

Income Tax Act

• (12 noon)

GOVERNMENT ORDERS**INCOME TAX ACT**

The House resumed, from Thursday, November 18, consideration in committee of Bill C-259, to amend the Income Tax Act and to make certain provisions and alterations in the statute law related to or consequential upon the amendments to that act—Mr. Benson—Mr. Honey in the chair.

On Clause 1—Section 135: *Deduction in Computing Income.*

The Chairman: Order. When the committee rose last evening section 135 of clause 1 was under consideration with an amendment proposed by the Minister of National Revenue and a subamendment proposed by the hon. member for Regina East. Sections 135, 136 and 137 were grouped for debate.

Shall the subamendment carry?

Mr. Downey: I should like to ask the parliamentary secretary whether he would clear up several areas of doubt which are in my mind, and in the minds of those who have presented briefs to hon. members and also, I assume, to the Minister of Finance, on the question of possible double taxation of co-operatives under the proposals contained in the bill before us.

Mr. Mahoney: On a point of order, Mr. Chairman. The hon. member's microphone does not appear to be effective. I wonder if he realizes he is not bound to sit in his own seat, in committee I should like to hear his question and I am finding difficulty with the transmission from his present location.

Mr. Downey: Is it working, now?

Mr. Mahoney: That is fine.

Mr. Downey: I have some questions with regard to the taxation of co-operatives. Many representations have been made to us on this subject and the possibility of double taxation keeps cropping up. It appears to some of those who are interested in this subject that dividends flowing from co-operatives might be taxed both in the hands of the co-operative and in the hands of individuals who receive them. Would the parliamentary secretary fully explain to us which aspects of double taxation are involved with regard to the system proposed, and whether there are any provisions in the amendments before us which would materially change the position as it stands at present under the existing act?

Mr. Mahoney: First, there is no material change proposed in the law in that respect as far as I am aware. Corporate dividends received by a co-operative would be received tax-free. Patronage dividends paid out by a co-operative are deductible from its income for taxation purposes down to the floor indicated in the bill. So, there is no tax paid by the co-operative on earnings paid out as patronage dividends.

Whether these are taxable in the hands of recipients is, of course, the question. They are in some cases. In the

[Mr. Speaker.]

case of consumer co-operatives it amounts really to a reduction in the purchase price of the commodities the party concerned is buying. I cannot, myself, identify any area where double taxation would be a matter of particular concern to the co-operatives.

Mr. Downey: Do I understand, then, that the incidence of double taxation is no worse under the new bill than under the present act?

Mr. Mahoney: I suppose a case of double taxation could arise if the co-operative were to choose to distribute patronage dividends to an extent which brought its retention below 5 per cent of the capital or one-third of earnings. Once it got into that area there could be some element of double taxation. So I suppose the change from 3 per cent to 5 per cent would create an area where there might be a greater possibility of double taxation arising. I am not aware whether co-operatives would ordinarily make distributions down to the point at which the difficulty would actually be encountered.

Mr. Downey: Mr. Chairman, there has been a great deal of concern expressed by credit unions over the special status of their reserve accounts, especially since it is mandatory that these be maintained at a certain level, much in the same way as deposit reserves with the chartered banks. I would ask the parliamentary secretary, in view of the representations that have been made, whether he would explain to us the changes he has made giving additional recognition to the special status that reserve accounts have with credit unions as opposed to the reserve accounts in ordinary co-operatives, for example.

Mr. Mahoney: Mr. Chairman, the problem we have is that the reserve requirements are established by provincial governments and vary from province to province. The suggestion that the reserve allowance provided in Bill C-259 should correspond to provincial reserve requirements just is not valid. Indeed, in the case of other financial institutions such as banks, insurance companies and so on, their reserve requirements, which are governed by the laws applicable to them, vary considerably compared with the reserves permitted them by the Income Tax Act.

It is possible that provincial law would require that a credit union maintain its reserves at a level higher than would be allowed for tax purposes by the Income Tax Act. However, we have not seen any way of solving this problem in view of the great diversity of provincial policy in this regard. In some provinces the question of reserves is, in a practical sense, left much to the discretion of directors or managers of credit unions. I do not think we could agree that they should have discretion to establish their own tax situation in this regard.

Mr. Downey: I should like to ask the parliamentary secretary if the provinces were consulted in the drafting of this legislation in view of the implications of the special arrangements provinces make with credit unions.

Mr. Mahoney: Mr. Chairman, the provincial requirements are based, of course, on ensuring solvency of credit unions. There were extensive consultations with the provinces about the whole formulation of the policy contained within Bill C-259. As to whether this particular item was a