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## **Better Banks For All, Paying Their Fair Share of Taxes**

***The measures more than 100 citizen groups with 3.5 million members support, and 97,000+ Canadians have called for, to ensure banks pay their fair share of taxes, and to stop discrimination, gouging and abuses in bank lending and service***

### **Submission to Finance Canada's 2021 Budget Consultation (February 2021)**

#### **I. Overview**

Democracy Watch, along with the more than 97,000 people from across Canada who have joined its [letter-writing campaign](#) and/or signed its [Change.org petition](#), call on Finance Minister Chrystia Freeland to work together with all federal parties in this minority government situation to make Canada's big banks do more to help Canadians and small businesses, and pay their fair share of taxes, now and after the coronavirus crisis.

[According to Finance Canada's Supporting a Strong and Growing Economy: Positioning Canada's Financial Sector for the Future](#) document (August 2016 – [click here](#) for HTML version), Canada's big banks control 93 per cent of all banking assets, and are more profitable than comparable banks in other countries, small banks in Canada, and Canada's corporate sector overall. Their control of the market essentially [allows them to gouge](#) and abuse customers with excessive fees, high interest rates (especially on credit cards), and government action is the only thing that will stop them.

The call comes after Canada's Big 6 Banks reported still high profits in 2020 totalling \$41.13 billion, just \$5.1 billion (12%) less than in 2019 ([BMO](#) - \$5.1B; [CIBC](#) - \$3.8B ; [National](#) - \$2.08; [RBC](#) - \$11.4B; [Scotiabank](#) - \$6.85B; [TD](#) - \$11.9B). The Big 6 had record profits of more than \$46 billion in 2019 – the 10<sup>th</sup> year in a row, and more than double their 2010 profits.

Four of Canada's Big 6 Banks are listed *Fortune's* Global 500 for 2020, and are the 15th (RBC), 20th (TD), 32nd (Scotiabank) and 50th (BMO) [most profitable financial](#)

[institutions in the world](#), and the [four most profitable Canadian companies](#) in the Global 500 (See [Canada's Big Banks Backgrounder](#)).

Despite the Big Six Banks' oligopoly control of the market, and the ample evidence of gouging credit card interest rates and fee hikes, and many other abuses of customers, still the federal government continues to fail to require the banks serve everyone well at fair prices, or to require responsible lending and investing.

The federal government continues to fail to increase bank accountability even though the government [gave the banks a record \\$114 billion bailout in 2008-2009](#) (most of it by having CMHC purchase mortgages from the banks), and even though the federal government will likely bail out the banks again if they have any financial difficulties.

[Former Finance Minister Bill Morneau boasted](#) in early April 2020 that the federal government negotiated with the Big 6 Banks to [temporarily cut some credit card interest rates for some customers](#) (but not for small businesses) who request a deferral for a couple of months, and [to process small business loans funded by the government](#), in addition to the up-to-6-month [mortgage and loan deferrals](#) and fee reductions the banks have already offered (but again, only for some customers, with the delayed amount still required to be paid later, plus interest).

However, those payment deferrals of about \$1 billion [have run out for most people](#), including [about 760,000 Canadians who have deferred their mortgage](#), and [Prime Minister Trudeau stated on April 6th](#) that *"we need to see even more action like this going forward because this is a time to think about each other, not about the bottom line."*

Some defend bank gouging by claiming that Canadians benefit as shareholders of Canada's Big Banks. However, as a special [report](#) in the *Toronto Star* showed, most Canadians don't benefit from excessive Big Bank profits because they don't own shares in the banks. As the report says: *"more than 80 per cent of Canadian stocks are owned (both directly and indirectly through pensions and mutual funds) by foreigners and the wealthiest households in the country."*

As well, much more needs to be done to ensure the Big Banks do not discriminate in their business lending and other lending, investing and provision of services. Measures are needed like the measures the U.S. enacted more than 40 years ago, measures that are [also supported by Black business associations](#).

In addition, detailed analyses have shown that Canada's Big Banks are not paying their fair share of taxes. Key measures are needed to ensure they do.

## **II. The banks can afford to help more, and measures needed so that the government can tell if they are helping or continuing to gouge**

The big banks can afford to do much more to help during this crisis, and must be required by law passed by the federal Liberals and all parties to disclose much more information about how they treat customers and borrowers, and about their profits in every part of their business, to ensure they don't gouge or abuse anyone and are effectively required to serve everyone fairly and well with fair interest rates and fees.

The federal government cannot tell if the banks are still gouging or treating customers unfairly in this crisis, and won't be able to tell post-crisis, because the banks are allowed to keep secret the profit levels in each area of their business, what type of borrowers they approve and reject for loan and credit relief, and how many complaints they are receiving.

As the U.S. did more than 40 years ago, the federal government must require the banks to disclose this information and more to ensure the banks give everyone who needs it a real break in their loan and credit card payments during the crisis, and serve everyone fairly and well at fair interest rates and fees that give the banks a reasonable profit and not excessive gouging profit levels.

Canada's Big 6 Banks reported record profits of more than \$46 billion in 2019 – the 10<sup>th</sup> year in a row, and more than double their 2010 profits. The Big 6 Banks reaped record profits every year for the past 10 years in part by firing thousands of people, shifting jobs overseas (or [using temporary foreign workers](#)), cutting services, and hiking fees and credit card interest rates even as the Bank of Canada's prime rate dropped to record low levels. **See [Canada's Big Banks Backgrounder](#).**

The Big 6 Banks also paid their CEOs a total of \$75 million in 2019 in salary and bonuses (an average of \$12.5 million each).

The federal Conservatives and Liberals have done nothing since 2010 to stop Canada's big banks from hiking fees and credit card interest rates to gouge Canadians and more than double their profits to the highest levels of banks world-wide, while reducing service, treating many customers unfairly, and exploiting loopholes to lower the amount they pay in taxes.

In this time of crisis, and with the minority government, all parties must work together to make key changes to make banks help more now, to finally stop their excessive profits, gouging and abuse of consumers, and to make banks pay their fair share in taxes.

Just like the initial spending actions taken by the federal and provincial governments were not enough to address the coronavirus crisis, the banks must do more. The Big 6 Banks' decade of record profits and [cuts to their prime lending rates](#) show that they can afford to cut interest rates much more on [loans like mortgages](#) etc., and also to cut fees much more, and not raise them again to their gouging, excessive profit levels.

### III. Specific measures need to stop discrimination in lending

The federal Liberal government announced in September 2020 the planned launch of a Black Entrepreneurship Loan Fund for small businesses, with a minimal \$160 million committed over four years.

Democracy Watch, along with the more than 97,000 people from across Canada who have joined its [letter-writing campaign](#) and/or signed its [Change.org petition](#), call on all federal parties to work together in this minority government situation to enact key measures to stop Canada's big banks from discriminating against any customer.

The U.S. enacted such measures more than 40 years ago, and they apply to the U.S. banks that 4 of Canada's Big 6 Banks own. As a result of these measures, trillions of dollars in lending and investment from banks and other financial institutions has flowed just since 1996 to visible minority entrepreneurs and low-income communities across the U.S.

Instead of enacting measures like the U.S. decades ago, despite broad support across Canada for key changes for more than 20 years (mainly by the [Canadian Community Reinvestment Coalition \(CCRC\)](#) coordinated by Democracy Watch), Canadian governments have done nothing to stop discrimination by our big banks.

[Black business associations are also calling](#) for measures like the U.S. enacted 40 years ago to finally be enacted in Canada.

The proposed approximately [\\$160 million Fund over four years](#), announced by Prime Minister Trudeau in partnership with Canada's Big 6 Banks and also VanCity and Alterna Savings credit unions, and some Black-led business organizations, adds up to only 0.9% of the total [\\$13.4 billion in small business loans outstanding at the end of 2019](#).

According to [the 2016 census by Statistics Canada](#), Black Canadians make up at least 3.5% of Canada's total population (approx. 1.2 million people), and possibly more given how the data is collected, and all visible minorities make up a total of 22% of the population (approx. 7.6 million people), plus an additional 5% indigenous peoples (approx. 1.7 million people).

As a result, the Black Entrepreneurship Loan Fund should be at least \$600 million over four years, and much more to support other visible minorities and indigenous peoples who suffer from discrimination in business financing.

While the Fund will assist at a very minimal level to provide financing to black-owned and operated businesses, it would be much more effective to enact measures to stop banks and other business and home finance companies from discriminating.

The Liberal government's Black business funding program is much too little, much too late, and will do nothing to stop discrimination in lending and financing by Canada's big

banks. As the U.S. government did more than 40 years ago, it would be much more effective if the federal government required Canada's banks to disclose their loan records by the race, gender, income and neighbourhood of borrowers, and required them to make corrective loans and investments if they discriminate against any customers.

For more than 40 years, [the U.S. has required under the Community Reinvestment Act \(CRA\)](#) banks, including the U.S. banks owned by four of Canada's Big 6 Banks, to disclose their lending and service record by race, gender, income and neighbourhood, and required them to make corrective loans and investments if they are found to be discriminating against any of their customers. In the U.S., Bank of Montreal (BMO) owns [BMO Harris Bank](#), Canadian Imperial Bank of Commerce (CIBC) owns [CIBC U.S.](#), Royal Bank of Canada (RBC) owns [City National Bank](#), and Toronto-Dominion Bank (TD) owns [TD Bank](#).

The [CRA needs to be strengthened](#), but just since 1996 it has resulted across the U.S. in [more than \\$1 trillion of lending to credit-worthy visible minority and women entrepreneurs](#), and more than \$1 trillion in community development and housing loans, and the CRA has also helped ensure low-income neighbourhoods have access to banking services instead of finding only predatory payday lender outlets in their area.

Canada's Big Banks track their lending and service in Canada by the characteristics of customers – so they could easily be required to disclose in their annual [Public Accountability Statements](#) the same information that the U.S. banks are required to disclose annually, and could also easily be required (as in the U.S.) to take corrective action if their data shows any pattern of discrimination in lending, investing or service.

#### **IV. Specific measures needed to ensure banks pay their fair share of taxes**

In addition to the 97,000 plus Canadians who have joined the call for key measures to ensure banks serve everyone fairly and well at fair interest rates and fees, and not discriminate in lending, investment or the provisions of services, another 32,000 Canadians also signed Democracy Watch's [petition on Change.org](#) calling for key changes to make Canada's big businesses and banks pay their fair share of taxes.

A [special report](#) published in the *Toronto Star* details how Canadian big businesses, especially the big banks, have higher profits but pay a lower rate of taxes than ever before.

Past federal government budgets have repeatedly left loopholes and a too-low tax rate in place, thereby letting Canada's big businesses and banks keep too much money for themselves, and key changes are needed to close the loopholes and match the average tax rate in G7 countries to ensure they pay their fair share of taxes.

In 2016, big businesses paid only 22% of total taxes collected by governments — Canadians paid 78%. In contrast, in 1952 big businesses and Canadians paid the same amount in taxes.

As the *Star* report says: *“Canada’s largest corporations use complex techniques and tax loopholes to reduce their taxes significantly below the official corporate tax rate set by the government.”*

As well, the report details how cutting Canada’s corporate tax rate by 16% from 1997 to 2016 has not increased corporate investment in machinery and equipment and in intellectual property like it was supposed to do. Investments by Canada’s big businesses in these areas are still below the 1997 level as a percentage of GDP.

Canada’s official corporate tax rate is now 26.6% but, on average, Canadian big businesses paid only 17.7% from 2011-2016 — one of the lowest rates of all G7 countries.

Canada’s Big Banks paid a tax rate of only 16% over the past 6 years — lower than banks in other G7 countries. They are the biggest tax evaders of all Canadian big businesses and, not surprisingly, also the most profitable.

Making Canada’s big businesses and banks pay their fair share in taxes will give governments at least \$10 billion each year to spend on making hospitals, schools, housing, public transit and roads better, and on other things Canadians need, and billions more if the corporate tax rate is increased to the average rate in G7 countries.

The petition calls for the following three key changes:

1. Close all the loopholes that allow Canada’s big businesses and banks to evade paying taxes in Canada by pretending they make their money through companies they own in low-tax countries;
2. Increase Canada’s business tax rate to match the average rate in G7 countries, and;
3. Impose a special tax (like England and Australia have) on any Canadian business or bank that has excessively high profits like Canada’s Big Banks have had every year since 2010.

The report also reveals that Canada’s Big Banks donated to charities only 10% of what they avoid in taxes over the period from 2011 to 2016 – only \$2.1 billion donated compared to \$23 billion in taxes avoided.

## V. Summary of needed measures to ensure better banks for all Canadians, and banks that pay their fair share of taxes

In sum, more than 100 organizations with a total membership of more than 3.5 million Canadians support, and more than 97,000 voters have signed on to petitions, calling on federal parties to work together now to enact measures requiring Canada's Big Banks:

1. To cut all their interest rates and fees in half now, and cut loan payments entirely for anyone who needs it, without requiring payment or extra interest later;
2. To disclose detailed profit reports after fully independent audits and keep rates and fees at reasonably low levels in the future (for example, [many U.S. states cap](#) credit card interest rates);
3. To empower consumers and increase consumer protection by supporting the creation of an independent, consumer-run [bank watchdog group](#) (as recommended by MPs and senators in 1998);
4. To disclose approval rates for credit, loans and account services by neighbourhood and type of borrower, and require corrective actions by any bank that discriminates (as the [U.S. has required for 30 year under the Community Reinvestment Act](#)) as part of their annual [Public Accountability Statements](#));
5. To re-open basic banking branches in neighbourhoods (where they closed them in the 1990s) to help get rid of predatory pay-day loan companies (and [banking at Canada Post outlets should also be allowed](#) to help ensure everyone has access to basic banking services at fair rates and fees);
6. To cut bank executive pay down to a reasonable level (as [in some European countries](#));
7. To pay their fair share of taxes now, and in the future, by [closing all the loopholes they exploit](#) and (as [England](#) and [Australia](#) have) imposing an excess profits tax, and;
8. Finally, enforcement measures and penalties also need to be strengthened to ensure banks, and other financial institutions, serve everyone fairly and well at fair prices (**See [Backgrounder on Weak Enforcement of Financial Consumer and Investment Protection](#)**)

**See [Full List of Key Bank Accountability Changes](#). See [Canada's Big Banks Backgrounder](#).**

If the federal Liberal government does not enact these measures, it simply cannot claim to care about inequality or equality of opportunity for all Canadians, as these measures are the best way to ensure that Canada's Big Banks do not discriminate, and lend, invest in and serve everyone, and every business, fairly and well at fair interest rates and fees, and pay their fair share of taxes.