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Parliament Resumes

Brigitte Goulard, Vice President, Policy, CUCC

The 40th Parliament resumed on January 26th with a short and conciliatory Throne Speech. The Speech which stressed the Government's efforts to cooperate and consult with the other parties also reiterated the Government's desire to focus on improving Canada's economic situation.

The Governor General called on Canadians to stay tuned for the Government's budget to be delivered on January 27th. This special edition of the Policy and Advocacy Report focuses on the components of this Budget which impact credit unions.

The upcoming parliamentary session promises to be exciting. The Conservative government's experience of last December brought home the message that the Conservative Party is in fact heading a minority government and must cooperate with the other parties or the spectre of the Opposition Coalition may once more come to haunt it.

This lesson is even more important today as the Prime Minister will be required to cooperate with the Liberal Leader while still remaining vigilant as there is no doubt that Mr. Ignatieff is waiting for the perfect opportunity for his party to defeat the Government.

Lobbyists in Ottawa, particular those of us working in the financial services sector, expect a very busy parliamentary session as several Senate and House Committees will likely focus on the economy and financial institutions in general. Furthermore, it is expected that the civil service will be focused on issues aimed at maintaining a healthy and stable financial sector. Your Policy Team will keep you apprised of any initiatives or development that may impact the credit union system.

2009 Budget Summary

Gary Rogers, Vice President, Financial Policy, CUCC

Corporate Tax Measures Affecting Credit Unions

Corporate Income Tax Rate Paid by Credit Unions

There is no change to income tax rates. Effective January 1, 2009, the small business income threshold increases from \$400,000 to \$500,000. This is the level at which the federal income tax rate for small businesses jumps from 11% to 19.5%. As a result, the Budget provides a maximum income tax break of \$8,500 per year.

Most credit unions pay the federal small business tax rate of 11% on all of their taxable income, in accordance with a complex formula. They are not impacted by the Budget announcement. However, an increasing number pay the higher general tax rate of 19.5% on some portion of their income. The Budget announcement will benefit this latter group.

Electronic Filing of Tax Information Slips and Corporate Returns

Tax information slips, such as T5 and T4, are currently required to be filed electronically if they exceed 500 slips. The requirement will be reduced to 50, beginning with 2009 information slips. This means that a credit union with 50 employees or more must file its T4 slips electronically, for 2009 compensation. Similarly, every credit union that does not already file T5s electronically must do so, beginning with 2009 interest reporting.

Corporate income tax returns must be filed electronically, for taxation years ending after 2009, if gross revenue exceeds \$1 million. The budget documents indicate that CRA may provide exceptions to this new rule. It may be unreasonable for a credit union with only \$1 million of gross revenue to comply with this requirement. Canadian Central will be communicating with government officials that exceptions may be appropriate for small credit unions.

Capital Cost Allowance for Computers

A temporary measure will allow an instant tax write-off for computers. Currently, computers can be written off at 55% on declining balance basis. A 100% write-off will be allowed for computers purchased after January 27, 2009 and before February 1, 2011.

Measures Affecting Credit Union Products

RRSP Home Buyers' Plan (HBP)

Since 1992, first-time home buyers have been able to withdraw up to \$20,000 from an RRSP to purchase or build a home. The amounts withdrawn are repayable starting the second year after the year of withdrawal. The maximum amount is increased to \$25,000 for withdrawals after January 27, 2009. Also, the HBP is expanded to include the purchase of a more accessible or functional home by someone who qualifies for the Disability Tax Credit, or for their benefit by a relative of that person.

Minimum Withdrawals from RRIFs

In November 2008, the minimum annual withdrawal from a RRIF was reduced to 75% of the usual amount - for 2008 only. There has been speculation that this concession would be extended to amounts required to be withdrawn in 2009. However, the Budget does not address this. Therefore, for 2009, the normal withdrawal requirements continue to apply.

Credit Cards

A number of measures affecting credit cards are mentioned, in general terms. The Government is proposing to strengthen the disclosure requirements on federally regulated FIs that issue credit cards, taking "a more principles-based approach in improving disclosure". Improvements will be sought in areas such as clear and simple summary information on credit card application forms and contracts, and clear and timely advance notice of changes in rates and fees. The Government will require a minimum interest free grace period on new purchases made with a credit card.

Mortgage Insurance

The Budget proposes enhanced disclosure requirements for mortgage insurance. It also proposes "new measures to ensure that Canadian consumers are charged no more for mortgage insurance than the true cost of obtaining that insurance."

Measures to Address Liquidity and Credit Availability

"The Bank of Canada stands ready to provide extraordinary liquidity as required to support the financial system."

Insured Mortgage Purchase Program (IMPP)

An additional \$50 billion of liquidity will be made available to financial institutions through an increased IMPP during April-September 2009.

Beginning in October 2008, CMHC began to purchase up to \$75 billion of insured residential mortgage pools through a competitive auction process. The IMPP contrasts with the Canada Mortgage Bond (CMB) Program because these mortgages stay on the CMHC books and are funded by CMHC. In contrast, under the well-established CMB program, mortgages are sold to a trust and funded by investors.

Credit unions have been accessing the CMB program through Central 1. More recently, they have begun to access the IMPP, also through Central 1. This announcement provides assurance that this supplementary liquidity facility will continue, at least until September 2009.

Canadian Lenders Assurance Facility (CLAF)

The Budget extends the CLAF from its planned expiry date of April 30, 2009 to December 31, 2009.

In October 2008, the Department of Finance created the CLAF, a new guarantee facility administered by the Bank of Canada. Federally regulated FIs that issue debt, including commercial paper, bearer notes and unsecured bonds, may have the principal and interest guaranteed by the Canadian government. A guarantee fee is required to be paid by the FI.

Most credit union Centrals – those that are federally regulated - are eligible to participate in the CLAF. Credit unions are not, because they are provincially regulated. While it is beneficial that CLAF be available if needed, it is unlikely that credit union organizations will access this facility because the IMPP, CMB and term PRA auctions are generally regarded as better options to access supplementary liquidity.

Canadian Secured Credit Facility (CSCF)

A new CSCF will be created, with an allocation of \$12 billion, to purchase term asset-backed securities backed by loans and leases on vehicles and equipment. It will be priced "on commercial terms".

Federally regulated FIs (e.g. banks and some credit union Centrals) are eligible to sell into the CSCF. Provincially regulated FIs (e.g. credit unions) may be eligible on the approval of the Minister of Finance.

It is likely that few credit unions will use this new facility. As they have found through accessing the CMB and IMPP facilities for residential mortgages, there is substantial administrative burden that requires fairly large volumes to justify the cost and effort. Credit unions may not have the volumes of vehicle and equipment loans and leases to economically participate in the new CSCF.

Provision of Incremental Credit through Crown Corporations

The capital of two Crown Corporations – Export Development Canada (EDC) and Business Development Bank of Canada (BDC) – will each be increased by \$1.5 billion which will in turn expand lending capacity.

The mandate of the EDC will be expanded, for a temporary period, to support accounts receivable insurance in the domestic market.

A new **Business Credit Availability Program (BCAP)** will be supported by \$5 billion through both BDC and EDC. In cooperation with private sector FIs, the \$5 billion will provide additional loans and other forms of credit support and enhancement at market rates to businesses with viable business models whose access to financing would otherwise be restricted. The Budget papers note that participating private sector lenders will have to work with the Crown Corporations to ensure the extension of credit is incremental and does not displace or substitute for private credit.

Extension of Canada Small Business Financing Program

For loans made after March 31, 2009, the maximum eligible loan amount will be raised from \$250,000 to \$350,000, and to \$500,000 for loans to acquire real property. Under this program, the federal Government guarantees 85% of loans made by eligible financial institutions to qualifying businesses. The limit for reimbursements on losses is 10% of the portfolio, which will be increased to 12% for loans made after March 31, 2009.

Housing Sector

First-Time Home Buyers' Tax Credit

A 15% tax credit of up to \$750 will be available to offset costs of purchasing a first home, or a more accessible one for people who qualify for the Disability Tax Credit. For purchases after January 27, 2009, 15% of costs of such items as legal fees, disbursements and land transfer taxes will qualify for this new tax credit.

Home Renovation Tax Credit (HRTC)

The HRTC is a temporary incentive to undertake new renovation projects or accelerate future projects. A 15% tax credit will apply to the cost of work performed after January 27, 2009 and before February 1, 2010, pursuant to agreements entered into after January 27, 2009. The maximum tax relief is \$1,350 and is calculated on costs exceeding \$1,000, but not more than \$10,000. The credit must be shared within a family and claimed on one or more 2009 tax returns.

Eligible expenses are intended to include alterations of an enduring nature to a dwelling or lot. Routine repairs and maintenance will not qualify. Eligible expenditures will include: kitchen, bathroom or basement renovations; new carpet or hardwood floors; deck, fence or retaining wall; new furnace or water heater; painting; resurfacing a driveway; new sod. Ineligible expenditures include: appliances and furniture; tools; maintenance of lawns.

Home Energy Efficiency

The ecoENERGY Retrofit program will receive an additional \$300 million over two years for grants of up to \$5,000 to offset the cost of making energy-efficient improvements, including upgrading a furnace and increasing insulation.

Other Matters of Interest

Canada Deposit Insurance Corporation (CDIC)

Tax-Free Savings Accounts will be designated as a separate category of deposits insurable by CDIC, similar to RRSPs and RRIFs.

CDIC will be allowed to own shares in its member institutions, "where this would promote the stability of the financial system in Canada".

CDIC will be enabled to establish a "bridge institution" to preserve critical functions and help maintain financial

stability in the event a CDIC member is no longer viable.

To provide CDIC with a broader range of options to respond to systemic risk concerns arising from the failure of a CDIC member, CDIC will be allowed to resolve a failure in ways that may not result in a lowest-cost solution to CDIC.

CDIC's borrowing limit will be increased from \$6 billion to \$15 billion to reflect the growth of insured deposits since the last increase in 1992.

Capital Investments in Financial Institutions

Budget 2009 states that "the Government will propose an authority to allow it to inject capital into federally regulated financial institutions ... to promote the stability of the financial system in Canada."

Financial Literacy

The Government will establish an independent task force, which will make recommendations to the Minister of Finance on a cohesive national strategy on financial literacy. The task force, which is expected to be launched in the spring of 2009, will be supported by a federal secretariat.

Anti-Money Laundering

Budget 2009 indicates that the Government of Canada will introduce new measures to safeguard the financial system from illicit financing.

Federal Financial Institutions Legislation

Notwithstanding that federal financial institutions legislation is scheduled for its five-year review in 2012, the Budget notes that "the Government will make technical and consequential amendments to improve the financial sector framework". Canadian Central will consult with officials to determine what is intended by this statement.

National Securities Regulator

The Government intends to table a securities act this year that would allow willing provinces and territories to participate in a Canadian securities regulator. The securities regulator will be integrated into Canada's financial stability framework that already includes the Department of Finance, Bank of Canada, Office of the Superintendent of Financial Institutions, Canada Deposit Insurance Corporation and Financial Consumer Agency of Canada.

Agriculture

Budget 2009 proposes amendments to the Farm Improvement and Marketing Cooperatives Loans Act to help make credit available to new farmers, support inter-generational farm transfers, and modify eligibility criteria for agricultural cooperatives. Currently, credit availability under the Act is limited to existing farmers and product marketing cooperatives fully owned by farmers. "The amendments will ... enable cooperatives to better seize market opportunities."

Reallocations of funds will support a new agricultural flexibility program with the provinces to reduce costs of production, improve environmental sustainability and respond to market challenges.

The federal government will continue to work with the provinces on delivery of the AgriStability program.

\$50 million will be spent over three years to strengthen slaughterhouse capacity.

Income Tax Reductions for Individuals

- The basic personal credit amount will be increased in 2009 to \$10,320 from \$9,600. This allows people to earn more income before paying income tax, reducing taxes by up to \$108.
- The top of the first personal income tax bracket is increased to \$40,726 in 2009 from \$37,885 in 2008, allowing more income to be taxed at the lowest 15% rate, rather than the 22% rate, and reducing taxes by up to \$199.
- The top of the second personal income tax bracket is increased to \$81,452 in 2009 from \$75,769 in 2008, allowing more income to be taxed at the 22% rate, rather than the 26% rate, and reducing taxes by up to \$227.
- For seniors, the Age Credit amount is increased in 2009 by \$1,000 to \$6,408, reducing taxes by up to \$150.
- The income level is increased at which the National Child Benefit supplement and Canada Child Tax Benefit are phased out, providing a benefit of up to \$436 for a family with two children.
- The Working Income Tax Benefit is doubled, to further encourage low-income Canadians to work.

Employment Insurance (EI)

EI premium rates will remain unchanged for 2010.

For the next two years, all regular benefit entitlements will be increased by five extra weeks, to a maximum of 50 weeks.

An Expert Panel will be created to recommend how best to provide EI maternity and parental benefits to self-employed Canadians.

Wage Earner Protection Program

The Wage Earner Protection Program guarantees payment of wages and vacation pay owed to eligible workers following an employer's bankruptcy, up to four weeks of maximum insurable earnings.

Budget 2009 would extend the protection to cover severance and termination pay, subject to the maximum four weeks of insurable earnings. This proposal could result in a further reduction of funds available to lenders.

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