

*Income Tax Act*

It would seem to me that Mr. Ross has put his finger right on the core of the whole government attitude in respect of this tax reform bill. The government has become so obsessed with the fact that a few big fish have been getting away with tax evasion that it has put out a big net to haul in everyone indiscriminately. The result is there are many ridiculous situations created by this bill. Two such situations are created by these particular sections. There are many situations resulting from this bill which should not occur under a valid, viable tax system. Mr. Ross went on to say:

But very often relatively small amounts are involved, and if, to close the loophole, the government must hire more staff to administer the necessary machinery and all of us have to fill out more forms to effect compliance, then in such cases it may be better to forget about the whole thing.

• (3:30 p.m.)

He goes on to point out that a review of this magnitude of the tax system should not have been undertaken lightly merely because the minister wanted to plug some loopholes. He points out that it has been said our tax system is full of loopholes. He asks, if our system is riddled with these loopholes, how bad is it really. After comparing our system with that of the United States and of the United Kingdom, he says that our tax system does not compare too badly and there is no great disadvantage. Apparently the minister has been totally preoccupied with plugging these loopholes. The Department of Finance, in referring to co-operatives and credit unions in its news release, says that many of them have now grown to a point where they compete with large-scale business enterprises and should be subject to a fair burden of taxation.

Here, again, the minister was preoccupied with equity, imaginary or real. I question the minister's approach to this whole business of tax reform that is before us. Apparently, although we are interested in equity, the department is suggesting arbitrary concepts for the levying of taxation and no explanation has been given as to how they have arrived at the rates involved. For example, the capital employed concept in the present act has apparently been pulled out of thin air. No one has explained to me how the 3 per cent figure was arrived at except by saying that that is a reasonable figure. As I say, no government spokesman has said why that figure was arrived at. When the white paper was produced the government must have said, "well, 3 per cent is too low, so we had better make it higher." And what rate did they come up with? They said to themselves apparently, "we had better set the percentage at about the rate currently charged for farm loans." That rate of interest at that time was approximately 8½ per cent. Then, after protests started pouring in, the Minister of Finance apparently said, "that rate seems to be too high; perhaps we had better set the rate at 5 per cent for capital employed in the co-op." Therefore, the whole hit and miss approach is not far different from that used back in 1946, when the capital employed concept was originally introduced into the act.

Let us suppose, for the sake of argument, that the minister's approach to plugging tax loopholes is valid, and I do not for a minute admit that it is valid. However, let us, for the sake of argument, say that there are loopholes and that they should be plugged. If that argument has any validity it is fair to ask, what loopholes is he trying to plug

with these sections? What tax advantages have co-operatives been enjoying, since the minister seems to be saying that from now on they should bear their fair share of taxation. Furthermore, are these loopholes real or imaginary?

We are all aware of the arguments to the effect that co-operatives enjoy a tax advantage, that they do not pay their full share of the tax load, and so on. I submit to the committee that this is just not so, because you are oversimplifying the argument when you merely talk about tax payments. Even if you argue that the co-op itself may not pay a certain tax, you must consider the tax that is paid at the individual's level and that a co-operative still pays taxes on retained earnings. For that reason, I question whether co-operatives enjoy any real tax advantage. We have also heard it argued that co-operatives enjoy a special advantage because they may deduct patronage dividends before paying taxes. It is not true that they thereby enjoy an advantage. Any corporation may deduct the same patronage dividend payments.

I was interested in reading another article by a tax expert, Dr. A. K. Eaton. He is just as much an expert in his own right as Mr. Carter was. In his statement before the Royal Commission on Banking and Finance in October 1962, Dr. Eaton said:

All in all, we have in Canada, pretty sensible laws for co-operatives. Actually, the main provision which alleviates their tax position is not limited to co-operatives at all but applies to any company. Any company which holds forth the prospect of patronage dividends to its customers may deduct the amounts disbursed in this way in computing its income for tax purposes.

He went on to say later:

There is no special privilege in this tax provision. It merely recognizes one of the ordinary practices in doing business. Profit-sharing plans are not uncommon in private industry.

Interestingly enough, Dr. Eaton goes on to refer to the rather curious provision limiting the deduction of patronage dividends. Of course, he was referring to this business of capital employed which, as he says, makes no sense and is a bit farfetched. So, I submit to those who would support these sections of the bill on the ground that co-operatives enjoy an unfair advantage, that this is just not so and that they do not.

Let us suppose, and I do not for one moment admit this, that there is a difference in the levying of taxes as between co-operatives and private corporations. I say that this difference is still valid under principles of equity, because an equitable tax system simply demands that taxpayers in similar circumstances bear a similar share of the tax burden. However, I submit that there is a valid distinction as between co-operatives and other types of corporations.

I do not want to repeat old arguments about the nature of co-operatives. Such arguments have been advanced many times in the House and no doubt will be repeated. Nevertheless, there is a basic difference between co-operatives and other corporations. The main difference, of course, is that the members of the co-operative combine together, through their own efforts, to obtain increased services from the co-operative. They do not join the co-operative for the sake of obtaining a profit. If they joined it for that reason they would be ill advised, because they could better invest their money in a corporation which