to evaluate whether **capital adequacy, loss absorption, and oversight standards** are being undermined by rules or exceptions associated with Subchapter S banks.

A Treasury study could determine if this special status has introduced unintended **safety and soundness risks** or gaps in supervisory oversight – risks that could ultimately affect the broader financial system if left unaddressed.

Equally troubling are the **competitive imbalances** that Subchapter S status creates, especially in comparisons between banks and credit unions. Credit unions operate under a longstanding federal tax exemption as **not-for-profit, member-owned cooperatives**, an arrangement Congress deliberately crafted to foster financial services for people of "modest means." Banks, by contrast, are **for-profit institutions** – yet many are effectively enjoying a tax pass of their own via Subchapter S. In public statements this year, DCUC and a coalition of credit union organizations highlighted the **hypocrisy in bank lobbying**: bankers decry credit unions' tax treatment as an "unfair subsidy" even as **banking industry profits have been swelled by enormous tax breaks and loopholes**. In fact, the Tax Cuts and Jobs Act delivered banks an estimated **$447 billion** in tax relief over ten years, roughly **16 times the budget impact** of credit unions' exemption. Subchapter S is a big part of that story – a **"loophole" enabling thousands of banks to pay no corporate taxes at all**. The playing field is thus skewed: banks can simultaneously reap tax advantages **far larger in aggregate** than credit unions' while insisting credit unions alone bear scrutiny. Such an imbalance is fundamentally **unfair and anti-competitive**, and it undermines the spirit of equitable treatment in financial services policy. A Treasury study would shine light on how Subchapter S banks may be gaining a **market advantage** not available to taxed C-corp banks or to tax-exempt credit unions operating on narrower margins.

We also urge you to consider the **lack of transparency** surrounding Subchapter S bank operations and obligations. When bank trade associations accuse credit unions of "opacity" – for example, noting that federal credit unions need not file IRS Form 990 reports – it is ironic that **Subchapter S banks disclose very little about their own tax arrangements**. Because S-corp bank earnings are taxed at the shareholder level, there is **no public reporting of corporate taxes paid**, and the true effective tax rate these banks' owners face is often unknown outside of the IRS. Many Subchapter S banks are privately held by a small number of shareholders, which means they are not subject to the same SEC reporting or public scrutiny as large publicly traded banks. Important details – such as how those tax savings are used, who exactly benefits, and whether any portion is reinvested in local communities – remain largely hidden from taxpayers and policymakers. **Transparency is a cornerstone of trust in our financial system**, and we question whether this special class of banks is living up to that principle. A formal Treasury review could assess whether the current reporting and disclosure requirements for Subchapter S banks are sufficient, or if this status has become a **shield that conceals pertinent information** which other financial institutions routinely disclose. In short, sunlight on this issue can only improve public understanding of whether Subchapter S is being used as Congress intended.

Finally, and most importantly, DCUC is concerned that Subchapter S has become a mechanism for banks to **evade making a fair contribution to the financial system** and to the public good. Every financial institution – whether organized as a bank or a credit union – benefits from the stability and infrastructure provided by our government and regulators. In return, institutions are expected to contribute to the system, through taxes, community reinvestment, and upholding stringent compliance standards. **Subchapter S undermines this balance**. By eliminating corporate-level taxes, it permits banks to **channel virtually all profits to a small circle of owners**, rather than back into the community or the system. Indeed, studies show that **the vast majority of a bank's profits flow to shareholders and executives, with as little as 1% devoted to community reinvestment.** In contrast, credit unions reinvest their earnings into better rates, lower fees, and community services for their member-owners. This stark difference raises the question: are Subchapter S banks doing their part to support the communities and consumers that make their profits possible? When a bank leveraging every available tax break returns only "pennies on the dollar" to local community development, that bank is *not* contributing equitably to our financial ecosystem. We believe a Treasury study should examine whether banks utilizing Subchapter S are meeting their obligations in areas like **Community Reinvestment Act (CRA) performance, small business lending, and service to underserved markets**, especially relative to their tax-advantaged status. If the data shows that **Subchapter S banks enjoy the benefits of taxpayer-funded safeguards and infrastructure while giving back minimally**, Treasury and Congress should consider policy remedies to ensure a fair contribution from those institutions going forward.

To be clear, DCUC's intent is to **advance a fact-based, even-handed evaluation** of Subchapter S usage in banking – much as some banking groups have demanded an evaluation of credit unions. We note that **bank lobbyists have repeatedly attacked credit unions as "freeloaders," while ignoring banks' exploitation of the tax code**. This one-sided narrative does a disservice to policymakers. Fairness in taxation and regulation is not achieved by singling out one sector and giving another a free pass. If anything, the evidence suggests that **bank-owned loopholes are far costlier** to taxpayers than credit unions' tax status, and that many banks have strayed from their claims of community focus by prioritizing tax avoidance strategies. In the interest of a level playing field and an **honest public dialogue**, we encourage Treasury to gather the data, solicit public input, and report to Congress on **whether the Subchapter S bank model truly serves the public interest in 2025**. Such a study could explore policy options – for example, tightening eligibility criteria, enhancing disclosures, or closing unintended loopholes – to realign the practice with its original purpose and ensure **large profitable banks are not misusing a provision meant for genuine small businesses**.

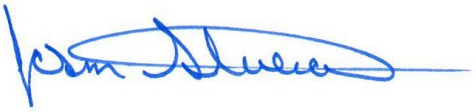
In conclusion, DCUC firmly believes that a Treasury-led study of banks' Subchapter S status is timely and necessary. The **regulatory gaps, competitive distortions, transparency concerns, and equity issues** surrounding this matter have serious implications for the credibility and health of our financial system. We respectfully ask that you use your authority to **investigate and report on this issue**, thereby promoting a more informed discussion on financial sector tax policy. We also ask that this process be conducted with the same rigor and objectivity that would be applied to any review of credit unions or other segments of the industry. No tax policy should be immune from examination, especially not one that affects thousands of banks and tens of billions of dollars in would-be public revenue.

**DCUC and our member credit unions stand ready to assist in this effort.** We would welcome the opportunity to meet with you and your staff to discuss our concerns in detail and to share relevant data and perspectives we have collected. Our goal is to ensure that policymakers have a complete and balanced picture as you consider the path forward on this important issue.

We respectfully request an opportunity to meet with you or your staff to further discuss these issues and any questions you may have. Thank you for your continued leadership and consideration.

If you have any questions, please do not hesitate to email me at jstverak@dcuc.org or contact me via the phone at 202.557.8528.

Sincerely,



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CC: Members of the United States House Financial Services Committee
Members of the United States Senate Banking, Housing and Urban Affairs Committee