

- 3) By applying the refund against a debt of the customer, providing the co-operative has statutory or written authority from the customer to do so.
- 4) By retention by the co-operative as a loan from a member, providing, the member or customer has given a written authority to the co-operative for this purpose.
- 5) By applying the refund on account of a loan or purchase of shares pursuant to a by-law that requires the member to make a loan or purchase shares and authorizes the application of the patronage dividend thereon, if the statute under which the co-operative is constituted provides that all by-laws of the co-operative are binding on all members.

There are, however, limitations on the amount of refund allowable as a deduction from income. A co-operative, having complied with the requirements set forth above, cannot claim as an allowance a refund to members greater than the income arising from member business. All refunds paid to non-members may be deducted from income.

Furthermore, the amount of refund cannot reduce the taxable income below 3 per cent of the capital employed in the business, with the exception that such capital includes all borrowed money other than money borrowed from chartered banks and credit unions. However, the 3 percent capital employed may be reduced by interest paid on money borrowed from sources other than chartered banks and credit unions.