BILL C-32 - An Act to implement certain provisions of the Fall Economic Statement

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ASSOCIATION DES BANQUIERS CANADIENS
CANADIAN BANKERS ASSOCIATION

Remarks

Good morning. My name is Darren Hannah and I am the Vice President of Personal & Commercial Banking with the Canadian Bankers Association. The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks operating in Canada and their nearly 300,000 employees across the country. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals and strengthen their financial well-being.

Our domestic and foreign bank members play a central role in Canada's economy. The banking sector:

- Accounts for almost 4% of Canadian GDP
- Contributed more than $13.5 billion in taxes to all levels of government in 2021
- Provided $1.5 trillion in credit to Canadian businesses
- And played a critical role in helping people and businesses weather the storm of the pandemic

Banks have a deep history in helping to achieve Canada's national priorities and are positive forces for a strong, inclusive, and sustainable economy.

I have been invited here today to provide views on Bill C-32. While the Bill has a large number of provisions, I will concentrate my remarks on Part 1, which amends the Income Tax Act to implement the Financial Institutions (FI) Tax and the Canada Recovery Dividend (CRD), and which creates the First Home Savings Account.

Let me speak first on the Financial Institutions Tax and the Canada Recovery Dividend.

An efficient tax system is one that is neutral. The basic concept is simple: generally, the tax system should strive to be neutral so that decisions are made on their economic merits and not for tax reasons. A neutral tax system incorporates relatively low and relatively flat rates, with a broad base and with equal and proportionate application. These conditions let markets work most efficiently to direct investment to its best use. A neutral tax system also encourages growth and innovation by letting investors, savers, and employees make choices driven by where they can get the best return for their capital, labour, or knowledge, rather than by tax considerations. An un-neutral tax system creates unnecessary distortions, sends the wrong message about investing in Canada, and drives up the cost of capital for all businesses.

The Financial Institutions Tax and Canada Recovery Dividend are inconsistent with the principle of tax neutrality. Internationally, the imposition of the FI Tax and CRD is being noticed by investors and is causing them to question Canada's commitment to building an economic environment that promotes investment. Domestically, the FI Tax and CRD will have an impact on the millions of retail Canadian investors who hold bank shares and the close to 300,000 Canadians working in the banking sector.

Canada needs sustainable, non-inflationary growth as it continues to navigate the post-pandemic recovery – and banks are fundamental in that equation. Forcing banks to pay billions in taxes may cause them to reduce their lending capacity by multiples more. A strong economic recovery needs strong banks to continue to supply credit to businesses, thereby driving productivity growth, creating jobs for hardworking Canadians, and keeping the economy humming. The federal government needs to understand the widespread knock-on effects of singling out the banking sector for special taxation.

The Government needs to reconsider the FI Tax and the CRD and to recommit to the principle of tax neutrality. At a minimum, the Government needs to commit to a firm sunset date for the FI Tax to give investors and those working in the banking sector confidence that Canada is committed to attracting investment and keep our banks strong to facilitate sustainable economic growth.

Now, let me turn to the First Home Savings Account.

The CBA supports the proposal to create a tax-free First Home Savings Account (FHSA). Saving for a home is a foundational part of the personal financial planning for millions of Canadians. Expanding the financial toolkit for Canadians to achieve this goal is a positive step. We are concerned, however, that the implementation timelines embedded in the legislation are exceptionally aggressive and may unnecessarily complicate the rollout of the account to the millions of Canadians looking to access it. I have personal experience in this issue, having worked on the development of the Tax-Free Savings Account more than a decade ago. It, too, was developed and rolled out on a very tight timeline, without building in sufficient lead time for taxpayer education about the features and rules surrounding the project, and with insufficient time between the date that specifications were locked down and the date at which the product was to be rolled out to ensure seamless data flow between financial institutions and the Canada Revenue Agency. The unfortunate result was that 70,000 Canadians received notices from the Canada Revenue Agency of overcontributions or registration refusals due to inconsistent or missing information, creating unnecessary anxiety for thousands of Canadians. While we are all aiming to avoid a repeat of this scenario, the April 1st, 2023 coming-into-force date for these provisions feels exceptionally aggressive given the complexity and newness of the product. We therefore request that the April 1st, 2023 timeline be pushed back to late 2023 to allow the industry and the CRA adequate time to ensure a smoother implementation process.

I would like to thank the Committee for considering these recommendations and would welcome any questions that you have.