

Income Tax Act

requirement that prior to any payment of patronage payments, dividend income must be allocated to the capital of co-operatives on the basis of a fixed percentage of capital employed by the taxpayer at commencement of the taxation year. This, according to co-operatives, interferes with their freedom and ability to distribute earnings as patronage refunds.

In briefs I have received from across western Canada the co-ops maintain that although section 135 applies to all corporations wishing to pay patronage refunds, the imputation of income to capital in a co-operative is not only unreasonable and illogical but is discriminatory. Co-operatives, by nature, are different from corporations and should be treated as such. They contend that the "capital employed" concept creates a cash flow problem. In most co-operatives this is accomplished by having members of the co-operative reinvest patronage refunds in the co-operative.

Such reinvestment is used to retire the equity of members who no longer use the services of the co-operative and provide facilities for additional services to members. Co-operatives maintain that no matter what is the size of the organization, ownership of shares has no attraction for the public market since the return on shares is limited, so a public sale of co-operative shares to secure additional funds is not practical.

I believe that the proposed amendment to section 135 will assist co-operative in years of low earning. The taxable income which must be retained by the co-operatives before paying patronage refunds will be lower than that used under the proposed "capital employed" formula. Basically, section 135 of Bill C-259 gives co-operatives two choices. They can pay tax on the capital employed formula, or they can pay tax on the basis of one-third of their income. Either choice, according to the co-operative spokesmen with whom I have talked, will result in a forced imputation of taxable income. The assignment of income to a co-operative using a formula based on capital employed is unique in Canada; it is a form of tax treatment of co-operatives not utilized in any other country.

I would be inclined to recommend that all tax reforms relating to co-operatives be stuck from the bill. But my recommendation now is that this ought to be done on the basis of a study made to determine a more equitable basis for the taxation of co-operatives than the one now proposed. The sections of the bill are so interwoven, however, that action along these lines could delay the legislation for many weeks while the sections were being rewritten.

If the Minister of Finance had been thinking and had recognized that co-operatives are essentially different in nature from other corporations, he would have amended Bill C-259 to satisfy co-operatives and still provide taxation for their earnings. I believe co-operatives should 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-operatives taxed at the corporate rate. It seems to me, Mr. Chairman, that the way the government has handled this part of the legislation typifies their attitude toward co-operatives and credit unions.

I should like to read the following from a brief I have received from a co-operative in western Canada:

—we have previously not felt it necessary to stress that capital employed in co-operatives must be serviced the same as capital in other investor-owned corporations. By imposing a form of double taxation which the capital-employed formula does, the co-operatives are being discriminated against in a manner which we believe is without justification.

We have heard this over and over again from members on all sides of the House during the debate. It seems to reflect my feelings as to co-operatives.

I should like to deal now with the amendments to the legislation affecting credit unions. I think it would be very hard to give an exact account of the good done to rural communities by credit unions. Credit unions have lent money in many instances when other organizations would not do so. They have played a vital role in the growth of Canada and in the expansion of our rural areas. The fact that they are another lending agency has in itself been significant for the Canadian population.

Under the proposed legislation a credit union will no longer be exempt from tax. It is proposed that it should pay tax in substantially the same manner as other private corporations. As such, it will be able to take advantage of the small business deductions to the extent permitted to private corporations. Credit unions will be taxed in a manner similar to co-operatives in that a deduction is to be allowed when computing income for payment to members pursuant to allocations in proportion to their borrowing.

I believe the government should recognize that credit unions are a form of financial partnership which receives deposits from members and provides financial services on behalf of members. The amendments which have been brought in by the government fail, in my opinion, to take into account the legitimate concern with respect to the application of section 189(b). Credit unions should be permitted to operate a full financial service for their members; the legislation should be amended to provide the right of credit unions to perform the services permitted under their incorporated status.

An example of the difficulty anticipated is that it is doubtful whether a credit union could invest in a housing development to improve the living conditions within a community. It is in these local fields that credit unions have served their most useful purpose within the past, and I for one am fearful that under the present legislation certain of their activities may be curtailed.

In conclusion, Mr. Chairman, as in the case of farmers, small family business, co-operatives and other sections of the proposed legislation there seems to be a fundamental inability to appreciate the consequences of tax legislation on society. This failure can be ascribed in part to the government's eagerness to rush headlong into any project which would be bureaucratically efficient and administratively tidy from their point of view. The government is insensitive to other considerations even when these are founded on very real human and social concerns.

Mr. Blair: Mr. Chairman, in the course of the debate yesterday afternoon the hon. member for Regina East made certain remarks which are reported at page 9681 of *Hansard*. My own observations in that connection are reported at page 9686. Questions were raised about the definition of "co-operatives" for the purpose of these sections. There have been some discussions, and I have an