

August 5, 2016

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

Dear Mr. 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 2017 budget. We wish to offer our full support to the pre-budget submission provided by the Canadian Credit Union Association (CCUA).

First West's interest in providing the Committee with our own individual input into the 2017 budget comes in large part from the statement made by Finance Minister Bill Morneau in congratulating UNI Financial Cooperation on becoming Canada's first federal credit union. In his remarks, Minister Morneau noted that the key to a healthy middle class and business community is "a strong and competitive financial sector."¹

We agree.

However, today credit unions face increasing challenges in sustaining a competitive financial sector due in part to the controversial changes made to the way credit union were taxed following Budget 2013. For 40 years prior, the federal tax system recognized the important differences between cooperatively-owned credit unions and shareholder-owned banks by providing a specific deduction to credit unions. This treatment balanced some of the ways in which the tax system favors large banks through the capital gains tax exemption and GST/HST rules.

Today we are asking Canada's new government to once again recognize the unique structure, economic impact and social mandates of credit unions, and to introduce fair taxation for credit unions. First West would welcome a return to the pre-Budget 2013 tax arrangement for credit unions or the introduction of a fairer, more progressive tax arrangement that recognizes the distinctive nature of credit unions.

[A unique structure: Financial institutions owned by Canada's middle-class](#)

A financial co-operative, First West Credit Union is owned by its approximately 250,000 member and stewards \$9 billion in assets. The credit union provides 1,700 good paying jobs in predominately small and mid-sized B.C. communities, and offers banking services to more than 18,000 businesses.

Unlike banks, every credit union member is an owner and each owner has a vote and say in determining the future of the organization. Being directly accountable to our members through our democratic structure fosters a member-first culture—one that spurs innovation, fair-pricing and accessibility. First West has been proud to be an innovation leader in Canada, being the first to introduce wearable payment systems with DashBand™ or, together with other credit unions, being the first to introduce mobile cheque deposit.

First West has also brought competitively priced products to markets often overlooked by larger competitors. Throughout the rural, small- and mid-sized communities we serve, our members have access to our Simply Free

Account™ and Unlimited Chequing for Business® accounts, arguably two of the most price-competitive daily account products in the market.

With regards to accessibility, First West is proud to have full-service branches in many communities throughout B.C. where traditional financial institutions have withdrawn or cutback on services.

The co-operative structure of credit unions like First West also helps mitigate risk. By our nature, First West takes a local approach to business, developing close relationships with our members. As a result we are able to make informed, low-risk lending decisions. We believe that our community focus is the reason why credit unions consistently have lower loan losses year after year compared to the chartered banksⁱⁱ.

The benefits of this locally-informed business model was evidenced clearly in the 2008-2009 financial crisis. While other businesses and financial institutions faced significant losses and even bankruptcy, credit union lending kept a pace similar to 2004, a year of strong economic growthⁱⁱⁱ.



Our capital base is another aspect of how credit unions are structured differently than banks. For credit unions, our capital base is nearly 80 per cent retained earnings—a high quality of capital—and is well above the average 45 per cent that banks maintain^{iv}. Where banks can raise capital from the stock market, credit unions rely almost entirely on their retained earnings to grow their capital. Therefore, the more retained earnings a credit union has, the more it can lend to middle-class families and small businesses in our communities.

In short, there are foundational differences to the structure of credit unions compared to banks and other joint-stock corporations. These differences should be recognized in the taxation of credit unions and any review of the tax system.

Economic impact: Creating jobs and healthy communities

The foundation of a healthy middle-class are well-paying jobs. Jobs give individuals and families security, career growth options and disposable income which in turn strengthens local economies. Credit unions like First West proudly hire locally and when compared to banks, credit unions employ more people per \$1 million in lending^v.

The job creation and community support that credit unions activate triggers an economic multiplier effect that supports the local, provincial and Canadian economy. In 2015, First West Credit Union earned \$44 million in value-added income, spent \$103.3 million in salaries and benefits, and employed 1,186 full time equivalent (FTE) staff, triggering a spin-off of economic activity and job creation in the communities where First West operates^{vi}.

Including direct and indirect economic impacts, First West accounted for \$77.6 million in value-added income (pre-tax profit, depreciation and amortization), \$221.5 million in salaries and benefits, and 2,366 FTE jobs. In terms of Gross Domestic Product (GDP), First West produced approximately \$147.3 million in current dollar GDP via direct spending on salaries and benefits, pre-tax profits and depreciation on capital assets. Including economic multipliers, First West accounted for approximately \$299 million of British Columbia's GDP in 2015. What we are most proud of is that much of this contribution has been made to small and mid-sized communities in British Columbia.

Credit unions like First West make a unique and meaningful impact on the economy of B.C. To sustain the unique economic contributions credit unions make, it is important that the upcoming budget and tax review give consideration to fairly taxing credit unions.

Social mandate: Helping transform lives and communities for the better

True to our cooperative roots, First West helps our communities by giving back approximately four to five per cent of our profits to community-aligned charities and initiatives. In investing a portion of profits in community causes and charitable organizations, we help create room and opportunity for all Canadians.

Since 2010, more than \$10.5 million has been invested to support community partnerships, programs, education awards, philanthropic donations and in-kind contributions benefiting a variety of non-profit and charitable organizations.

While dollars go a long way for many community organizations, others rely on volunteers. During 2015, First West employees volunteered 12,770 hours—the equivalent of 1,703 work days—in their communities. A large portion of these volunteer hours were made possible through First West's paid-time-off-for-volunteering program. At First West, we believe that feet on the ground are as vital to our non-profit partners as the dollars we provide. Each year, employees are provided up to three paid days to volunteer in their community with a local charitable organization.

In addition, the First West Foundation—our private charitable arm—donated more than \$578,000 in 2015 to nearly 100 organizations in communities we serve.

Credit unions like First West are leaders in transforming local communities with our hands, hearts and resources. We believe fair taxation should continue to recognize the social contribution credit unions make to our towns and cities.

Fair must be fair

Because credit unions are intrinsically different than banks in their structure, economic contribution and social mandate, government has historically treated them differently than banks.

For that reason, First West and other credit unions were taken aback when the previous government eliminated a 40 year-old acknowledgement of the cooperative difference in its Budget 2013.

The 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 \$3.1 million in additional federal taxes during the phase-out period and roughly \$1.8 million every year after 2016.

For British Columbian credit unions, the federal change also triggered a provincial increase as well. As such and in addition to the federal increase, First West estimates it will pay an additional \$4.3 million in taxes during the provincial phase-out period and an additional \$2.5 million in provincial taxes thereafter.

In short, the current tax measures do not recognize the different structure of credit unions and the impact that a rise in taxes will have in ensuring a strong, competitive and stable financial sector.

Why this matters

For credit unions, retained earnings are their main source for capital. When credit unions pay more in taxes, their retained earnings are impacted. Lower retained earnings means the credit union has less money to lend to middle class families and small businesses, less to invest in innovation, less to invest in job creation and less to give to charitable organisations.

To this concern, the B.C. Chamber of Commerce noted the impact of burdensome taxes in its September 21 testimony to the B.C. Select Standing Committee on Finance and Government Services:

The change to the tax structure for credit unions is another issue of concern to our members. Government has placed a welcome emphasis on encouraging small business growth. However, the change in the tax status of credit unions is a measure that works against this by reducing credit unions' ability to invest in communities and small businesses.

Businesses are not the only ones to recognise the contributions that credit unions make; municipalities are often natural partners for credit unions because municipalities recognise that credit unions help them achieve their economic and community goals. The City of Penticton has partnered with Valley First, a division of First West, for the city's banking needs and its mayor, Andrew Jakubeit, notes:

The local understanding of Valley First has been extremely valuable to the City of Penticton. In addition to providing cost effective financial services to the City, they are a major employer providing hundreds of value jobs and economic value to the City. They provide advice and guidance on our municipal committees, provide support to the community with generous support to local charities and focus on helping local business thrive. This understanding at a grass roots level and commitment to Penticton's success adds value to our City and our citizens.

Due to the important role that credit unions play in growing the middle class and Canadian businesses through a strong and competitive financial sector, we ask that the finance committee ensure tax fairness in the federal tax expenditure review. **We ask once again that today's new government recognize the unique structure, economic impact and social mandates of credit unions, and to introduce fair taxation for co-operative financial institutions.**

Thank you again for the opportunity to share a First West Credit Union perspective with the committee and to have early input into the 2017 budget. Please feel free to contact me with any questions or comments.

Sincerely,



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ⁱ <http://www.fin.gc.ca/n16/16-086-eng.asp>

ⁱⁱ Canadian Credit Union Association 2015 Community and Economic Report pg. 8
<https://www.ccu.com/publications>

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

^{iv} Canadian Credit Union Association 2015 Community and Economic Report pg. 3
<https://www.ccu.com/publications>

^v Canadian Credit Union Association 2015 Community and Economic Report pg. 7
<https://www.ccu.com/publications>

^{vi} The estimated economic multipliers, total spending and total employment are shown below

Economic Impact of First West Credit Union in 2015					
	Multiplier	Units	Direct	Indirect & Induced	Total
Income	1.764	\$ millions	44.0	33.6	77.6
Wages	2.144	\$ millions	103.3	118.2	221.5
GDP	2.031	\$ millions	147.3	151.8	299.2
Employment	1.994	FTE persons	1,186.3	1,179.2	2,365.5
Source: Central 1 Credit Union, Research on the Economic Impact of Cooperatives, University of Wisconsin Center for Cooperatives, March 2009					