



Highlights of GAO-06-220T, testimony before the Committee on Ways and Means, House of Representatives

## Why GAO Did This Study

Unlike other depository institutions, credit unions are exempt from federal corporate income taxes. Recent legislative and regulatory changes to credit union membership restrictions and allowable products and services have blurred some of the historical distinctions between credit unions and other depository institutions. As a result, some observers have raised questions about whether tax exemption provides credit unions with an advantage over other depository institutions and whether the original basis for tax exemption is still valid.

As part of its continuing oversight of the tax-exempt sector, the House Committee on Ways and Means asked GAO to address (1) the historical basis for the tax-exempt status of credit unions; (2) the arguments for and against taxation, including estimates of potential revenue from eliminating the exemption; (3) the extent to which credit unions offer services distinct from those offered by banks of comparable size, and serve low-and moderate-income individuals; and (4) the extent to which credit unions are required to report information on executive compensation and assessments of their internal controls.

[www.gao.gov/cgi-bin/getrpt?GAO-06-220T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-220T).

To view the full product, click on the link above. For more information, contact Richard Hillman at (202) 512-8678 or [hillmanr@gao.gov](mailto:hillmanr@gao.gov).

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# FINANCIAL INSTITUTIONS

## Issues Regarding the Tax-Exempt Status of Credit Unions

### What GAO Found

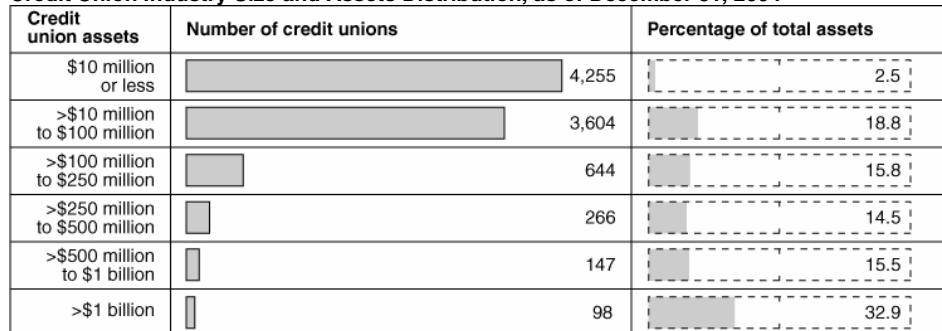
Congress originally granted tax-exempt status to credit unions in 1937 because of their similarity to other mutually owned financial institutions that were tax-exempt at that time. While the other institutions lost their exemption in the Revenue Act of 1951, credit unions specifically remained exempted. The act's legislative history is silent regarding why the tax-exempt status of credit unions was not revoked. More recently, the Credit Union Membership Access Act of 1998 indicates that credit unions continue to be exempt because of their cooperative, not-for-profit structure, which is distinct from other depository institutions, and because credit unions historically have emphasized serving people of modest means.

Arguments for taxing credit unions center on creating a "level playing field" since credit unions now compete more directly with banks. Proponents also point to associated potential revenues, with federal estimates ranging from \$1.2 billion to \$1.6 billion per year. Opponents of taxation argue that credit unions remain distinct—organizationally and operationally—from other financial institutions and taxation would impair their capital levels.

Prior GAO work has found that relatively large credit unions offer many of the same services that same-sized banks offer, while smaller credit unions tend to provide more basic financial services. Limited comprehensive data exist on the income of credit union members. GAO's assessment of Federal Reserve data suggested that credit unions served a slightly lower proportion of low- and moderate-income households than banks, but the lack of comprehensive data prevents definitive conclusions.

Most credit unions are not subject to reporting requirements that provide information on executive compensation or internal controls. Specifically, federal credit unions are not required to file the Internal Revenue Service form that most other tax-exempt entities must file and some states allow credit unions to file on a group basis. Further, credit unions are not subject to internal control reporting requirements applicable to banks and thrifts, an item we identified for Congressional action in 2003.

Credit Union Industry Size and Assets Distribution, as of December 31, 2004



Source: GAO analysis of NCUA Form 5300 data.