even see crocodile tears shed for them. It is said by some that our tax laws should help small co-ops, and that large co-operatives are just like any other business so they should be subject to tax like any other corporation. In support of this argument, it is suggested that large co-operatives are no longer close to their members and are no longer really co-operative. Anybody who says this does not know what he is talking about. He does not know how bodies such as the Saskatchewan Wheat Pool, the Federated Co-ops Ltd. and Co-op Implements work with their members and keep in touch with their members. Such an argument also ignores the fact that many of the large co-ops were formed by the smaller co-ops and are today an integral part of their operations.

However, there is another important and subtle point involved in such an argument. There are some people who really are not worried about the small co-op that has to try and survive on an independent basis in today's economic jungle. It does not really count by itself in a world of corporate power. What those people are worried about are the co-operatives that are big enough to have some economic clout, that are in a position to really help people on a major scale.

In dealing with this bill I would like to review the situation as it affects co-operatives and credit unions. First of all, I would like to say that any suggestion that either co-ops, or the dividends paid by co-ops, are exempt from taxation at the present time is inaccurate, and in some cases dishonest. Co-operatives have been subject to tax since 1946 under a formula which, for most co-ops, involved paying tax on surpluses up to a level of 3 per cent of capital employed, as defined. The white paper proposed raising the percentage to 7 per cent. Bill C-259 split the difference and came up with a figure of 5 per cent. At the same time, however, it widens the definition of capital employed in a way that will seriously hurt some co-operatives.

• (3:50 p.m.)

We have before us an amendment that provides for an option to tax co-operatives at a level equivalent to one-third of taxable income as calculated on a corporate basis. This will provide some relief to many co-operatives and may look very good on the surface. But it ignores the double taxation involved, it ignores the nature of a co-operative, and most important, it opens the door to taxing co-operatives on a straight corporate basis. The one-third figure is arbitrary and can be changed to one-half, two-thirds or 100 per cent just as the 3 per cent capital employed figure is now being changed to 5 per cent and was originally proposed at 7 per cent. There are other changes as well that I shall not go into now.

However, I shall make brief mention of one illustration of the type of thing for which we have to watch. Mention has been made that there is an amendment before the Committee which would provide a ten-year phase-in rule for co-operatives. I think it is important to note that this provision does not apply to some co-operatives in the way the bill is set out. It will not apply to any co-operative that is handled and governed on a delegate basis. If the government will look at section 136, and the way the new phase-in rule applies, they will see that that is certainly the effect of the rule.

What is the significance of these gyrations in the government position? They demonstrate that some people do not understand what co-ops are all about. More ominously, though, there must be people who do know what they are doing to the co-operative movement. We know that there has been a well financed movement for years whose sole object is to destroy the co-operative movement as an effective economic instrument. The government has listened to these people. But even the government had to back off to some degree from its impossible position. The changes have only been in degree. There is no logic or rationale to the government's proposals. They are indefensible as they stand.

I should like to turn now to the position of credit unions and caisses populaires. They were not previously subject to income tax in Canada. First of all, Bill C-259 proposes to apply the capital employed concept to credit unions, and now the one-third of income formula has been introduced with respect to credit unions, in the same way as to co-operatives. This completely ignores the fact that while co-operatives and credit unions are based on similar principles, their capital structure and their operations are very much different. It is ludicrous to think of using the capital employed concept for credit unions.

Mr. Gilbert: Right on.

Mr. Burton: Bill C-259 poses other problems for credit unions. Interest or dividends on share capital could not be deducted from taxable income if this had the effect of reducing the capital employed below the 5 per cent level. This has been changed by the amendments. Credit unions could not qualify for the small business tax incentive. This situation has been improved with the amendments. There remains the problem of how reserves are treated. Credit union reserves are not the same as bank reserves. A credit union is not the same as a bank. Statutory reserves are required by provincial legislation I believe in every case across Canada, and most reserves are ineligible for distribution to members at any time, even if the credit union is being dissolved.

There remains a curious question. If the government did respond to credit union representations, and I acknowledge this fact, why didn't it respond to co-operative representations? Again, I can only conclude that there are forces behind the scenes working to destroy co-operatives. I think we need to take careful note of the co-operative position on taxation. Mr. E. K. Turner, President of the Saskatchewan Wheat Pool made his position clear in a statement on October 22, which contains a number of important points which we need to consider. He said:

> Co-operatives are prepared to pay tax at the ordinary corporate rate on any earnings retained by the co-operative. Earnings returned to the member should become part of his income.

In addition, I might say that it was made clear that in cases where income is not distributed, where it is retained, co-operatives are prepared to accept taxation of such income as a whole.

> For a taxation act to force an imputed taxable corporate income on a co-operative is to interfere with the democratic right of members to run their own business. Such a treatment is not applied to co-operatives in any other country, to our knowledge.