APPENDIX IV

TAXATION

Under the 1946 Act a corporation, incorporated under provincial legislation respecting co-operative associations for marketing, purchasing or service, is exempt from taxation for its first three taxation years providing it commenced business on or after January 1, 1947.

To qualify for this exemption, however, a new co-operative must comply with certain additional provisions:

(1) Each member must have one vote, and one vote only;

(2) A prospect to pay patronage dividends must have been held forth;

(3) 90 per cent of the membership must be individuals and 90 per cent of the shares must be held by individuals;

(4) The rate of interest on capital or dividend on shares must not exceed 5 per cent;

(5) There must not be more than 20 per cent non-member business;

(6) The co-operative may not be a continuation of a previous business in which the members had a substantial interest.

All Canadian co-operatives must file income tax returns. If they can comply with the regulations outlined above, they are able to claim total exemption. If they cannot thus qualify, patronage refunds are allowable by Section 68 of the Income Tax Act as a deduction in computing income, providing the following conditions are fulfilled:

(1) Co-operatives must have "held forth the 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.

(2) 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;