

strangle the movement over the years. Mr. Chairman, I contend that if the legislation as now drafted goes forward, this is exactly what will happen to co-ops from one end of Canada to the other. Members on the government side of the House should read and discuss this legislation. If they vote for legislation that will cripple the co-operative movement across Canada, they will be in serious trouble at election time.

I should like to speak briefly—we will have an opportunity later to deal with the co-operative amendments—on section 137 which deals with credit unions. I have received a number of representations from various credit unions in my riding of Kootenay West. I have received representations from the Arrow Credit Union of Edgewood and the lower Arrow Lakes, the Castlebar Savings Credit Union, the Kootenay Savings Credit Union, the Nelson and District Credit Union, the Nakusp and District Credit Union and credit unions from the Creston area, as well as from a large number of individuals in these credit unions. They are opposing one of the provisions in section 137. I do not think I can explain it any better than by reading one of the letters which I have received. Many are similar to the one I shall read, which outlines very distinctly the apprehension felt by credit union members in our area as far as section 137 is concerned. This letter is addressed to me and is generally the type of letter I have received. It reads:

In the tax provisions for credit unions contained in Bill C-259 the most important area is the taxation of reserves which must be set aside under the provisions of provincial legislation. No amendment has yet come forward to deal with this problem.

Not only are the transfers to reserves non-discretionary but there is a legislative bar to their distribution to the members even on the winding up of the credit union. Apart from this restriction in the legislation there is a basic principle that shares in a credit union may only be redeemed at par irrespective of the amount of reserves on hand. The fact that these reserves are beyond the reach of the shareholders, removes in effect shareholder's 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 will increase the value of the shares and in this way give a benefit to the shareholder. Alternatively amounts reserved may be paid out as dividends. Again, benefiting the shareholder and earning for him a tax credit on his dividend—essentially representing a rebate of the corporate tax. The effect of the provincial legislation is to deny these benefits to credit unions.

Although there is a strong legal case for tax exemption, with supporting precedents, credit unions have interpreted the white paper and the tax act as pronouncements of government policy and have from the outset agreed to pay their fair share of taxation.

Because they lack the quality of income and because these non-discretionary reserves cannot be distributed to members, credit unions find themselves trapped by the provisions of section 125 of the tax act. These reserves will be considered income in the "business limit" of \$50,000 per year and in the total "business limit" of \$400,000. 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 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 the 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.

The solution we propose is that section 137 (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 Deputy Chairman: Order, please. I regret having to interrupt the hon. member, but his time has expired.

Some hon. Members: Carry on.

The Deputy Chairman: The committee knows that this can be done only by unanimous consent. Is there unanimous consent to allow the hon. member to continue?

Some hon. Members: Agreed.

Mr. Mahoney: I agree, Mr. Chairman, but there are many hon. members waiting to participate in the debate. I am sure the hon. member would not abuse the opportunity afforded by the committee giving its consent, because he is aware that other hon. members are waiting to speak.

Mr. Harding: Mr. Chairman, may I have the privilege of finishing the letter because there are only two paragraphs which I have not quoted?

The Deputy Chairman: Does the committee agree?

Some hon. Members: Agreed.

Mr. Harding: Thank you, Mr. Chairman.

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.

Reserves have no advantage to the member beyond securing the principal of their investments. They can never share in them. We regard a tax equal to the amount of the annual reserve requirement as unnecessarily punitive.

I urge the parliamentary secretary to read this section 137 again and to make the necessary amendment to rectify it.

Mr. Badanai: Mr. Chairman, I wish to say a few words on this section of Bill C-259 dealing with credit unions and co-operatives. I am very appreciative of the amendments introduced by the Minister of Finance which are designed to reduce the basic tax rate contained in the bill. The history of credit unions can be summarized by the experience of one operating in my constituency. I am referring to the employees of the Abitibi Paper Company which formed a credit union some years ago. The motivation of the credit union was the principle "not for profit but for service", which I submit is the philosophy behind the movement established to encourage saving and, when in need, borrowing. It is this principle which dominates all credit unions as well as co-operatives.

The money that members put into the credit union is already taxed; every dividend they receive is taxed. Section 135 of the bill is simply designed to tax the profits that credit unions have accumulated through the use of their savings. I urge the minister to reconsider this whole question and scrap the idea behind this section of the bill.

• (3:20 p.m.)

Some hon. Members: Hear, hear!

Mr. Badanai: The Prime Minister, in a recent message to credit unions stated, "Credit unions have experienced