

*Income Tax Act*

Mr. Turner said:

The taxation proposals completely ignore the basic principle of a co-operative, which is that earnings are a result of surplus on operations and belong to members. Earnings are not a return on investment.

I think we need to keep clearly in mind, Mr. Chairman, that co-operatives are designed to provide a service to their members at cost or as close to it as possible. They are not designed to operate for profit.

Mr. Turner then went on to state:

The fundamental characteristics of a co-operative must be respected in the taxation bill:

- (1) That co-operatives provide primarily a self-help service required by members.
- (2) That co-operatives distribute earnings to members in proportion to member business.
- (3) That co-operatives raise and service equity capital by revolving the same in relation to the use of the co-operative by its member.
- (4) That capital contributed by a member of the co-operative is to provide himself with service and not to produce a return on investment.

The Co-operative Union of Canada, speaking on behalf of co-operatives, has also made its position clear in opposition to the capital employed concept in particular, and has presented an alternative. I quote from their recent submission to the Minister of Finance:

Co-operatives request that they be permitted to distribute to their members the annual earnings resulting from business done with their members, with any earnings retained in the hands of the co-operative to be taxed at a corporate rate of tax. This proposal is subject to the following restrictions and conditions:

1. That there be paid by the co-operative a withholding tax on all distributions made by way of a patronage refund.
2. That the withholding tax paid in respect to patronage refunds be creditable toward the recipient's personal tax. If the recipient is not taxable, the withholding tax will be refundable upon filing the usual tax return.
3. That the payment of patronage refunds be limited to the extent of income derived from member business and that any income derived from non-member business be taxed at the appropriate corporate rate, unless patronage refunds are paid to both members and non-members.
4. Any surplus remaining in the co-operative after making distributions by the co-operative, shall be taxed in the hands of the co-operative at an appropriate rate of corporate tax.

In particular, Mr. Chairman, co-operatives object to the capital employed concept. No other country to my knowledge uses it. No other industry in Canada is subject to it. It erodes and can destroy the very existence of co-operatives. It hurts the operating position of co-operatives because of the turnover of equity capital. It will eliminate or substantially reduce the only source of equity capital for co-operatives. It will result in double taxation because tax will have to be paid on the imputed income of the co-op and on most patronage refunds when they are allocated to the recipient. This, I suggest, is a clear case of discrimination when we take account of the fact that shareholders of corporations are allowed a dividend tax credit of 33 per cent under the new income tax bill before us.

• (4:00 p.m.)

The capital employed concept will make it impossible for most co-ops to pay cash dividends. It strikes at the very heart of the co-operative movement. In addition, I

[Mr. Burton.]

have already outlined why the option proposed in the government amendment is unacceptable. This is the central issue and this is why I feel it is necessary to deal with this matter at this time. I would like to propose an amendment at this stage which would remove these objectional features. The amendment will do away with the capital employed concept and also the alternative which has been proposed by the government. Neither are adequate in terms of the situation facing the co-operative movement and the reality of their operations. I move:

That the amendment to Section 135 be amended by deleting all words after the words "page 356" and substituting the following:

"and also by striking out lines 20 to 47 on page 357, lines 1 to 23 on page 358 and lines 33 to 40 on page 359."

The effect of this amendment will be to remove from section 135 subsection 3, subsection 4(f) and subsection 6. These contain all the references in section 135 to the capital employed concept and also to the option proposed in the government amendment. I should also note at this time that if this amendment is accepted, and it is proposed to accept the co-op proposal, it will be necessary to further amend section 153 which has already been passed by this committee. It will be necessary to reopen this section and propose the following amendment. I quote the amendment it would be necessary to propose but, of course, I cannot place it before the committee at this stage. The amendment would read as follows:

that Section 153(1) be amended by adding thereto after paragraph (h):

"(i) allocations in proportion to patronage."

This would make it possible for the Department of National Revenue to apply a withholding tax to patronage refunds in the same way they now do with regard to payroll deductions, lump sum payments of pension contribution refunds and a number of other categories set out in section 153 (1). I urge the committee to give this amendment serious consideration. It involves the very life of the co-operative movement. It will be a very heavy responsibility on this committee and this House if a set of provisions are passed which will have the long-run effect of strangling the co-operative movement, however gently it might be done from year to year. For this reason, I suggest this is a very serious situation. It deserves the earnest consideration of members of all parties in the House.

**The Chairman:** The Chair will put the amendment. I might say I have some doubt about its acceptability. It seems the hon. member might achieve the same thing in a more procedurally acceptable manner by voting against the proposed amendment and then moving consequential amendments with regard to the other parts that are deleted. However, I do not think this is a serious matter. If there are no objections, I think it would be in the—**the Parliamentary Secretary to the Minister of Finance.**

**Mr. Mahoney:** Mr. Chairman, I just want to make it clear that the intent and the effect of the amendment would be to transfer the tax burden from one taxpayer or one class of taxpayer, the co-operatives, to another taxpayer or class of taxpayer, the members of co-operatives. This is clearly what the hon. member is stating. As such, I think the amendment is very definitely out of order.