

Income Tax Act

\$25,000 to \$50,000. I think this would be most helpful, especially to small credit unions because they certainly need the first reserve funds to assure their future and give confidence to their members.

So, without wanting to be too long—this is just a reminder to the parliamentary secretary—I would like to read the communications which we receive. The first, given by the chapter of credit unions affiliated to the Ontario Federation of Credit Union is as follows:

On behalf of the credit unions affiliated to our chapter, I want to express our concern regarding the legislation now under consideration, Bill C-259, relating to the section dealing with caisses populaires and credit unions.

Despite the few favourable amendments brought in the House recently, it is evident that even exports do not know the effect this bill will have on caisses populaires and credit unions in Canada.

Since 1900, the co-operative movement has been fighting usury in Canada and trying to improve the financial situation of our people who need it most. It would be unfortunate if the government of Canada, in order to collect more revenue, ruined the ideal means for Canadians to help themselves.

Another spokesman of the Fédération des Caisses Populaires du Québec says what follows:

Caisses populaires and Credit Unions very much appreciated your co-operation and the interest you expressed regarding the methods of taxing them as proposed in Bill C-259.

There have been several amendments to section 137. They will allow Caisses populaires and Credit Unions to maintain the services their members expect from them while integrating them into the new tax system. We have already informed the Minister of Finance of the importance of those amendments.

However one point is still of concern to us. That is the application to small companies of the concept of total business limit, as provided in section 125.

We requested that the first \$50,000 taxable revenue be excluded from the computation of the total business limit. The proposed amendment grants a \$25,000 deduction in this regard.

We feel our request was reasonable because:

- (a) Our reserves are built up solely in the interest of the group to which they belong.
- (b) They are for the most part required by provincial legislation.
- (c) They are not subject to distribution among members.
- (d) They never result in capital gains or personal benefits.
- (e) The tax paid on such reserves will never result in tax credits.

To that effect, we have asked the Minister of Finance, whether he could review amendment 137(4.2).

At the present time, we are still waiting for the draft of the regulations applicable to Caisses populaires and Credit Unions. We hope that those regulations will continue to recognize the characteristics of Credit Unions and Caisses populaires.

Those were the comments which I wanted to make to the Parliamentary Secretary to the Minister of Finance and I am sure that if he considers the requests of the representatives of co-operatives and Caisses populaires, he will surely propose an amendment, as requested by the federations for the common good of the Caisses populaires.

• (4:20 p.m.)

[English]

Mr. Hales: Mr. Chairman, I will limit my remarks to credit unions and caisses populaires in discussing the section dealing with co-operatives and credit unions. I do not think there is a member in the House who has not received some correspondence expressing great concern at the proposed taxation of credit unions and caisses

[Mr. Gauthier.]

populaires. I think it is only right that we pause a minute to think of the great value of the work of credit unions in the community. I doubt that there is a member of the House who does not have a credit union or caisse populaire in his constituency, be it a credit union at a factory, at a college or university, or one in the community at large.

In many areas of western Canada there would be no financial institutions had it not been for credit unions. In areas that were too small for banking institutions, credit unions offered their services. In the province of Quebec there are caisses populaires in many areas which banks consider too small to serve, and these provide a very useful and necessary service.

May I repeat very briefly some remarks made by the McDougall report in 1945, which report was tabled in the House of Commons. Page 52 of the report reads as follows:

It—

That is, credit unions.

—provides a method whereby people in poor circumstances are encouraged to develop a habit of thrift, since by pooling their savings they can provide a source of credit for themselves in times of need.

The bond of association, occupation or other community interest on which the membership of credit unions is based tends to minimize the element of risk which has to be considered by another type of lending institution when considering an application for a loan from an individual with little or no collateral security.

Accordingly, it provides a service for those who are either not provided with credit services from other lending institutions at all, or only at much higher rates because of the risks involved.

The tangible material and other benefits which can be derived through the credit union form of activity enable and encourage the members to solve their problems through self help rather than by relying on government aid in times of emergency or depressed conditions.

Then, at the same page the report continues:

Credit unions return to their members a very high proportion of their surplus earnings. In some cases, however, they are retaining amounts which appear to be larger than are required for reserves against bad loans and losses on the basis of past experience. If they were to be taxed by the methods we have recommended for co-operative associations, additions to these excess reserves would be made subject to tax. However, the individual amounts to be assessed would, in many cases, be very small.

As a result, the royal commission recommended that the income of credit unions continue to be excepted from taxation. I would like to challenge anyone who claims that credit unions are not motivated today by the very same principles and philosophy that impressed the legislators in 1945. If the movement is larger today than it was then, it is only because credit unions have met an enormous need in Canada. I do not think there was any doubt in the mind of the royal commission about the usefulness of credit unions and caisses populaires. I am very concerned that the minister is taxing these organizations in a way that makes it quite evident that the smaller credit unions will have to close, and that will mean a real service will be lost to the community as a result of the minister's action. I realize the minister has made some amendments, but the amendments do not go far enough to enable the credit unions to survive.

I am sure all members of the House could quote letters they have received on this issue, and I should like to quote