

Income Tax Act

one or two. For example, the fiberglass employees credit union at a large factory in Guelph has this to say:

A credit union is beneficial to the lower and middle income population of our country. We feel that taxation is extremely heavy in this area at present and Mr. Benson appears to be trying to drain even more.

Then, the tobacco workers' credit union, again at Guelph, make this point:

We regard our credit union operation as simply a sensible, share-the-risk extension of loaning money between member employees. The fact that full tax is paid by member employees receiving compensation for use of their money, we question the reasoning behind the credit union being also taxed.

Many letters along similar lines have been sent to me. As I understand it, the amendments that the minister tabled on October 28 relating to credit unions and caisses populaires will hopefully facilitate their transition from what was tax-free status to that of a taxable financial institution. The first of these amendments relates to the small business tax incentive, and the second and third amendments deal with the level of tax-free reserves.

• (4:30 p.m.)

In the case of the first amendment this new tax reform bill provides that the Canadian controlled private corporation will pay 25 per cent of its first \$50,000 of annual business income and that beyond that level of income the rate will be the 50 per cent rate generally applicable to other corporations. Once such corporations accumulate a taxable income over \$400,000 the lower rate of tax will no longer be applied but the corporation can extend the use of the lower rate by paying regular dividends to its shareholders. Every \$3 of dividends would reduce the taxable income by \$4 according to the Department of Finance. Although the small business incentive is available to credit unions and caisses populaires the credit unions and caisses populaires are not permitted to pay dividends under their statutory reserves. So, this again will not be of much use to them. They will not be able to pay dividends under their statutory reserves and therefore are inhibited in their ability to reduce accumulative income by dividend payments as other business corporations are allowed to do.

After these amendments were tabled on October 28 I received a letter from one of the credit unions, the College Heights Community Credit Union Limited, which reads as follows:

Some of these amendments will help our movement, but one area still remains a grave major problem.

This is the part to which I draw attention.

This is in the area of reserves and is primarily one of a conflict between federal and provincial governments. Ottawa looking for money, regards our reserves as being too high. The provinces on the other hand, by statute, require all credit unions to set aside for bad debt purposes amounts varying from 9.5 per cent of yearly earnings, in the case of Nova Scotia to 20 per cent in several other provinces including Ontario, to protect the weakest links in the credit union movement. (Incidentally this bad debt reserve will account for approximately 90 per cent of the reserves Ottawa regards as so high!). The reserve for bad debt purposes cannot be used for anything other than covering the write-off of bad debts. Under most provincial statutes should a credit union be wound up, this reserve must be distributed to charity.

I say again that the credit unions and caisses populaires are not permitted to pay dividends under statutory

reserves and therefore are inhibited in their ability to reduce accumulated income by dividend payments. In the other place, this matter was discussed at some length. I believe a very sensible recommendation was made. I wish to read it so that we, the parliamentary secretary and the minister can give further consideration to the very important matter of the survival of credit unions and caisses populaires. I used the word "survival" because I think it is that important. The Senate Standing Committee on Banking, Trade and Commerce made this recommendation:

That caisses populaires and credit unions should not be required to include in their 'cumulative deduction account' (for purposes of determining the available balance of their total business limit of \$400,000) such portion of their taxable income as is set aside in the year as a reserve to the extent that such reserve is not available for distribution to members. This should be subject to the further limitation that no recognition be given to any such reserve to the extent that the total amount set aside does not exceed, say, 5 per cent of the organization total deposits and share capital at the commencement of the year.

The Senate Committee considered it sufficiently important to recommend that this matter be given further consideration by the government since the effect of other amendments introduced by the government differs from the above recommendation. When we have a body of men of experience and ability studying this matter and making a recommendation like this, surely the government should pay attention to the recommendation. I realize there is a problem here. A credit union may be a very large organization and someone might suggest, since it is somewhat in the position of a bank, that it should be taxed the same as a bank.

Perhaps the department would give some thought to having an escalated scale of taxation. I am thinking of the small type of credit union or caisse populaire such as might be found in a very small area of the country. In such cases the members often do much of the work for nothing. There may be only one paid executive in a community co-operative. Why should we drive these people out of business. Perhaps there should be a tax free area up to a certain level of, for instance, \$100,000 or \$200,000 and then over that level the tax would apply. It would seem to be an almost impossible task to strike a tax rate for credit unions if it is to be done on a fair and equitable basis.

I hope the parliamentary secretary and his officials will give consideration to the protection of the small, most useful credit unions and caisses populaires which are so prevalent across Canada. I hope also that amendments will still be made that would make it possible for these essential financial organizations to exist, flourish and continue to serve a very useful purpose.

Mr. Blair: Mr. Chairman, we are having a most interesting discussion and the remarks I propose to make immediately are not, I regret to say, the final views I will express on this subject because I hope that today and tomorrow there may be an opportunity for all members who are interested to contribute their ideas in this debate. I think the first thing that must be said is with reference to the comment made by the parliamentary secretary a few minutes ago when he said with respect of the amendment of the hon. member for Regina East that it shifted the incidence of taxation from the co-operative or credit union to the member. I have a feeling that many people in