State of Illinois
COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY
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http://www.ilga.gov/commission/cgfa2006/home.aspx

September 19, 2012

Representative William Davis
State Representative, 30th District
1912 W. 174th Street
East Hazel Crest, IL 60429

Dear Representative Davis:

This letter is in response to your request of August 6th, 2012 to perform analysis on Illinois credit unions.

Your letter requested us to analyze:

1) Potential income tax revenues from taxing all Illinois credit unions,
2) Potential income tax revenues from taxing credit unions with more than $1 billion in assets,
3) Any differences in revenue estimates if the larger credit unions were forced to change to a savings bank charter.

Attached is the analysis we conducted regarding Illinois credit unions and potential income tax revenue that could be generated. An analysis was conducted on all 369 Illinois credit unions and on credit unions with assets with more than $500 million in total assets. Your letter requested that we analyze credit unions with more than $1 billion, but due to a lack of historical data, an examination of credit unions with more than $500 million in assets was deemed more appropriate.

Unfortunately, the third question is beyond our expertise. We feel that the Department of Financial & Professional Regulation would be a more appropriate source of information on the subject of how savings banks and credit unions are treated concerning taxes and what steps would be necessary to change a charter over.

Should you have any questions concerning this request, please contact Ben Varner at (217) 785-3208.

Sincerely,

Dan R. Long
Executive Director

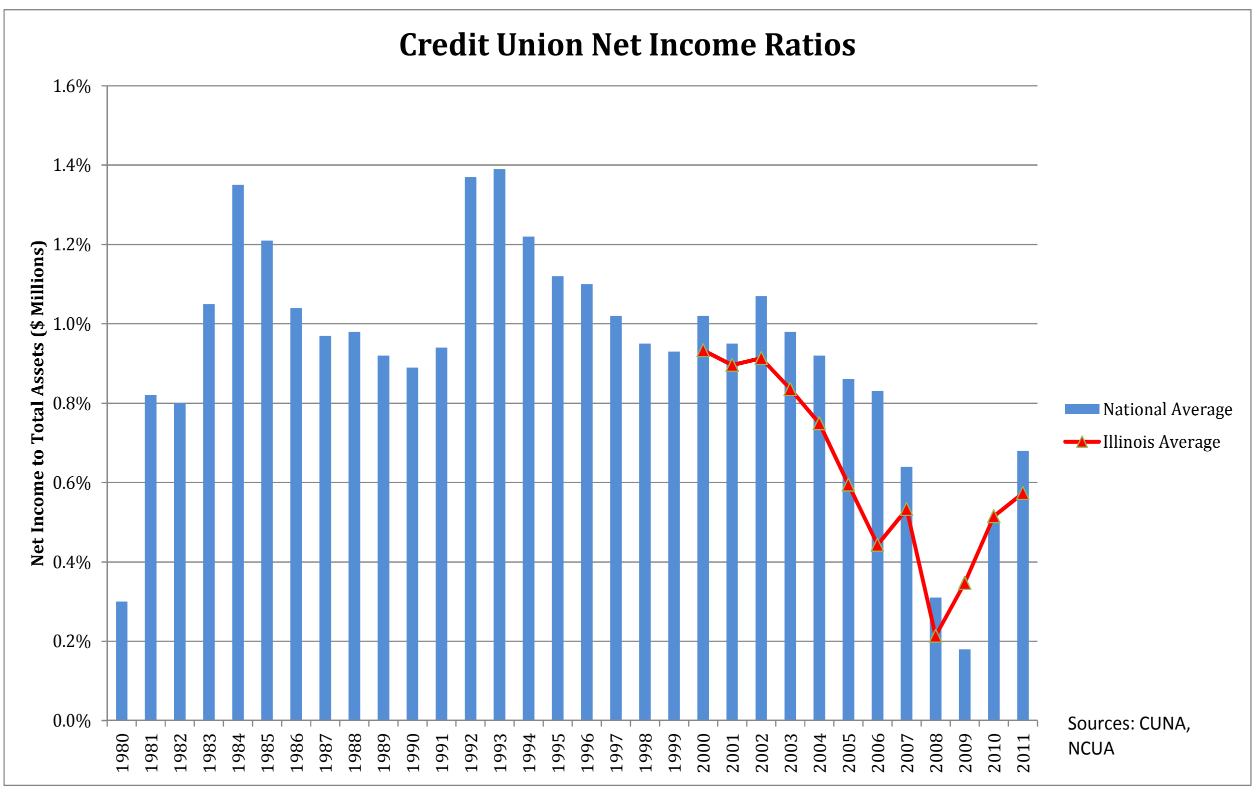
DRL:dkb
S345

cc: Ben Varner

At the end of 2011, Illinois had approximately 369 Federal or State chartered credit unions. Of these, 346 were federally insured. The Commission used financial data from the National Credit Union Administration (NCUA) pertaining to the federally insured credit unions to estimate the growth in total assets and net income. These estimates were then used to estimate potential corporate income tax that could be potentially raised by taxing the net income of Illinois credit unions.

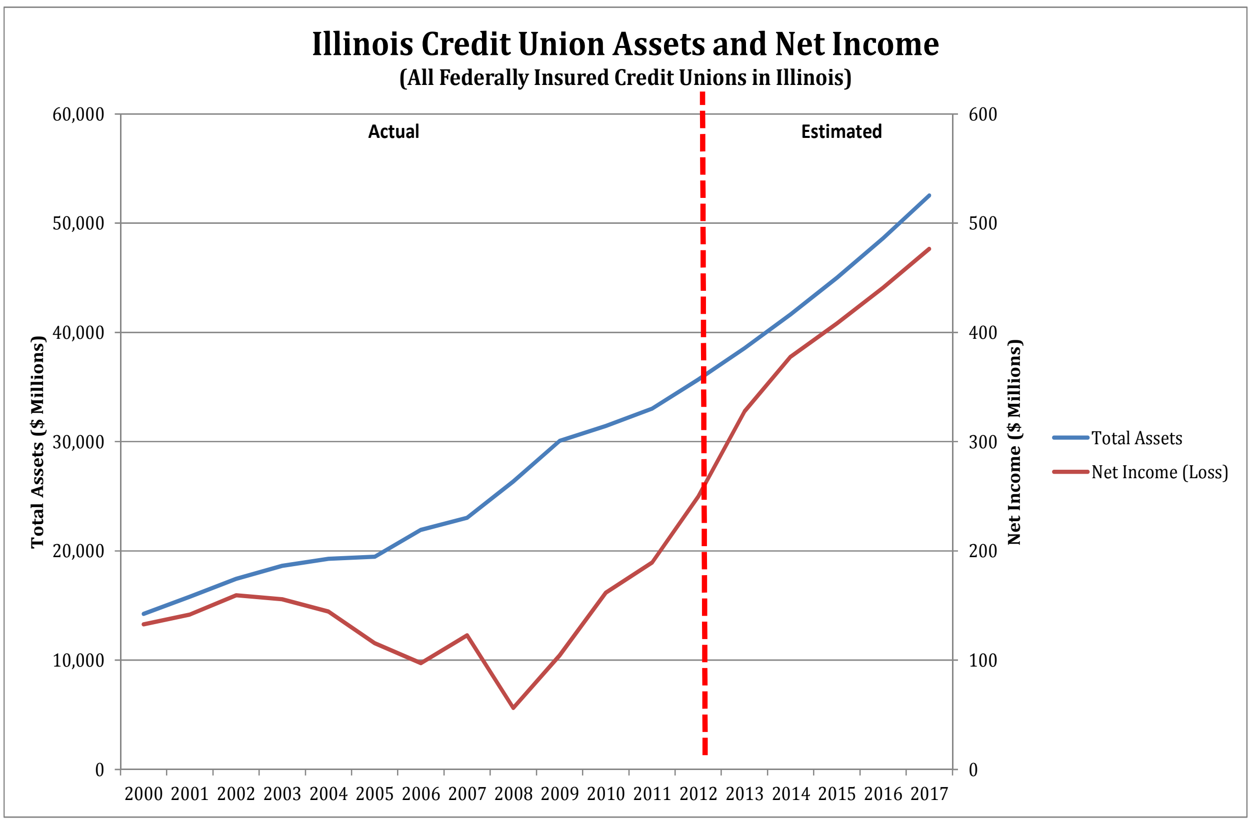
The chart below shows net income ratios for U.S. credit unions created by the Credit Union National Association (CUNA). As can be seen in the figure, net income ratios were stable around 1% from 1982 through 2006. This is important as the Commission assumes a return to a more stable environment for credit unions. The average net income ratio for U.S. credit unions from 1982 to 2006 was 1.02%.

The first analysis conducted was a comparison of Illinois' credit unions to credit unions throughout the nation in terms of Net Income to Total Asset ratio. Since 2000, Illinois has averaged a net income to total asset ratio of 0.57%. This is 0.11% below the national average of 0.68% over the same time period. This indicates that Illinois credit unions have performed somewhat below the nation in aggregate. In estimating future income for Illinois credit unions in aggregate, the Commission assumed a return to a net income to asset ratio of 0.91% instead of the national average of 1.02% to account for this under performance.



At the end of 2011, federally insured credit unions in Illinois had total assets of $33.0 billion and net income of $189 million. This equated to approximately 91.4% of all the assets from credit unions in Illinois. Examining limited data available from the Illinois Department of Financial and Professional Regulation, there are 23 credit unions in Illinois that have deposit insurance with someone besides the NCUA. These credit unions have total assets of approximately $2.9 billion or 8.6% of all credit union assets in Illinois. The Commission adjusted for these credit unions in its revenue estimates but the following figures do not include these credit unions.

The figure below shows estimates for total asset growth and net income growth for the federally insured credit unions in Illinois over the next five tax years. Total assets are assumed to grow at just over 8% per year which was the average growth over the last decade. Net income is estimated using an assumed return to a net income ratio of 0.91% over a two year period. In 2011, Illinois credit unions had a net income ratio of 0.57%. It is estimated that this grows to 0.70% in 2012, 0.85% in 2013, and 0.91% from 2014 through 2017. This represents a return to the national average from 1982 – 2006 with a downward adjustment to account for Illinois' under performance.



Income Tax Estimate for all Illinois Credit Unions ($ Millions)	2012	2013	2014	2015	2016	2017
Total Assets	$35,684	$38,555	$41,657	$45,009	$48,630	$52,542
Net Income to Total Asset Ratio	0.70%	0.85%	0.91%	0.91%	0.91%	0.91%
Net Income (Loss)	$250	$328	$378	$408	$441	$477
Net Income Adjusted for non-NCUA Credit Unions	$273	$359	$413	$447	$483	$521
Corporate Income Tax Rate (Current Law)		7.00%	7.00%	5.25%	5.25%	5.25%
Corporate Income Tax		$25.10	$28.93	$23.45	$25.33	$27.37
Personal Income Tax Rate (Current Law)		5.00%	5.00%	3.75%	3.75%	3.75%
Loss in Personal Income Tax		-$1.25	-$1.45	-$0.88	-$0.95	-$1.03
Net Income Tax Revenue		**$23.84**	**$27.49**	**$22.57**	**$24.38**	**$26.34**
Sources: NCUA, CUNA, CGFA						

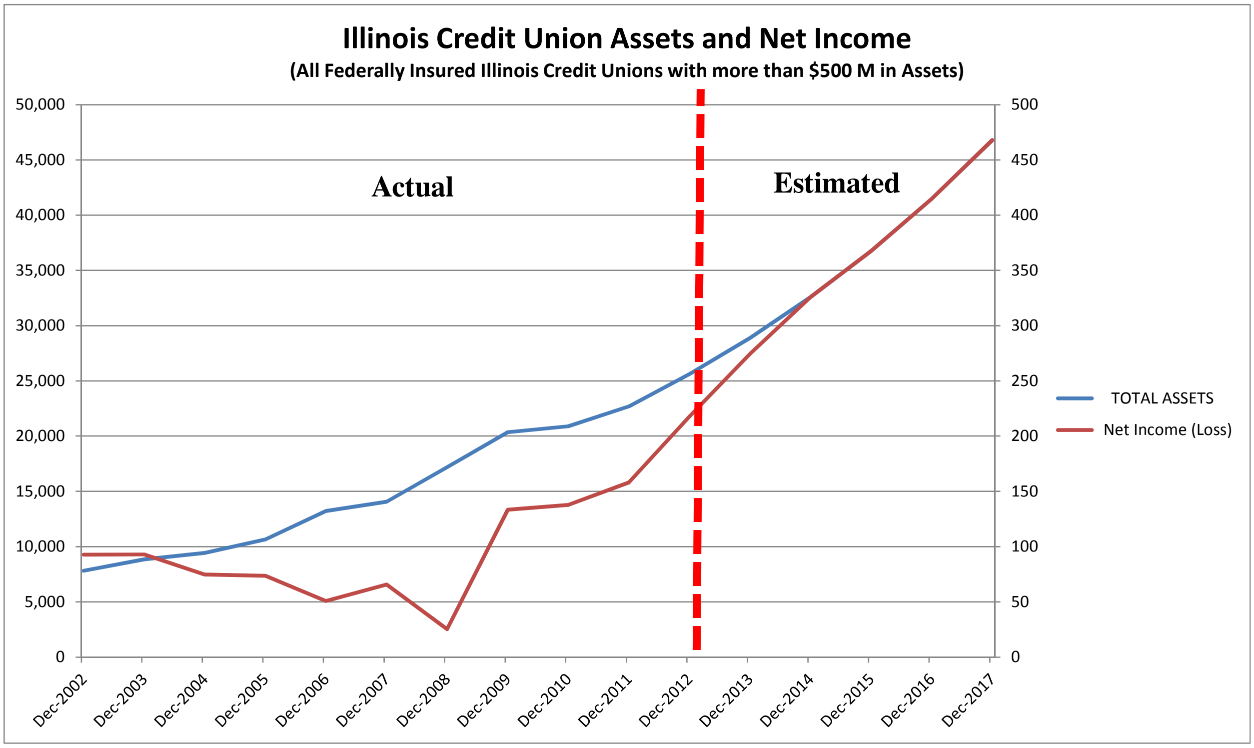
The table above shows the results of applying the assumed total asset and net income assumptions to all Illinois credit unions. The table begins with assumed total assets. A net income ratio is then applied to arrive at a net income for federally insured credit unions. The net income is then divided by 0.914 (federally insured credit unions account for 91.4% of credit union assets) to account for 23 credit unions who are not insured by the federal government. The scheduled corporate income tax rate is then applied to the adjusted net income to arrive at estimated new corporate income tax revenue. This amount is then reduced by the amount of tax revenue that would have been collected as personal income tax revenue that would no longer be available for distribution as a dividend.

By applying the corporate income tax to the net income of all Illinois credit unions would raise $24.9 million per year on average. Yearly estimates range from $22. 6 million to $27.5 million. This analysis assumes that income tax rates are allowed to decrease as scheduled under current law and no major tax avoidance strategies are employed by the credit unions. Some of these credit unions have out of state branches that would contribute to total assets and net income that are included in this analysis but would not be taxable.

The figure and table on the next page shows the same analysis for Illinois credit unions with more than $500 million in total assets. $500 million was used as the threshold instead of $1 billion due to a lack of data at the $1 billion level. Two changes were made in the estimate methodology. The first change was in the asset growth rate which was the average growth rate of 12% for the larger credit unions since 2002. The second change had to do with the net income ratio. The larger Illinois credit unions performed very similar to the national average in recent years. Since 2002, the national average was .70%, while the large Illinois credit unions averaged 0.67%. As such a normal net income level of 1.0% was assumed in this analysis compared to the 0.91% in the all Illinois credit union analysis.

The larger credit unions had assets of $24.0 billion which accounted for approximately 67% of all Illinois credit union assets. Income tax revenue estimates under this analysis ranged from $19.4 million to $25.1 million. Yearly estimates averaged $21.9 million.

It should be noted that the net income tax revenue of $21.9 million in the second analysis should not be considered a sub-set of the first analysis result of $24.9 million. The two sets of analysis used different assumptions and should be viewed separately. The Commission felt that the larger banks were performing more efficiently than the smaller credit unions, and therefore, the associated assumptions should be adjusted. Using the exact same assumptions as the first analysis, the larger unions would be responsible for approximately $15.9 million to $18.4 million per year.



Credit Unions with more than $500 Million in Total Assets

($ Millions)

	2012	2013	2014	2015	2016	2017
Total Assets	$25,610	$28,892	$32,595	$36,772	$41,484	$46,800
Net Income to Total Asset Ratio	0.85%	0.95%	1.00%	1.00%	1.00%	1.00%
Net Income (Loss)	$218	$274	$326	$368	$415	$468
Net Income Adjusted for non-NCUA Credit Unions	$231	$292	$346	$391	$441	$497
Corporate Income Tax Rate (Current Law)		7.00%	7.00%	5.25%	5.25%	5.25%
Corporate Income Tax		$20.42	$24.25	$20.52	$23.14	$26.11
Personal Income Tax Rate (Current Law)		5.00%	5.00%	3.75%	3.75%	3.75%
Loss in Personal Income Tax		-$1.02	-$1.21	-$0.77	-$0.87	-$0.98
Net Income Tax Revenue		**$19.40**	**$23.03**	**$19.75**	**$22.28**	**$25.13**

Sources: NCUA, CUNA, CGFA

The table below lists the credit unions in Illinois that have more the $500 million in total assets. The four largest (Alliant, CEFCU, State Farm, and Baxter) are the only four with more than $1 billion in assets. Collectively they have $18.8 billion in assets which accounts for approximately 52.5% of all Illinois credit union assets and 78.3% of assets from the large credit unions.

If one were to assume that these four companies would share a similar portion of assets and net income under the different scenarios analyzed, taxing them would raise income tax revenue from $13.1 million to $19.7 million per year under the various scenarios. The Commission did not feel comfortable using this method for our main analysis due to a lack of historical data for the credit unions with more than $1 billion in assets but provided the information here with the associated caveat.

Illinois' Largest Credit Unions

Rank	Name	City	Total Assets ($ Millions)	% of All Illinois Credit Union Assets
1	Alliant	Chicago	$8,443	23.5%
2	Citizens Equity First (CEFCU)	Peoria	$4,909	13.7%
3	State Farm	Bloomington	$3,785	10.5%
4	Baxter	Vernon Hills	$1,689	4.7%
5	I. H. Mississippi Valley	Moline	$882	2.5%
6	Motorola Employees	Schaumburg	$857	2.4%
7	Scott	Collinsville	$851	2.4%
8	Credit Union 1	Rantoul	$721	2.0%
9	Abbot Laboratories Credit Union	Gurnee	$619	1.7%
10	Consumers Cooperative	Waukegan	$611	1.7%
11	Corporate America Family	Elgin	$600	1.7%
12	Great Lakes	North Chicago	$560	1.6%
13	Deere Employees	Moline	$513	1.4%
	Total		**$25,039**	**69.8%**
	Total, Assets Above $1 Billion		**$18,826**	**52.5%**

Source: NCUA, IDPFR