

*Income Tax Act*

members, and, consequently, it deserves to be understood and to be treated according to its merits.

The careful reader will realize that the provisions in the bill are unfair to co-operatives, and savings and credit unions, because they are not consistent with their judicial structures, basic operating principles and financing systems. Therefore, co-operatives are facing an extremely serious situation, so much so that we can foresee the disappearance of several of them within five years, ten at the most, however deep-rooted and useful to the country they may be.

The normal development of co-operatives would be greatly jeopardized by taxation such as proposed by the present government that does not respect the characteristics of co-operatives. The problem arises because the present government treats alike using the same standards, co-operatives and companies, the big corporations which are in entirely different conditions. Without discussing the provisions dealing with large companies, at least I wish to speak in the name of co-operatives and farm organizations and others in the riding of Lotbinière and say to the government that it has no right to treat co-operatives and large corporations alike.

I have received from my constituency many telegrams which all say practically the same thing. I will not read them all but they come from various places. I have one here from Clément Houle, president of the Meunerie coopérative agricole, of Victoriaville, which clearly sets out the problem to be solved. I quote:

• (4:00 p.m.)

The Meunerie coopérative agricole of Victoriaville is deeply disappointed with the decision of the Minister of Finance to maintain the concept of the capital employed as the basic principle of taxation for co-operatives.

This concept is contrary to the co-operative principle and becomes even more unfair through new Section 135 of Bill C-259 which alters the computation method for capital employed. We believe nowhere else in the world is such a concept of capital employed applied in a tax system. Adoption of this concept will weaken financial structure of our co-operative and decrease possibility of ensuring fair return to our members. We are not asking for special treatment but request that tax system respect structure and operation of co-operatives.

The Meunerie coopérative agricole of Victoriaville is affiliated with the Coopérative fédérée de Québec and was represented by the delegation which met the Minister of Finance on August 11, 1971 to suggest alternative taxation method for co-operatives that would not threaten the very existence of those institutions. We request your support with Minister of Finance to obtain amendment of proposed bill along lines already suggested by co-operatives.

Mr. Speaker, I have other similar telegrams, one from the president of a co-operative in Saint-Jacques de Parisville, from Mr. Claude Cliche, the president of a co-operative in Saint-Agapit and another from Mr. Donat Paul Bissonnette, president of the Saint-Apollinaire cooperative.

Some will say, Mr. Speaker, that this is of minor importance, and I will reply that this is of fundamental importance. I will go even further: members and directors of co-operatives are extremely concerned, and they are cognizant with the problem involved.

As an example, I will read to you a very short and significant letter from Manseau signed by Mr. Maurice

[Mr. Fortin.]

Desrosiers, president, Mr. Clément Lemay, vice-president, and Mr. Albert Geoffroy, manager of a co-operative. I quote:

The Société Coopérative Agricole strongly objects to the amendment to Section 135 of the Income Tax Act as proposed by Bill C-259.

The Société Coopérative Agricole will be unable to gather the necessary funds to repay the capital and to pay returns within the new provisions of Section 135.

That means, Mr. Speaker, that co-operatives, the existing institutions which militate, work, labour in most of the Quebec ridings, and increasingly in other provinces particularly in western Canada, will find themselves unable to discharge their commitments with their shareholders since their inception, within the meaning of the legislation which appears in the Appendix to the brief presented on August 11 to the Minister of Finance (Mr. Benson).

Messrs. Desrosiers, Lemay and Geoffroy clearly say in that same letter dated September 1, what it means:

It is obvious that if our co-operative must disburse more money than it receives, it will of necessity have to cease its operations within a few years.

Société Coopérative Agricole (Manseau) supports the requests made by the Conseil Canadien de la Coopération and the Cooperative Union of Canada as they were presented on August 11 last.

Mr. Speaker, this is the situation at this time. The life of co-operatives is threatened merely because the government does not understand the meaning, the value and the importance of co-operatives. Things must be made clear: what is the co-operatives' position; what do they want? They want to continue to exist and pursue their activities in order to protect private enterprise, to preserve the sense of possession of the members and to enjoy the encouragement they deserve so that this country becomes ours for ever. That is what they propose. Now I would like to quote from a memorandum they have presented and which was published in the newspaper *Ensemble* of August 27, 1971:

One could consider section 136 in order to establish a specific way of taxing the annual operating surplus of the co-operatives. Co-operatives solicit permission to distribute to their members annual operating surpluses resulting from business transacted with such members and imposition of the balance of revenues paid into the reserve fund at the rate applicable to corporate tax. This proposal is subject to the following limits and terms—

—which Canadian co-operatives consider to be desirable.

1. That the co-operative withhold at the source and pay a tax on all distributions taking the form of patronage dividends;
2. That the tax thus levied be credited to the member receiving the dividend. Should that member be exempt from taxation, he could claim reimbursement when producing his personal income tax return;
3. That dividends allowed be limited to revenues obtained from transactions carried out with members and that any revenue obtained from non-members be taxed at the appropriate rate for other corporations, unless dividends are also paid out to non-members;
4. That the entire undistributed annual income affected to the reserve fund be taxable at the co-operative level at the rate applicable to corporations.

The movement, Mr. Speaker, claims that this proposal for the assessment of annual operating surpluses of co-operatives should be accepted. It acknowledges the nature of co-operatives and this is why I want to act as their