

August 4, 2017

Standing Committee on Finance
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6

Dear Chair and Members of the Standing Committee on Finance,

On behalf of First West Credit Union, thank you for the opportunity to provide input into the 2018 budget on the topic of productivity and competitiveness. For more than 70 years, First West has competed toe-to-toe with the leading banks in **Canada's** domestic financial services sector, providing Canadians with socially responsible, locally attuned financial products and services. Our co-operative approach to banking has allowed us to reinvest our profits back into accessible, affordable and innovative financial services products that have helped hundreds of thousands of Canadians enter **and more fully participate in Canada's middle class**. Unfortunately, changes made in the 2013 budget unfairly increased taxes on credit unions. This in turn seriously and **consequentially affected credit unions' abilities to reinvest profits back into competitive services** for Canadians.

In this pre-budget consultation submission, First West is calling upon the federal government to recognize the importance of competition and diversity within the banking sector by returning credit union tax rates to pre-2013 levels.

Building capital, remaining competitive

For more than 40 years the federal government supported competition within the domestic banking sector **through a favourable tax structure that recognized credit unions' limited means of raising capital**.

Because co-operative financial institutions are owned by those who do business with them, credit unions are intrinsically different than joint-stock banks. Whereas banks have various means of raising capital, credit unions rely almost solely on retained earnings to grow capital. In fact for First West, our capital base is approximately 90 percent retained earnings, a high quality of capital that is well above the average of 45 percent that banks maintain¹.

Taxes are paid out of credit unions' retained earnings and as such, higher taxes means credit unions are able to retain less for capital investment. Restrained capital growth in turn means credit unions have less to lend to small businesses looking to expand, families buying their first home, or entrepreneurial start-ups seeking financing.

Simply put, the current federal tax measure does not recognize the unique structure of credit unions and as a **result, hinders the competitiveness of Canada's financial sector**.

¹ Canadian Credit Union Association 2015 Community and Economic Report <https://www.ccu.com/publications> p. 3.



Re-investing in the common good

Many companies undertake competitive behaviours in order to gain and maintain market share. Credit unions certainly do this; however, we are also driven by something more than profits—our member owners. Being directly accountable to our consumers through our democratic, co-operative structure fosters a member-first culture. With growth and success, our profits are returned to our members through lower fees, community investment, sustained operations in remote and rural areas and through development of innovative solutions and products.

In First West’s case, we have created real value for Canadians by reinvesting our profits into some of the most innovative and cost-effective products in the sector. As an example, First West introduced a no fee, no minimum balance account in 2012 called the Simply Free Account® that includes unlimited free e-transfers. In **2016 alone, First West’s Simply Free Account®** is estimated to have saved our members more than \$1.7 million dollars in banking fees. That is \$1.7 million more that British Columbians have to make ends meet, spend in their local communities, or use for education.

For First West, reinvesting profits back into our co-operative takes the form of technology innovation that improves accessibility and respects the value of our **members’** time. That is why in 2013, First West was among the first financial institutions in Canada to offer remote deposit capture². **Known as Deposit Anywhere™**, members can deposit cheques through our mobile banking apps right from their home without having to visit an ATM. Innovations such as this means our members can spend more time focusing on the things that matter to them, such as increasing the productivity of their business or getting to their next class.

The reality is, dollar for dollar, credit unions punch above their weight when it comes to innovation. For over a century credit unions have been finding creative solutions to member need. Credit unions were the first financial institutions to:

- lend money to women in their own names
- provide full service ATMs
- offer home equity lines of credit
- introduce debit card services, offer registered education plans
- launch online banking, mobile cheque deposit
- provide an alternative to payday lenders³.

These advances have spurred countless innovations in other sectors, set new industry standards, changed the way we do business and helped members achieve their goals.

However, credit unions ability to continue to return profits to members is threatened when credit unions struggle to compete on an unequitable playing field.

² Central 1 Credit Union. “Credit unions are first in Canada to let users Deposit Anywhere™ with smartphones.” <https://www.central1.com/news/credit-unions-are-first-canada-let-users-deposit-anywhere%E2%84%A2-smartphones>.

³ Canadian Credit Union Association. 2016 Credit Union Community & Economic Impact Report. https://www.ccu.ca/~media/CCUA/member_corner/publications/pdfs/2016CUCEIReportDigital.pdf. Pp. 8, 9.



Impact of unfair taxation on credit unions

The federal elimination of the additional deduction for credit unions resulted in a rise in taxes for many credit unions nationally. First West estimates that federally we will pay an additional \$1.8 million every year. In general terms, every dollar in retained earnings can be leveraged to a ratio of approximately \$15 dollars. As such, a tax increase of \$1.8 million is equal to \$27.45 million that First West cannot put back into the B.C. economy through loans. When we consider that our average small business loan is \$10,000, the federal tax increase is equal to 2,700 unfunded small business loans. That is money that B.C. businesses do not have access to as they seek to compete, increase productivity, innovate and grow.

For British Columbian credit unions like First West, the federal tax increase also triggered a provincial increase. As such, and in addition to the federal increase, First West initially estimated it would pay \$4.3 million more in taxes during the provincial phase-out period, and an additional \$2.5 million in provincial taxes each year thereafter.⁴

Such significant increases in taxation has caused alarm not only among British Columbia credit unions but also within the business community. British Columbia is home to the largest credit union system in Canada with 42 credit unions and more than one in five British Columbians choosing to bank with a credit union⁵. Further, 98 per cent of all businesses in the province are small businesses and according to a 2016 Canadian Federation of Independent Business (CFIB) study, credit unions in B.C. are the financial institution of choice for small businesses⁶.

So clear is the connection between small businesses and credit union taxation that the B.C. Chamber of Commerce included in its 2017-2018 Policy and Positions Manual a call for fair taxation for credit unions⁷. Val Litwin, President and CEO of the B.C. Chamber of Commerce said, "**B.C.'s Chambers and Boards of Trade** recognize the integral role credit unions play in supporting local economic development, particularly in communities where they are the sole financial institution⁸."

A strong economy that benefits all Canadians, regardless of where they live or the size of their business, requires a competitive financial sector that collectively innovates to create products and services that enable citizens to follow their dreams and businesses to grow and develop. A tax increase on credit unions, like First

⁴ In 2014, the Liberal-led B.C. government provided a three year reprieve before beginning a five year phase out of the small business tax rate for credit unions in 2016. One year into the phase out, the same provincial government announced it would pause further increases for one more year. In July 2017, the new NDP-led provincial government included in the Finance Minister's letter a directive to "enhance the lending capacity of B.C. credit unions by making their tax status permanent". First West believes this mandate is an acknowledgement that tax increases on credit unions limits growth, particularly in small and underserved communities and to small businesses.

⁵ Central 1. "Credit unions in Canada." <https://www.central1.com/about-us/credit-union-system>

⁶ Canadian Federation of Independent Business. "SME Bank Market Share." August 2016. <http://www.cfib-fcei.ca/english/article/8624-sme-bank-market-share.html>

⁷ BC Chamber of Commerce. "Policy is on my mind: Policy & Positions Manual." 2017-2018. http://www.bcchamber.org/sites/default/files/2017-2018-%20Policy%20and%20Positions%20Manual%20-%20Final%2020170707_Branded_0.pdf

⁸ Litwin, Val. "Opinion: Make small business tax benefit to credit unions permanent." The Province. <http://theprovince.com/opinion/op-ed/opinion-make-small-business-tax-benefit-to-credit-unions-permanent>



West, affects our ability to compete and that negatively impacts the economic vitality of the areas where we operate, our members and in particular small businesses.

Conclusion

Credit unions are an essential part of **Canada's competitive financial services landscape. However, the 2013 tax changes continues to negatively impact credit unions' ability to compete** effectively. Because credit unions are structured and derive their capital differently than banks, increased taxation has a significant impact on financial ability to engage in competitive behaviours that benefit middle class Canadians.

Competitive credit unions save members time and money, allowing them to be more productive and invest in the Canadian economy. That is why First West is calling on the Standing Committee on Finance to take action and recommend the government returns credit unions' federal tax status to its pre-2013 small business level.

Thank you again for the opportunity to share a First West Credit Union perspective on how competition in the financial sector benefits the Canadian economy and why fair taxation for credit unions should be featured in the 2018 budget. Please feel free to contact me with any questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Launi Skinner".

Launi Skinner
Chief Executive Officer