

Income Tax Act

unions are passed in their present form, many credit unions will disappear completely and the ability of others to serve their members will be so severely curtailed that the major function they have performed for their members will disappear. The parliamentary secretary has always impressed me as being a man with a great deal of business experience. He represents very well—and I am not criticizing him—the members of the business community. They, too, are entitled to be represented just as everyone else is. They, too, are entitled to have their spokesmen.

• (4:50 p.m.)

As I say, the parliamentary secretary has always impressed me as one whose major interest and experience has been in the business community. Does he not realize the effect which these sections of the tax bill will have on credit unions? Does he realize that the tax the government proposes to impose will mean that the most important area of reserves which must be set aside under the provisions of provincial legislation will be very adversely affected? Not only are the transfers to reserves non-discretionary because of provincial legislation under which credit unions operate, but there is a legislative bar to their distribution to the members even on the winding up of the credit union. What this means is that the basic principle, that shares in a credit union which may only be redeemed at par irrespective of the amount of reserves on hand, will not be able to operate. The fact that these reserves are beyond the reach of the shareholders removes in effect shareholder ownership, a very cardinal quality of income as contemplated in the Income Tax Act.

Commercial corporations are in an entirely different position. Retention of corporate income increases the value of the shares, and in this way gives a benefit to the shareholder. Or alternatively, amounts reserved may be paid out as dividends, again benefiting the shareholder and earning for him a tax credit on his dividend, which essentially represents a rebate of the corporate tax. The effect of the provincial legislation controlling credit unions is to deny these benefits, which are available to corporations, to credit unions. Because of the lack of equality of income, and because these non-discretionary reserves cannot be distributed to members, credit unions find themselves trapped by section 125 of the Income Tax Act. There reserves will be considered income in the "business limit" of \$50,000 per year and in the total "business limit" of \$400,000 which is contemplated under this bill.

The very fact that the credit union is statute barred from distributing these reserves means that the "total business limit" will automatically be reached in a very short period of time. Aggravating this situation is the fact that transfers to the reserve must be tax paid. No provision exists permitting income taxes to be charged against these reserves. The sum of these factors means that section 125, which provides for a reduction of tax under certain conditions, will not apply to a medium sized credit union beyond five years, after which time a transfer of \$50,000 to reserve will attract a tax of \$50,000. Mr. Chairman, talk about confiscatory taxation—that is what the government is proposing for the credit unions.

The credit unions have proposed that section 137, the credit union taxation provision, be amended to provide that amounts required to be transferred to statutory reserves be excluded from the calculation of the "business limit" and the "total business limit" in the application of section 125. The effect of such an amendment would be that tax paid transfers to reserve would attract a tax equal to 33 per cent of the reserve requirement as opposed to a tax equal to 100 per cent of the reserve requirement. Surely, if the government is concerned about the so-called tax advantages which the credit unions and the co-ops have been able to enjoy as compared with ordinary corporations, it ought to be willing to agree to this very modest proposal made by the credit unions unless, as some of us who are politically partisan and motivated believe, the government is out to help destroy the credit unions.

Mr. Mahoney: Nonsense.

Mr. Orlikow: The parliamentary secretary says no. It would be interesting to hear him explain to members on both sides, including his colleague the hon. member for Grenville-Carleton, why the government, at least up until now, is insisting on imposing these punitive tax provisions on the credit unions.

Earlier, Mr. Chairman, I said that the government had agreed to some amendments of the tax legislation affecting the credit unions. But to date there has not been the slightest indication, to my knowledge, that the government is prepared to meet in any way, shape or form the criticisms of the co-ops with respect to this tax legislation. And if the parliamentary secretary can agree with me on anything, although I sometimes wonder about that, I am certain he can agree with me when I say that co-ops by their very nature are not very radical, revolutionary, aggressive organizations. They are part of the free enterprise or mixed economy system which exists today. When they have made representations to government I have always felt that if they erred, they erred on the side of moderation. Yet, Mr. Chairman, there has not been a single indication on the part of the government that it is prepared to modify this tax legislation one jot, one little, to meet the criticisms and requests of the co-ops.

Let us look at what the co-ops have said about this tax legislation. I know that the government will say, "Well, we are prepared to protect the little co-operative, the little consumer co-operative and the little credit union, but it is the big co-ops, which are really in the same league as private corporations—the wheat pools and the Federated Co-operative—which we think have not been paying their fair share of taxation." I say to the parliamentary secretary and to the government that the little co-ops in the towns, villages and cities of Canada, and the little credit unions would not have been able to survive unless they had the assistance, the technical advice and the detailed knowledge that they have been able to receive from the wheat pools, from the United Co-operatives in Ontario, and from the Credit Union League, all of which were built up through the contributions of the ordinary members of the credit unions.

What have the co-ops said? The President of the Saskatchewan Wheat Pool has called for further amendments to this bill because he says that the proposed amendments