

COMPETITIVE TAX ENVIRONMENT FOR CREDIT UNIONS (2017)

Abstract

When the federal government moved in 2013 to eliminate the extended small business tax credit benefit for credit unions, the government of British Columbia showed good sense by not mirroring this harmful change in provincial tax law. Our provincial government has continued to insulate credit unions from the full impact of the federal change in policy. The provincial government should continue to show leadership in this area by shielding credit unions from the federal tax change indefinitely and working to have the federal policy change reversed.

Discussion

In spring of 2013, the federal government announced it would eliminate the extended small business tax benefit for credit unions over the next five years. Since 2006, the Government has introduced a large number of tax measures to support investment, innovation and growth by small businesses, including reducing the small business tax credit. The small business tax credit was reduced to 11 per cent from 12 per cent in 2008.¹ British Columbia provided a similar tax rate for credit unions because they were eligible for the federal reduction. Phasing out the federal reduction meant that the lower B.C. tax rate would also be removed unless legislative changes were made to protect it.

In its 2014 budget, the B.C. government decided to retain the small business tax benefit for the province's 43 credit unions until 2016. Budget 2017 has extended this protection for one more year. These were steps in the right direction.^{2,3}

Like banks, credit unions are required to build ever-increasing capital to ensure soundness. But unlike banks, credit unions are member-owned co-operatives and cannot access capital markets. Instead, they must rely on retained earnings for capital, while banks are able to issue stock on capital markets. Increasing taxes on credit unions impedes the ability of credit unions to grow their retained earnings and capital.

Credit unions play an important role in B.C. communities by providing financial services to businesses and individuals and by supporting local projects.

A 2016 report by the Canadian Federation of Independent Business (CFIB) concluded: "CFIB's latest bank rankings continue to show that credit unions are rated more favourably than conventional banks in providing service to small- and mid-sized enterprises (SMEs) in 2015."⁴ The survey results in this report mirrored those of 2013⁵ and 2009⁶ which all showed credit unions were the preferred lenders and services providers for small businesses across the country. Credit unions ranked high in providing financing, the level of their fees and the quality of their account managers.

We wish to ensure that B.C. families and businesses throughout our rural and urban communities can continue to benefit from the competitive financial services offered by our local credit unions. The people

1 Canada, Department of Finance, January 31, 2011: <http://www.fin.gc.ca/pub/report-rapport/2011-7/ceap-paec-2a-eng.asp>

2 <http://bcbudget.gov.bc.ca/2017/default.htm>

3 <https://www.pwc.com/ca/en/tax/budgets/2017/pwc-british-columbia-budget-2017-02-en.pdf>

4 CFIB, Battle of the Banks: <http://www.cfib-fcei.ca/cfib-documents/rr3415.pdf>

5 <http://www.vancouversun.com/business/Credit+unions+outperform+banks+servicing+smaller+businesses+survey+says/8421920/story.html>

6 <http://www.cfib-fcei.ca/english/article/1812-banking-on-better-service.html>

and organizations of the community that use the credit union help set its governance, its owners are its customers. Credit unions are currently the only financial institution in more than 40 communities in B.C.⁷ The geographic reach of credit unions in northern and rural communities is notable.

If the small-business tax benefit is removed permanently, Central 1 Credit Union estimates credit unions will face an annual tax increase of \$20 million. Increased taxes after 2017 will hurt the ability of credit unions to support local economic growth and their ability to support the province's business sector. When credit unions pay higher income taxes, their ability to lend to small businesses, provide service to underserved communities and support local community economic development is reduced.

For all of these reasons, it is critical that the province retain indefinitely the small business tax exemption for credit unions. This will not be a cost to the provincial government because it is currently an unrealized source of tax revenue. In fact, had the federal government not triggered this chain of events, the province would not have had cause to rescind the small business tax from credit unions. We suggest that the cost to the province, if this exemption ends, may be to business and communities who directly benefit from the more than \$17.6 million that B.C. credit unions provide annually to a wide range of community and economic projects.⁸

Further, we believe retaining the small business tax benefit indefinitely is a positive for elected and bureaucratic levels of government who rely upon credit unions as geographically dispersed, community-based sources of economic development stimulus.

By permanently extending the small business tax credit for credit unions, the government will demonstrate and recognize that credit unions are unique and historically dependent on this tax structure to the benefit of communities. Any opposition to this tax structure could be overlooking the sensitive inter-relationships of member-owned financial institutions that see profits directed to the community for re-distribution.

THE CHAMBER RECOMMENDS

That the Provincial Government:

1. extend the British Columbia small business tax benefit permanently;
2. continue to work with credit unions to meet their needs with regulations and tax regimes that keep them strong and viable; and
3. work to influence the Federal Government to restore the Federal extended small business tax exemption for credit unions.

7 (1) Central 1, <http://www.central1.com/news/central-1-credit-union-welcomes-bc-government-decision-maintain-tax-benefits-bc-credit-unions>.

8 www.creditunionsarehelpinghere.com

