Prosper Canada

2024 Federal Pre-Budget Submission

to the House of Commons Standing Committee on Finance

Summary of recommendations

Recommendation 1: That the government provide the Financial Consumer Agency of Canada (FCAC) with an expanded mandate, granting authority, and resources to strategically invest in advancing the priorities of the National Financial Literacy Strategy to prevent further financial deterioration of Canadian households.

Recommendation 2: That the government enhance the *Community Volunteer Income Tax Program (CVITP)* and *CVITP Grant* pilot program to expand free tax-filing assistance and, in tandem, mandate and resource Service Canada and the Canada Revenue Agency (CRA) to co-establish national and regional coordination efforts with other orders of government, community-sector stakeholders, and commercial tax preparers to boost tax filing rates and close the gap in benefit take-up for low-income and vulnerable Canadians.

Recommendation 3: That the government implement a *Canada Savers Credit* to enable more people with low and moderate incomes to build their financial resilience.

Recommendation 4: That the government forgive *Canada Emergency Response Benefit (CERB)* and the *Canada Recovery Benefit (CRB)* debt for people with incomes below the Market Basket Measure of Low Income (MBM) and provide graduated relief for households with incomes above the MBM but less than $50,000.

About Prosper Canada

Founded in 1986, Prosper Canada is a national charity dedicated to expanding economic opportunity for Canadians living in poverty through program and policy innovation. As Canada's leading national champion of financial empowerment, we work with partners in all sectors to develop and promote policies, programs, and resources that measurably improve the financial health of people living in, or at high risk of, poverty.

Since 2015, with partners from all sectors, we have expanded free, high-quality, financial help tools and services that have helped **960,000+** Canadians with low/moderate incomes to build their financial health and boost their incomes by **$1.16+ billion**. Services include financial education, tax filing, benefit screening and assistance, and financial coaching and problem-solving.

Rationale

Economic recovery from the pandemic has been uneven and, thanks to steep inflation and interest rate growth, more and more Canadian households are struggling financially:

- Canadians' average household debt is **184.5%** of their income (highest in the G7);
- Aggregate household debt is **102%** of our GDP – surpassed by only **3** other countries;
- Mortgage interest payments increased **69.7%** from Q1 2022 to Q1 2023;
- **33%** of Canadians do not have enough savings to cover unexpected expenses or reduced income for three months;
- **35%** of Canadians are short of money at the end of the month, versus **19%** in 2019;
- **50%** of Canadians with incomes under $50,000 say they are in poor or terrible financial shape.

Many households are unable to access the financial help they need to achieve financial stability and health. Financial markets and products are increasingly complex, but low financial literacy and/or skills combined with a large structural gap in the availability of affordable, appropriate and trustworthy financial help for low/moderate-income Canadians, mean many Canadians are left financially struggling.

Systemic and personal barriers also prevent **1** in **5** Canadians with low incomes from tax filing and accessing income benefits and tax credits that are the main income source for **62%** of low-income households. For those who do file, benefit and tax refund clawbacks to recoup CERB/CRB debt and accumulated benefit overpayments from the past **3** years are further exacerbating hardship by reducing income people use to meet their basic needs.

We believe the following urgent federal actions are needed to mitigate widespread and deepening financial hardship among people with low/moderate incomes and to help struggling households regain financial stability:

Recommendation 1: *That the government provide the Financial Consumer Agency of Canada (FCAC) with an expanded mandate, granting authority, and resources to strategically invest in advancing the priorities of the National Financial Literacy Strategy to prevent further financial deterioration of Canadian households.*

Canada's National Financial Literacy Strategy, *Make Change that Counts*, aims to create a more accessible, inclusive, and effective financial ecosystem in which stakeholders from all sectors help Canadians build their financial resilience. While the strategy and priorities are strong, too few substantive measures have been taken to advance the strategy and stem widespread and growing financial vulnerability because FCAC's core mandate is limited to financial education, financial consumer protection, and banking regulation.

The current affordability crisis, precipitated by steep inflation and interest rate increases, overlies a 30-year trend of steadily rising household debt and declining savings rates. The Bank of Canada has identified high household debt as a key financial vulnerability, but little action has been taken to determine what is driving these trends or to reverse them.

Canadians are now paying the price for this inaction.

Rising rates of financial fraud are exacerbating this situation. In 2019, **2.5 million** Canadians reported being victims of fraud in the previous **12** months and **17%** of Canadians aged **15+** experienced at least one fraud over the past **5** years, with vulnerable Canadians at greatest risk.

Despite these growing pressures and risks, affordable, appropriate and trustworthy financial help services are missing for those who need them most. A Prosper Canada study, undertaken with government, business, and community stakeholders, identified a structural market gap in financial help services for people with low/moderate incomes. Many commercial financial service providers prioritize more profitable services aimed at middle/highe-income consumers and our governments have been slow to invest in scaled public/community services to meet the different needs of low/moderate-income consumers.

Canada is not alone in these challenges, but other countries have tackled them with more aggressive strategies and investments. For example, New Zealand and the UK respectively invested **CDN$2.68** and **CDN$4.40** *per capita* in 2022[1] to provide citizens with financial information, skills and expert help to navigate government tax and benefit programs, tackle debt, save, plan for retirement and improve their financial wellbeing. Governments have used a mix of public and private funding (e.g. levying financial institutions) to pay for government and community delivered services, recognizing that each sector has a role to play in filling the current financial help gap.

[1] Based on 2022 spending on New Zealand's *National Strategy for Financial Capability* and *Building Financial Capability* program and the 2022/23 budget for the UK's *Money and Pension Service*, divided by each country's population and converted to Canadian dollars.

Canada needs to pursue a similar path if we are to successfully combat unmanageable debt, low savings, and barriers to accessing government benefits.

Large-scale, community, financial help pilots in Canada have been independently evaluated and shown to address a critical unmet need, measurably boost incomes, reduce financial stress, and help low/moderate-income clients achieve target financial outcomes.

We, therefore, recommend that the FCAC be given an expanded mandate, the requisite granting authority, and adequate resources to make strategic investments to advance key priorities of the *National Financial Literacy Strategy* including, most urgently expanding access to affordable, appropriate, and trustworthy financial help, particularly for vulnerable populations.

Recommendation 2: *That the government enhance the **Community Volunteer Income Tax Program (CVITP)** and **CVITP Grant** pilot program to expand free tax-filing assistance and, in tandem, mandate and resource Service Canada and the CRA to co-establish national and regional coordination efforts with other orders of government, community-sector stakeholders, and commercial tax preparers to boost tax filing rates and close the gap in benefit take-up for low-income and vulnerable Canadians.*

In 2023, CRA's *Community Volunteer Income Tax Program (CVITP)* and Quebec's *Income Tax Assistance - Volunteer Program* helped 800,000+ low-income Canadians to file their 2022 taxes and access **$2+ billion** in refunds, credits and income benefits. Despite this, many Canadians with low incomes experience barriers to tax filing that prevent them from accessing thousands of dollars annually in income (**20%** of Canadians in the lowest income decile do not tax file). As a result, they experience unnecessary hardship at tremendous cost to themselves and all Canadians who pay for the community services they are forced to fall back on.

CRA's *CVITP Grant* pilot program that helps to offset community tax clinic costs has been universally welcomed. This program should be made permanent, and the funding expanded to ensure every CVITP tax clinic can offset at least **50%** of its costs. This should make it possible for more organizations to offer tax filing assistance.

We also recommend that CRA be mandated to work with CVITP providers and other key stakeholders to identify who is not filing and explore ways to further expand CVITP's reach and impact, including expanding year-round tax filing support, extending tax filing assistance to individuals with self-employment income, and building more partnerships to reach vulnerable groups at risk of non-filing.

CRA and Service Canada should also be jointly tasked and resourced to establish national and regional coordination tables to facilitate collaboration with provincial/ territorial governments, municipalities, commercial tax preparers and community organizations to boost tax filing and benefit take-up rates among low/moderate-income Canadians. While many people with low incomes are reluctant to engage with CRA, they are open to tax filing and benefit assistance from the provincial, municipal and community services they engage with every day. Working with these trusted intermediaries is the only way the federal government is likely to solve persistent benefit take-up gaps among vulnerable groups that have otherwise proven immune to CRA's many efforts.

Recommendation 3: *That the government implement a **Canada Savers Credit** to enable more people with low/moderate incomes to build their financial resilience.*

Evidence shows that keeping even a modest cash buffer greatly reduces the risk of experiencing hardship. Savings also enable households to plan and invest to build their future financial wellbeing through education and training, entrepreneurship, home ownership or purchasing a financial asset. Many people with low/modest incomes find it challenging to save though in today's high-cost environment and are forced, instead, to spend down their savings just to make ends meet.

The Government of Canada spends **$45+ billion** on tax expenditures to encourage people to save in RPPs, RRSPs, and TFSAs, but most of this spending benefits middle/upper-income Canadians. Low/moderate-income Canadians receive a tax credit if they save in RRSPs, but pay for it later through steep **50%+** clawbacks of their GIS benefits post-retirement. There is no comparable immediate tax incentive for them, however, if they save in the more appropriate TFSA.

The government could remedy this imbalance by establishing a *Canada Savers Credit* that provides low/moderate-income Canadians with a refundable dollar-for-dollar match of TFSA contributions up to **$1,000** annually. This would immediately help low/moderate-income Canadians to increase their savings for improved financial resilience, major purchases, or their retirement. The estimated cost would be **$275-550 million** (roughly **1%** of the **$45+ billion** in current public expenditure on RPPs, RRSPs, and TFSAs).

Recommendation 4: *That the government forgive Canada Emergency Response Benefit and Canada Recovery Benefit debt for people with incomes below the Market Basket Measure of Low Income (MBM) and provide graduated relief for households with incomes above the MBM but less than $50,000.*

When the pandemic hit, the government quickly rolled out the CERB program, and later the CRB program, for individuals who had lost jobs and earnings due to the pandemic. These programs were highly effective but designed expediently and rolled out quickly without many traditional safeguards, leading to confusion about eligibility and many recipients now being told they were ineligible and have to repay the benefits they received.

This is causing tremendous stress and hardship for people on provincial income support, whose incomes are typically far below the poverty line and make it impossible to repay amounts as high as **$24,000**. Many of these individuals were also obliged to apply to CERB/CRB to maintain their provincial benefits (provincial rules generally require welfare/disability recipients to access all other potential sources of income).

Because many of these individuals received conflicting eligibility information from the government, were forced to apply regardless of eligibility, and/or have no means to repay this debt without extreme hardship, we recommend that the government forgive CERB and CRB benefit debt for those living on provincial income support and/or below the MBM poverty line and consider graduated relief for households with incomes above the MBM up to **$50,000**.