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DEFENSE CREDIT UNION COUNCIL

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Jason Stverak
Chief Advocacy Officer

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The Honorable Ron Wyden
United States Senate
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Mike Crapo
United States Senate
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Wyden and Ranking Member Crapo:

On behalf of America's Defense and Veteran Credit Unions and our almost 40 million members, I am writing to provide our views and comments for the September 12, 2024, Senate Committee on Finance Hearing titled, *The 2025 Tax Policy Debate and Tax Avoidance Strategies*.

Our members are strongly opposed to any proposal that would eliminate or undermine the nonprofit, tax-exempt status of credit unions. The longstanding tax-exempt status of credit unions reflects their unique structure and mission to provide financial services to their members, not to generate profit. Removing this status would have severe consequences for credit unions, their members, and the communities they serve.

Credit Unions' Unique Structure and Mission

Credit unions operate under a cooperative, not-for-profit structure, which fundamentally distinguishes them from for-profit financial institutions. Credit unions are member-owned, meaning that every member is a partial owner with equal voting rights, regardless of their account balance. This model aligns credit unions directly with the needs of their members, as there are no outside shareholders to serve or profits to maximize.

The primary mission of credit unions, particularly defense credit unions, is to provide affordable financial services to their members. This includes offering lower loan rates, higher savings dividends, and fewer fees compared to banks. For military families, many of whom are deployed overseas or frequently relocated, credit unions offer the kind of personalized service and stability that larger, for-profit institutions often fail to provide. Credit unions are not driven by profit but by a commitment to improving the financial well-being of their members, who are often from underserved or low- to moderate-income communities.

The Historical Basis for Credit Unions' Tax-Exempt Status

The tax-exempt status of credit unions is not a subsidy or a loophole; rather, it is a recognition of their cooperative nature and their role in promoting financial inclusion and community development. Since their inception in the 1930s, credit unions have been exempt from federal income taxes because they operate for the benefit of their members, not shareholders. This tax-exempt status allows credit unions to return profits directly to their members in the form of better rates and lower fees.

In 1998, Congress reaffirmed the tax-exempt status of credit unions with the passage of the Credit Union Membership Access Act (CUMAA), which recognized the important role credit unions play in providing access to financial services for individuals and communities that might otherwise be underserved. The not-for-profit, member-owned structure of credit unions has not changed since that time, and the rationale for their tax exemption remains as valid today as it was decades ago.

Serving Those Who Serve Our Country

The Critical Role of Defense Credit Unions

Defense credit unions play a particularly vital role in supporting military service members, veterans, and their families. With over 30% of military personnel and veterans utilizing credit unions, these institutions have a deep understanding of the unique financial challenges faced by the military community. Many defense credit unions provide specialized services such as low-cost loans during deployment, relocation assistance, and financial literacy programs tailored to the needs of military families. Eliminating the tax-exempt status of credit unions would undermine their ability to continue providing these essential services.

Military families often face frequent relocations, unpredictable financial circumstances, and challenges related to deployments. Credit unions have a long history of offering support tailored to these circumstances, often at a lower cost and with more flexibility than for-profit financial institutions. For example, credit unions are often the first to offer loan deferrals or emergency assistance during times of crisis, such as government shutdowns or natural disasters. This flexibility is made possible in large part due to the tax-exempt status that allows credit unions to reinvest any surplus into member services, rather than distributing profits to shareholders.

The Negative Consequences of Eliminating the Tax-Exempt Status

Eliminating the tax-exempt status of credit unions would not only harm their members but also the broader community. Without the tax exemption, credit unions would be forced to divert resources away from member benefits to cover new tax liabilities. This would likely result in higher fees, reduced loan accessibility, lower savings rates, and diminished service offerings. Ultimately, the military families and underserved populations that credit unions serve would bear the brunt of these changes.

It is important to recognize that credit unions already face extensive regulatory oversight, including stringent capital requirements and regulatory reporting under the supervision of the National Credit Union Administration (NCUA). Adding a tax burden to credit unions would compound these existing challenges, making it harder for them to continue fulfilling their mission of financial inclusion and member service. This is particularly concerning for smaller, community-based credit unions, many of which operate on tight margins and would be disproportionately affected by such a change.

Moreover, the economic impact of credit unions extends beyond their direct membership. As not-for-profit institutions, credit unions help to keep the broader financial services market competitive by providing alternatives to the higher-cost services offered by banks. The removal of their tax-exempt status would reduce this competitive pressure, likely leading to higher costs for consumers across the financial system, particularly for those in underserved or marginalized communities.

The Unfairness of Comparing Credit Unions to Banks

Some proponents of taxing credit unions argue that since banks pay taxes, credit unions should as well. However, this argument overlooks the fundamental differences between the two types of institutions. Banks are for-profit entities that exist to generate returns for shareholders, whereas credit unions exist solely to serve their members. Taxing credit unions as though they were for-profit entities would ignore the public benefit they provide and the cooperative nature that sets them apart from banks.

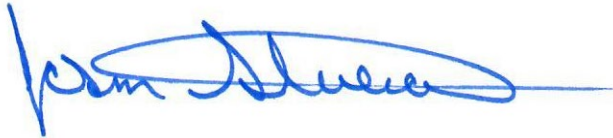
It is also worth noting that banks, despite their for-profit nature, have access to numerous tax breaks and subsidies that are not available to credit unions. These include favorable tax treatment for certain financial products and deductions for executive compensation and other expenses. Eliminating credit unions' tax-exempt status while leaving these bank subsidies intact would create an uneven playing field, placing credit unions at a significant disadvantage.

The unique structure and mission of credit unions, particularly defense credit unions, make them an essential component of the financial services landscape, especially for military families and underserved communities. Removing their tax-exempt status would not only harm these institutions but would also have widespread negative consequences for their members and the broader economy.

Credit unions have a proud tradition of serving those who serve our country, and their continued ability to do so depends on the preservation of their tax-exempt status. We stand ready to work with you and your colleagues to ensure that credit unions can continue to fulfill their mission of providing affordable, member-focused financial services.

Thank you for the opportunity to bring these matters to your attention. Should you have any questions or desire additional information, please do not hesitate to contact me at 202.557.8528 or by email at jstverak@dcuc.org.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jason Stverak", with a long horizontal flourish extending to the right.

Jason Stverak
Chief Advocacy Officer
DCUC

CC: Senate Finance Committee