

*Income Tax Act*

enormous success because they encourage both regular savings and the wise use of credit." I would also quote from his message on International Credit Union Day. The Prime Minister said:

It can also be said that credit unions encourage self-help and mutual assistance. I look upon them as more than saving banks; they are also a welcome social force in the community, and the same can be said about co-operatives which have similar objectives.

The amendment proposed by the minister on November 10, which proposes that co-operatives would leave one-third of profits as taxable, affects all the members of these organizations. In other words, the tax now falls upon the members. The crux of the whole question, Mr. Chairman, is that the credit unions and co-operatives are asking, not for exemption from taxation but for this House to consider the most equitable way of applying it so that taxation as between these organizations and their members will be just and fair.

Mr. John M. Halliman, general manager of the Ontario Credit Union League, in a letter to the Minister of Finance pointed out that credit unions are organized for service and that they are simply vehicles by which man helps his fellow man by bringing together those who have a little money to save with those needing temporary financial assistance. The credit union itself is not seeking profit but is merely an intermediary between the savers and the borrowers. To the extent that those who contribute their savings for this purpose earn dividends or interest from the loan operation, they already pay tax on such income. Taxing the interest paid on loans in the hands of the credit union and then again in the hands of its members would be, I believe, double taxation.

At page 52 of the report of the Royal Commission on Co-operatives, submitted to the House of Commons in 1945—which is known as the McDougall report—is the following description of the special assistance rendered by credit unions. This applies equally today:

(a) It provides a method whereby people in poor circumstances are encouraged to develop a habit of thrift, since by pooling their savings they can provide a source of credit for themselves in times of need;

(b) The bond of association, occupation or other community interest on which the membership of credit unions is based tends to minimize the element of risk which has to be considered by another type of lending institution when considering an application for a loan from an individual with little or no collateral security;

(c) Accordingly, it provides a service for those who are either not provided with credit services from other lending institutions at all, or only at much higher rates because of the risks involved.

(d) The tangible material and other benefits which can be derived through the credit union from of activity enable and encourage the members to solve their problems through self help rather than by relying on government aid in times of emergency or depressed conditions.

The report reads, at page 52:

Credit unions return to their members a very high proportion of their surplus earnings. In some cases, however, they are retaining amounts which appear to be larger than are required for reserves against bad loans and losses on the basis of past experience. If they were to be taxed by the methods we have recommended for co-operative associations, additions to these excess reserves would be made subject to tax. However, the individual amounts to be assessed would, in many cases, be very small. Moreover, we consider that it is not desirable to discourage the accumulation of

[Mr. Badanai.]

reserves to protect the savings of members who, for the most part, receive small or very moderate incomes.

In that report, Mr. Chairman, the royal commission recommended that the income of credit unions should continue to be exempt from taxation. All this seems to indicate that the case for the credit union and co-operative is as strong today as it was in 1945. I therefore, with respect, repeat that this whole question ought to be reconsidered by the government.

**Mr. Murta:** Mr. Chairman, in speaking on the amendments dealing with co-operatives and credit unions I should first like to deal with co-operatives and discuss how they are being treated in the legislation, and then deal with credit unions very briefly near the end of my remarks. I say at the outset that the government has done with this legislation that which it has done with so many other pieces of legislation. It seems to have taken two giant steps forward and one step back and has told the people concerned that they have been given consideration so far as the Income Tax Act and other pieces of legislation are concerned. Nevertheless, the income tax legislation is still a step down the road to what he government considers to be tax reform. I think that this can be borne out if one reads the first draft of the bill and looks at the amendments pertaining to co-operatives and credit unions put forward by the government.

Co-operatives have for the most part their own special place within our society, having been formed mainly because groups of people felt the need to join together in order to work more efficiently. This need has been exemplified, I think, more in rural than in urban areas. The co-ops in the rural areas of Canada have become stronger, possibly because of the necessity of people having to band together and work together. The latest statistics on co-operatives published by the Department of Agriculture show that by the end of 1969 there were 2,373 co-operatives in Canada, with a membership of well over half a million. It appears that in drafting Bill C-259 and the later amendments little attention has been given to the essential nature and method of operation of a co-operative, and the essential difference between its purpose and that of an ordinary corporation has not been understood. I will not deal with the make-up of a co-operative because I believe most hon. members know how a co-operative works. Most hon. members are aware of the voting and capital structures of co-operatives.

There is no relationship between a member's investment in a co-operative and the returns to him. A member with \$1 invested may receive a return of \$100, or vice-versa, depending on the amount of business done with the co-operative during the period involved. Furthermore, the member with the \$1 investment has the same voting right as the member with an investment of \$100 or \$1,000. It is an accepted principle that a member wishing to remove some or all of his investment from the co-operative, either while continuing to use its services or upon terminating his membership, will receive only the amount of his investment, with no capital gain.

• (3:30 p.m.)

In general, co-operatives are objecting to the provisions contained in section 135 of the bill which retain the