Massachusetts Credit Unions

Creating Cooperative Power

September 13, 2021

The Honorable Richard Neal
United States House of Representatives
372 Cannon House Office Bldg.
Washington, DC 20515

BY E-MAIL ONLY

Dear Chairman Neal:

On behalf of the Massachusetts member credit unions of the Cooperative Credit Union Association, Inc., please accept this letter in strong opposition to an onerous Internal Revenue Service (IRS) tax gap reporting proposal presently pending before Congress. As you are aware, the Association is the state credit union trade association, serving approximately 160 state and federally-chartered credit unions owned by approximately 3 million consumers as members. This letter addresses credit union concerns on the proposal within the infrastructure reconciliation bill.

1. **Overview**

The details within the American Families Plan recently unveiled by the Biden Administration have yielded proposals impacting credit unions and other financial institutions to report certain information beyond current requirements which address more than just a taxpayer's interest earned, capital gains and losses. If adopted, then credit unions could also be required to report "aggregate account outflows and inflows" of more than $600. The result would be the imposition of a new tax reporting mechanism on credit unions about their members' accounts to the IRS, whether they earned income on that account or not, how much is in the account in a given year, and how much was transferred in and out of the account. In essence, credit unions will become clerks for the IRS reporting member information on transactions which have not yet matured for tax purposes and are non-taxable events.[1]

2. **Credit Union Impact**

While it is unclear how such reporting would work, a few unintended consequences are clear. First and foremost, credit unions would be assigned a new role as an enhanced tax liaison and governor for the IRS. Such role will have an adverse impact on member trust in credit unions and impact the privacy of member financial details currently protected under the law and prioritized by credit unions.

[1] As required, credit unions already report taxable events for members, such as interest earned, or mortgage interest paid.

In addition, the proposed new reporting obligation will create a massive compliance effort on the part of financial institutions in accounting for any unreported individual or business tax obligations.[2] It is noteworthy that such an obligation seeks to be imposed as credit union first financial responders went above and beyond as requested by Congress and other policymakers and continue today to serve members with increased and innovative assistance during the unprecedented and lingering effects of COVID-19 and emerging variants.[3]

3. **Credit Union Member Impact**

As not-for-profit financial cooperatives, Massachusetts credit unions have surpassed their historic mutualistic structure to one which is also focused on outcomes for the entire community. Underlying this relationship is trust in credit unions. It is undisputed that success in utilizing credit union services for traditionally marginalized, underserved or overlooked consumers in the financial mainstream is deeply rooted in the trust they place in their provider. Underbanked adults do not need places to stash funds, rather they seek vehicles to send and receive it. The Association suggests that requirements to track the very in and outflows found within the proposal will have a disproportionate adverse impact on the ability of credit unions to fulfill their mission of earning trust and serving those consumers most in need. Eliminating or reducing consumer choice in trusted financial service providers will drive consumers to more fringe and emerging marketplace providers. If the tax reporting requirements are imposed, then public confidence in credit unions and the banking system will be eroded at the expense of tracking transactions that, in and of themselves, are not taxable at the specified reporting time.

Finally, the Association has significant concerns relative to the safe and secure protection of member data by the IRS and its third-party vendors, an area in which credit unions are already heavily regulated. Data breaches and cyber attacks abound. IRS security systems must be evaluated and strengthened, based upon recent occurrences and those data back to 2015, and must be elevated as a factor to be considered in the balancing of any possible merit in the pending proposal.

4. **Conclusion**

The Association is proud that the hallmark of credit unions is to consistently help members build wealth. Credit unions ask that Congress take steps to promote, not hinder, this goal. The perceived IRS benefits to correct a reporting blind spot are significantly outweighed by the predictable negative impact on credit unions and their members. Further study and evidence are needed by the IRS to document the benefits of the proposal and the mechanism to achieve them,

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[2] Survey results from Massachusetts credit unions reveal that the annual estimate of regulatory burden costs is, on average, $178 million in the aggregate and $1,067,497 in total impact per credit union and $131 in total impact per member.

[3] New proposed requirements from the Consumer Financial Protection Bureau, implementing Section 1071 of the Dodd-Frank Act, are also underway and will require more data collection and reporting requirements imposed on credit unions about certain small business loans. The proposal is over 900 pages in length.

including maximum use of existing data collection.[4] Finally, the Association reminds all interested stakeholders that credit unions are already amongst the most fiscally responsible corporate citizens.

Credit unions respectfully request that the newly proposed tax reporting obligation be discarded as proposed.

Thank you for your attention to our concerns. The Association remains available to assist you in any deliberations on this important consumer issue.

Sincerely,

Ronald McLean
President/CEO
Cooperative Credit Union Association, Inc.

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[4] For example, study is suggested to determine if current or enhanced reporting requirements under the Bank Secrecy, Anti-Money Laundering and Currency Transaction reporting would be a more efficient and immediate manner to achieve the goals sought by the IRS.