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June 20, 2013

The Honorable Max Baucus
Chairman
Senate Finance Committee
Washington, D.C. 20510

The Honorable Dave Camp
Chairman
House Ways and Means Committee
Washington, D.C. 20510

The Honorable Orrin Hatch
Ranking Member
Senate Finance Committee
Washington, D.C. 20510

The Honorable Sander Levin
Ranking Member
House Ways and Means Committee
Washington, D.C. 20510

Dear Chairman Baucus, Ranking Member Hatch, Chairman Camp, and Ranking Member Levin:

As the leader of an association representing over 7,000 community banks nationwide, I want to thank you for the thoughtful and deliberative approach to tax reform your committees have undertaken. Over the years, the tax code has grown incredibly complex for millions of individuals and small businesses. A more simple, equitable and pro-growth tax system would go a long way in restoring taxpayer confidence as well as creating a more efficient U.S. economy.

As you continue to move forward on reforming the tax code, we hope you will further investigate the credit union industry's costly and controversial tax exemption. Credit unions were granted a special tax exemption because they were originally chartered to serve people of modest means and with a common bond among them who otherwise would not have access to credit. Today, credit unions are virtually indistinguishable from tax-paying community banks. They have effectively no restrictions on membership and offer many of the same products and services as taxpaying banks but enjoy a sizable tax subsidy. Many credit unions are multi-billion dollar institutions with aggressive promotional campaigns. According to Bloomberg Businessweek, "Ten years ago there were only 70 credit unions with assets of more than \$1 billion. Now there are 195." The largest credit union has assets of \$54 billion.¹

The credit union tax exemption comes at a significant cost to taxpayers. The most comprehensive estimate to date, done by the independent Tax Foundation, valued the tax subsidy at \$31.3 billion over 10 years.² Just last week, the Senate Finance Committee

¹ "Have Credit Unions Become Stealth Banks." Brendan Greely. *Bloomberg Businessweek*. May 16, 2013. <http://buswk.co/10TctrS>

² "Competitive Advantage: A Study of the Federal Tax Exemption for Credit Unions." Tax Foundation. February 28, 2005. <http://bit.ly/SKj8NP>

released a tax reform paper that identified a repeal of the credit union tax-exemption as a possible policy option. Likewise, the House Ways and Means Committee report filed upon conclusion of the eleven working group process included several plans that proposed the elimination of the credit union tax exemption.

With the tax reform debate in motion, we believe it is time to reconsider the costly tax subsidy enjoyed by the largest credit unions. **We respectfully request that your committees hold separate hearings to further investigate this tax-exemption.** These hearings could examine the cost of the credit union subsidy to American taxpayers and whether it has become outmoded given the fundamental transformation of the credit union charter noted above. If you chose to hold hearings, ICBA would be pleased to provide community banker witnesses with direct experience of the subsidy's distortionary impact on the market for financial services.

We look forward to working with you to reform the tax code and advance equitable and pro-growth fiscal policies.

Sincerely,

/s/

Camden R. Fine
President and CEO