

Income Tax Act

In practice, members pay into their reserves a part of their surplus earnings to ensure their financial stability.

SPECIAL TREATMENT OF COOPERATIVES PROVIDED BY WHITE PAPER.

The White Paper proposes to treat Caisses populaires and Credit Unions as other cooperatives are treated for taxation purposes (4.73).

1. The White Paper proposals do not take into consideration the fact that Caisses populaires must build up important general reserves in order to ensure their financial stability.

2. The notion of the capital employed developed in the White Paper is not explicit for the cooperatives; it is far less explicit for the Caisses populaires. Furthermore, it is very hard to establish a direct relationship between operating surplus and capital employed, as well as between the profits and the capital stock of a company.

BASIC PRINCIPLE OF WHITE PAPER

Therefore the Caisses populaires dispose of their operating surplus in two ways:

- (a) through refunds to their members;
- (b) through transfers to their reserve funds.

The amount repaid to the member becomes taxable in his hands... consistent with the principle of taxing the income in the hands of the person to whom it belongs.

In a Caisse populaire, the amount transferred to the reserve funds can never be distributed to members.

TAXATION TREATMENT

The White Paper seeks to integrate concerns in either one of the following categories:

(A) PARTNERSHIP

In order to qualify in this first category, the Caisses populaires Desjardins should have the signature of all their shareholders who would ask for such treatment (4.22).

Due to the great number of their members it would doubtless be difficult for the Caisses populaires to obtain the signature of them all (2,500,000).

(B) WIDELY-HELD CORPORATIONS

The Caisses populaires Desjardins cannot be considered as widely held corporations.

1. Shares not transferable.
2. Limited territorial jurisdiction.
3. Spontaneous non-profit participation of the community in the administration of cooperatives.

• (5:40 p.m.)

The Caisses populaires cannot be assimilated to this category.

C) Closely-held corporations

The Caisses populaires Desjardins must be considered as closely-held corporations.

The taxation treatment for closely-held corporations proposes that "they would have to pay a tax of 50 per cent on the taxable income of the corporation. However when the net profits are distributed to the shareholders, credit would be given for the full amount of the tax paid by the corporation on those profits" (4.24). Section 4.27 stipulates that dividends may be paid in shares.

We understand that by this taxation treatment the White Paper's aim is twofold:

1. To Safeguard the basic principle that income of enterprises should be taxed once only and at the rate of the individual to whom this income belongs.

Indeed, the 50 percent payment is only an advance payment. It will be reduced through the tax credit obtained by the partners up to the level of taxation of each shareholder...

2. To safeguard corporate liquidities.

In effect, for the shareholders to profit from the tax credit the corporation has to distribute the profits among its shareholders.

[Mr. Gauthier.]

However, as in par. 8.10 of the white paper, we think that the corporation will distribute its profits in the form of shares so no liquid assets will be necessary.

The corporations are sure of being able to keep 50 per cent of their net income for capital stock is not redeemable by a closely-held corporation.

The Caisses populaires want a treatment similar to that of capital stock companies which are considered as closely-held corporations.

However, because of the co-operative characteristics this taxation treatment does not meet the above-mentioned objectives:

1. To allow our members to profit from the tax credit large production of T-5 forms would be necessary... Furthermore, these forms would then be taken up for analysis and tax collection by the federal and provincial income tax services.

Those are, Mr. Speaker, all the complications I was talking about a while ago. The Caisses populaires have more than 2,500,000 members: Can you imagine the situation if we had to send a form to each of our 2,500,000 members!

It goes on to say:

2. The cashflow problem is even more important because the proposed treatment does not ensure maintaining adequate liquidities.

There is a great difference between the capital employed of a capital stock company and that of a co-operative.

The comparison here is between a capital stock company and a co-operative. In the former the capital stock is not redeemable but in the latter the capital stock can be withdrawn on demand. In the capital stock company the surplus can be distributed in the form of dividends whereas in a co-operative the surplus is never distributed to the members.

It goes on to say:

It should be well noted that for a capital stock company a transfer from surplus to capital stock... improves the liquidities of a company by freezing that part of the capital employed.

For a co-operative, the same action (for instance, partial transfer of excess payments to social capital) has a reverse effect. This action would make a more important part of the "capital employed" withdrawable on request.

The caisses populaires have made proposals and I quote:

The tax system applicable to co-operatives should follow two rules:

1. Co-operatives should be able to eliminate taxable income by paying interest or patronage dividends to their members from excess payments.

2. The portions of excess payments credited to the reserves of these collective enterprises and held by them would be taxable at the average rate paid by their members.

The purpose of this rule is to enable the government to secure the same tax yield as though the amounts credited to the reserves had been distributed to their members while permitting the collective enterprise to build up general reserves from its excess payments.

Mr. Speaker, in this brief the co-operatives have quite well explained the logical tax procedure and in connection with doubtful debts, transition periods, etc., the spokesmen for co-operatives feel that:

If caisses populaires are taxable it is quite normal that they should be able to build up, from their future taxable earnings, reserves for doubtful debts and liquidities comparable to those allowed to the banks.