



February 28, 2008

The Honorable Senator Duff
The Honorable Representative Barry
Co-Chairmen, Joint Committee on Banks
Legislative Office Building, Room 2400
Capitol Avenue
Hartford, Connecticut 06106

RE: S.B. No. 220 (RAISED) AN ACT REQUIRING A SALES AND USE TAX EXEMPTION FOR CERTAIN SALES TO CONNECTICUT CREDIT UNIONS.

Senator Duff, Representative Barry and Members of the Banks Committee:

Thank you very much for the opportunity to testify before you today. On behalf of Connecticut's 150 not for profit credit unions I am testifying in support of Senate Bill 220, An Act Requiring a Sales and Use Tax Exemption for Certain Sales to Connecticut Credit Unions.

The State of Connecticut and the federal government decided long ago that credit unions should be exempt from the state and federal corporate income taxes. Congress first established the exemption in 1937, affirmed by statute in 1951, and re-affirmed in 1998 by an Act of Congress, which stated:

"Credit unions, unlike many other participants in the financial services market, are exempt from Federal and most State taxes because credit unions are member-owned, democratically operated, not-for-profit organizations generally managed by volunteer boards of directors and because they have the specified mission of meeting the credit and savings needs of consumers, especially persons of modest means."

Please allow me to briefly elaborate on the distinguishing characteristics of credit unions listed by Congress.

Credit unions are member-owned. Each member has one vote in electing the directors of the credit union. Although other mutual financial institutions are member-owned, voting rights are generally based on the amount the customer has on deposit, rather than being "one member one vote," as is the case with credit unions. Credit unions are governed by a volunteer, unpaid board of directors who are elected by the members of the credit union.

Credit unions can only accept as members those individuals who are specifically included in the credit union's field of membership.

All credit unions operate as not-for-profit financial institutions. All earnings are retained as capital or are returned to the member in the form of lower loan rates, higher rates on savings or to provide products and services.

Credit unions do not issue capital stock and are only able to build capital through retained earnings. Most credit unions began with little or no capital and gradually build it over time by retaining any excess earnings.

Because of these characteristics and because consumers need as much access to affordable financial services as possible, we believe it is good public policy to promote the viability of state chartered credit unions by putting them on the same footing as federally chartered credit unions by exempting them from the state sales tax.

An exemption will not only promote state-chartered credit unions, it will also preserve them and create parity with their federal counterparts who are not subject to state sales taxes. State sales taxes make the state charter more costly than the federal charter and as a result, there are currently more federally chartered credit unions than state chartered credit unions in Connecticut. More importantly, we are concerned that more state charters will convert in the future as a result of the added cost of this tax. As state-chartered credit unions numbers continue to decline, the sales tax revenue will be lost. If the Connecticut does not eliminate this tax on state chartered credit unions, the State will face a "lose-lose" situation. As state-chartered credit unions convert to the sales tax-exempt federal charter, Connecticut will lose state supervision of these institutions, as well as any revenues previously received, which is projected at less than 500 thousand per year.

We should preserve state-chartered credit unions because they are often on the forefront of innovation, working with the state legislature and regulators to provide new financial products and services to ordinary working families in Connecticut. A sales tax exemption will allow this innovation to continue and maintain parity and between the state and federal charter.

The last two years this bill has been introduced by the Banks Committee it has passed almost unanimously. On behalf of our 26 state-chartered credit unions and their members, I ask you to again support SB 220.

Thank you very much for the opportunity to testify.



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