

- 4) The rate of interest on member capital, or dividends on shares, must not exceed 5 per cent.
- 5) Non-member business must not exceed 20 per cent of the total business.
- 6) The co-operative must not be a continuation of a previous business in which many of the members had a substantial interest.

All Canadian co-operatives must file income-tax returns, whether they are subject to tax or not.

Under Section 75 of the Income Tax Act, patronage dividends paid by any business co-operative or otherwise are allowable as a deduction in computing taxable income. In order to claim this reduction, a firm must have "held forth prospect" of paying patronage refunds and this prospect must have been announced prior to the taxation year by an advertisement in a newspaper, by contracts, or explicitly set forth in the charter, by-laws, articles of association or in the act under which they were incorporated or registered.

The co-operative must, within 12 months after the taxation year, allocate the refund to all customers at the same rate except for non-members, who may be credited with a different rate. There may be different rates also for different commodities.

Payment of refunds must be made within the taxation year or within twelve months afterwards, to be deductible in the taxation year. Otherwise such payments are deductible when paid. Payment includes the following five methods:

- 1) By cash.
- 2) By certificates of indebtedness or issue of shares of capital stock, provided an amount of money equal to the certificates or shares issued has been disbursed in redeeming previous issues.
- 3) By applying the refund against a debt of the customer, providing the co-operative has statutory or written authority from the customer to do so.
- 4) By retention by the co-operative as a loan from a member, providing the member or customer has given a written authority to the co-operative for this purpose.
- 5) By applying the refund on account of a loan or purchase of shares pursuant to a by-law that requires the member to make a loan or purchase shares and authorizes the application of the patronage dividend thereon, if the statute under which the co-operative is constituted provides that all by-laws of the co-operative are binding on all members.

There are, however, limitations on the amount of refund allowable as a deduction from income. A co-operative, having complied with the requirements as set forth above, cannot claim as an allowance a refund to members greater than the income arising from member business. All refunds paid to non-members may be deducted from income.