

Income Tax Act

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.

I think that the members of this House, members of co-operatives and the public in general have a right to know why the government is taking such an extremely hostile approach to credit unions and co-operatives. As I said earlier this afternoon, it seems to me that the government is following the suggestions made on many occasions over a long period of years by the finance companies which are upset, as well they should be, by the rapid growth of credit unions.

Surely the government and the parliamentary secretary know that for the hundreds of thousands of people who belong to credit unions and caisses populaires there is really no alternative except the not very gentle clutches of the finance companies. Surely the parliamentary secretary does not want us to think that he wants the ordinary citizens of this country to have to go to the finance companies and pay 18 per cent or 24 per cent on the money that they must borrow? Yet this legislation will help to destroy credit unions and will boost finance companies.

Similarly, Mr. Chairman, co-operatives such as the wheat pools, which have done a tremendous job for the farmers of western Canada, have their very existence challenged by this legislation. I cannot think of anybody except the private grain companies and organizations such as the Equitable Tax Foundation who can be happy with the legislation now before the committee.

I say to the parliamentary secretary and to the Minister of Finance that deathbed repentance is better than no repentance at all. On three or more occasions the minister introduced pretty substantial amendments to the bill as originally proposed, and it is not too late for him to introduce the kind of reasonable amendments, moderate amendments which would permit credit unions and co-ops to continue the very fine work they have been doing, to give their members the kind of service which they have been giving and to give the people of Canada alternatives to the completely free enterprise, profit-oriented companies to which otherwise they must resort.

Again I say to the parliamentary secretary that it is not too late to introduce the kind of amendments which credit unions and major co-operatives have been seeking, giving them some of the equity which those of us who greeted the Carter commission recommendations with a great deal of joy hoped to see in the new tax legislation when it was finally introduced.

Mr. McGrath: Mr. Chairman, the section of the bill now before the committee affords members of the House an opportunity to speak on a very important phase of Canadian life, namely, the co-operative movement. Nowhere in Canada is the small co-op more important and nowhere does it play a more important role in the life of the community at large than in the province of Newfoundland. There is not a constituency in the province of Newfoundland that does not have more than one active co-operative. In this respect I refer specifically to my colleague, the hon. member for Grand Falls-White Bay-Labrador, who has a very active co-op movement in his constituency and has worked closely with it in relation to

the amendments contained in the bill before the committee.

• (8:10 p.m.)

It is interesting, and I think worth placing on the record, that the latest statistics available to members of the committee and released by the Department of Agriculture show that at the end of 1969 there were 2,373 co-operatives in Canada, consisting of approximately 1,600,000 members. These co-ops range in size from the large, super co-operatives in western Canada to the much smaller ones scattered all over the country. The smaller ones are especially active in the Atlantic provinces and more particularly in my own province of Newfoundland.

It appears to me, Mr. Chairman, that the drafters of this bill and the subsequent amendments have forgotten the essential nature, indeed the method of operation of the co-operative, and the essential difference in the purpose of the co-operative and in its capital structure from that of an ordinary corporation. This fact has been given little or no attention and it seems to me that it is not very well understood.

This legislation is forcing co-operatives to adopt a position which is at variance with their philosophic foundation. It forces them to take a financial approach to their operation which was never intended by the co-op movement. We believe, as many co-operatives across the country do, that the fundamental distinctions in the nature of the co-operatives must be respected by the tax laws of this country. These distinctions are: first, the co-operative provides a self-help service required by its members; second, the co-operative distributes its earnings to its members in proportion to member business and on the basis of capital equity; third, the co-operative raises and services its equity capital by revolving the use to its members and, fourth, the capital contributed by a member of the co-operative is to provide him with service and not to produce a return on investment, which the government in this proposed amendment is forcing it to do.

In general, co-operatives are objecting to the provisions for taxation contained in section 135 of the bill which retain the requirement that prior to the payment of any patronage refunds, income must be allocated to the capital of co-operatives on the basis of a fixed percentage of "capital employed by the taxpayer at the commencement of the taxation year". This, according to co-operatives, interferes with their freedom and ability to distribute earnings as patronage refunds. I think that fact has been forgotten by the government.

Section 135 of Bill C-259 gives co-operatives two choices, in my view. They can pay tax on the capital employed formula or they can pay tax on the basis of one-third of their income. Both choices, according to co-operative spokesmen, result in a forced imputation of taxable income to the co-operative. This changes the whole thrust of what a co-op is supposed to be doing. The concept contained in Bill C-259 substantially reduces the amount of patronage refunds which could be paid to members on business done with members of the co-operatives.

Even with the amendments proposed by the minister, the basic, underlying principles of the taxation of co-operatives have not been changed. The tax amendments provide co-operatives with the right to elect either to pay tax