

*Income Tax Act*

That is another factor which must be considered. Co-operatives are Canadian owned; they are not subject to raiding or foreign takeover.

We spent a lot of money getting a report on the price of farm machinery and spare parts. The Barber commission report was costly. I only hope that one day some minister will be able to rise in his place and tell of just one thing good that has happened to our farmers as a result of that report. The organization that is really trying to do something for farmers with respect to the price of farm machinery is Co-op Implements, but this legislation will make things more difficult for it.

**An hon. Member:** Come on, Alf.

**Mr. Gleave:** My hon. friend to my right may disagree. Perhaps I would not agree if I were in his position. But it is about time people on the government side of the House realized what this legislation is all about and what it can mean to Canadians. The government should pause to consider the matter, in light of the amount of investment that has been quoted tonight and the importance of the co-op movement across Canada.

Mr. Chairman, I do not think the co-op movement is any great threat to the multinational corporations that now control much of our industry and economy. I do not know why they are getting into such a sweat. I urge the government to consider carefully the possibility of accepting these amendments before passage of these sections of the bill.

[*Translation*]

**Mr. Lambert (Bellechasse):** Mr. Chairman, I have studied with great interest the proposed amendments tabled by the Minister of Finance (Mr. Benson) concerning the new tax burden which co-operatives, credit unions and caisses populaires will have to bear.

My interest is all the greater as I pointed out, a short time ago, the inequity of a number of the new provisions submitted initially.

As I was giving particular attention at that time to the case of co-operatives, I had stressed the concept of "capital employed" and the new limitations which it was introducing in relation to the payment of patronage dividends to members.

I had taken the hypothetical case of a co-operative with a total capital of \$800,000 made up as follows: shareholders' holdings, \$500,000; long-term debt, \$300,000. To substitute to the present method of computing tax that which is proposed in the bill meant for such a co-operative an increase in taxable income of some \$19,000 and tax increase of between \$1,500 and \$6,250, that is a sharp rise of over 400 per cent.

While everyone recognizes the principle of tax equity, one must nevertheless consider that the bill, as it now reads, gives rise to an extremely sudden change which would seriously jeopardize the very existence of some co-operatives whose level of development is not such as to allow them to support a tax burden which is so much heavier.

I had emphasized at the same time that in addition to penalizing unfairly and inconsiderately the individual and collective efforts of co-operative members, the new tax

[Mr. Gleave.]

provisions introduced by the Minister of Finance would have harmful effects. First, there was the danger of creating double taxation conditions, at least theoretically. Some of those co-operatives could thus be caught in a financial and inextricable deadlock, where they would find themselves unable to repay the members the shares of the social capital rightfully claimed by those wishing to withdraw from the movement. And finally, on account of that still controversial concept of capital employed and also of the necessary accumulation of minimum reserves, a co-operative could have found itself in the ridiculous situation of having to pay, for a given fiscal year, more tax than during the previous year, even if its profit for the current year might have been the same or even lower than that of the previous year.

Mr. Chairman, the amendments proposed by the Minister of Finance help however to ward off some fears or threats. In fact, we can but rejoice that, under these amendments, a co-operative may choose the lesser amount arrived at by either methods for computing taxation. At that, the government has not discarded the concept of capital employed, so much decried by the Canadian co-operative movement, but at least the co-operative can pay as patronage dividends up to two-thirds of its profits, which shows greater respect for the traditional operating rules of the co-operatives. No doubt this is an interesting compromise as compared to the rigid initial rate of 5 per cent of capital employed.

If we come back to the case of the co-operative with a total capitalization of \$800,000, we can see that for a given year during which the registered profit was \$60,000, the tax payable could be somewhat different according to the computation method used.

Here is an example: The employed capital method implies taxation at 5 per cent of \$500,000 which results in a taxable income of \$25,000 and a tax assessment of \$6,250, or 25 per cent of \$25,000.

On the other hand, under the amendment, the second method would be the profit volume method: With an aggregate profit of \$60,000, less the portion payable as patronage dividends (or 2/3 of \$60,000), profits amount to \$40,000. Therefore, the taxable amount is 1/3 of profits, namely \$20,000, with a tax assessment of \$4,000, or 25 per cent of \$20,000.

Of course, a certain latitude is given to the co-operatives which, however, are not spared the burden of the capital employed concept which puts between the co-operative and its members a taxation mechanism and, thus, government action which is contrary to the co-operative principle and interferes with the normal relations which should prevail between this institution and its member for business transactions entered into by them in a quite legitimate way. The amendment in question leaves at best a little more elbow-room, but only where the second computation method permits to alleviate the tax burden of the co-operative involved in a given taxation year.

• (9:20 p.m.)

So, I am glad to point out that this will be unavoidably the case of co-operative corporations with relatively moderate profits. I am not pleased at the thought that the profits will be limited, but I am only looking at this with the legislation in mind. We say again that this is not a