then come within the requirements of the province in which it was incorporated.

Senator Phillips: Mr. Thompson has said that it is possible at the present time to have a small mortgage company benefiting from the conduit or pass-through tax treatment. Can two or three such companies amalgamate and form a mortgage investment corporation?

Mr. Humphrys: If they were provincially incorporated companies and could comply with the provincial law applicable to mortgage lending companies, they could carry out an amalgamation and carry on business. So far as the Income Tax Act is concerned, as long as the company meets the criteria set out in the Income Tax Act it would rank for the conduit tax treatment.

I think it is important to note that this is not a special tax privilege in the sense that the intention is to put the people who participate in a MIC in the same position as they would be in were they putting their money directly into mortgages. In other words, this bill creates a new mechanism for pooling mortgage funds while still getting the same tax treatment.

Senator Buckwold: You pay single tax instead of double.

Mr. Humphrys: Yes.

Senator Phillips: Does a mortgage investment corporation have the same tax benefits as a credit union or a co-operative investing in mortgages?

Mr. Humphrys: No, the tax treatment is different. Perhaps Mr. Thompson could explain.

Mr. Thompson: The tax treatment is different, although in the end it may amount to much the same thing. A credit union can deduct from its income interest payments and interest rebates paid out to its members, so the end result could be much the same. The tax provisions are somewhat different.

Senator Phillips: Would the same apply to a co-operative investing in mortgages?

Mr. Thompson: Yes, although if it was mainly an investment operation I suppose it would more likely be a credit union rather than a co-operative. The answer would be substantially the same. I do not think co-operatives would ordinarily get into investing on a very large scale.

Senator Phillips: Co-operatives in Eastern Canada do invest in mortgages. Perhaps you could explain to the committee the difference between the tax benefits provided to a mortgage investment corporation and those provided to a credit union or co-operative under this bill.

Mr. Thompson: A credit union is generally taxable in the same way as is a corporation. The main unique feature is that credit unions can deduct any interest rebates and adjustments, not only to distributors but also in respect of shares, because their shares are more akin to deposits than are shares of the normal kind. So in the end result, the credit union can distribute all of its interest income as interest or rebates to its members, thereby wiping out its income. It would have the income reported at member level, which is substantially the same effect.

The main important feature with respect to the tax treatment as it relates to co-operatives is the deductability of patronage dividends. They would normally relate more to ordinary business operations—not financial operations, but more to the purchasing and selling of goods. To the extent that co-operatives distribute their income as patronage dividends to members, that income is taxed at the member level rather than once at the co-operative level and a second time upon later distribution.

Senator Buckwold: How is it handled if there is a patronage dividend declared which is then reloaned back to the co-operative? In other words, there is no cash transaction. That is the way most of the larger co-ops seem to operate. Is that then taxable to the individual?

Mr. Thompson: I believe it is.

Senator Buckwold: It would be taxable to the individual even though he did not get the money? He would be building up an estate which eventually would be his.

Mr. Thompson: I believe that is so.

The Acting Chairman: It comes under the same principle as does the re-investment of income in a mutual fund, I take it. In other words, you pay the tax on the income as it is declared even though you do not receive the money.

Mr. Thompson: It is a similar principle to that, yes. I believe there is 15 per cent tax withheld now on patronage dividends over $100.

Senator Buckwold: Getting back to mortgage investment companies, would their losses or gains in their portfolio, as against interest revenue, be considered capital gains or part of their business operation?

Mr. Thompson: This is on their mortgages?

Senator Buckwold: Yes.

Mr. Thompson: It will depend to a great extent on the circumstances of the way in which the corporation carries on its affairs, and that would be a matter of the view of the Department of National Revenue. If there was a dispute it might have to go to court. By and large, I believe it is fair to say that National Revenue would think that as the mortgage investment corporation is envisaged, any discounts or premiums on the mortgages would likely be taken into account in computing their income, because there is so much in the going about and investing mortgages in an organized way, so it is part of the operation.

Senator Buckwold: I think what you are saying is that basically a mortgage investment company that was involved to some extent in the mortgage market would treat its discounts, gains or premiums as income?

Mr. Thompson: That is right. It is just part of its operation.

The Acting Chairman: Are there other questions?

Mr. Humphrys: Perhaps I could make one comment, Mr. Chairman. There is a difference between the credit