

While the capital gains tax implications are of course obvious little has been said that a much greater tax disadvantage for the farm community will be effected by the changing over of farm depreciation from Part XVII straight line to Part XI diminishing balance. Indeed, we have found here over the years that the greater part of capital accretion by the farm community has been from capital gains, tax free, on sales and trades of farm equipment rather than the retention of earnings for capital purposes. This is despite the fact that often great self denial is required by the farm community, particularly the young, to get ahead and acquire the large amounts of capital necessary to operate economically.

It is strange too that small incorporated business is to face a tax increase while large public companies are going to enjoy a gradual reduction. As to big business many of the benefits, depletion, tax incentives through depreciation etc., are going to remain. Oil, mining, banking, finance and insurance groups are to be little affected.

I do not think there is any doubt that the majority of the small businesses are found in the western part of Canada. Of course, if an area still relies on much needed capital in order to develop and expand, the future expansion of small business is going to be drastically hindered as a result of the measures proposed. The over-all impact will put the farmer or small businessman, who is directly and solely dependent upon the agricultural industry, in a very tight squeeze.

Last night I referred to the hardships that will be imposed as a result of the treatment of co-operatives. In all sincerity, I do not believe that the matter of co-operatives has been given enough sympathy by the Minister of Finance and his advisers who are piloting this legislation through the House. This morning a number of the members of the party to which I have the honour to belong met with officers of the Alberta Wheat Pool. They reiterated the reservations they have with regard to Bill C-259, reservations which strike at the very heart and spirit of the co-operative movement. They told us that if the measures which appear in Bill C-259 are implemented, it will mean an increase in taxation by about 700 per cent. If this is so, the funds can only be acquired through additional revenues. A direct additional cost will have to be imposed on the farmer on the delivery of his grain.

With your permission, Mr. Chairman, I wish to read a portion of the brief submitted to our caucus this morning with regard to Bill C-259. I quote:

Co-operatives in Canada, despite being simply a form of business enterprise, have been singled out since 1948 for certain provisions for income tax purposes, which are both good and bad. The worst feature is being made worse by Bill C-259.

The existing Tax Act makes provision for the deduction from income of patronage dividends and Bill C-259 does likewise. This is a commendable provision which recognizes that earnings can be distributed according to patronage as well as a return on capital.

It turns out that to co-operatives, in which the users are also the owners, this is a desirable situation and in cases such as ours—entirely equity financed, it is highly desirable and essential for the continuance of such a form of business enterprise.

Unfortunately, there is a limitation to the provision for deductibility. In the existing Tax Act this is found in Section 75(3):—

This formula, in the manner in which it has been applied, has not worked to any appreciable disadvantage to our Association in the past. The provision, which we believe wrong in principle, has not only been retained in Bill C-259, but it has been cleverly rearranged in such a manner as to make it, to some extent, an effective tax on capital rather than on earnings. The 3 per cent figure has been changed to 5 per cent and the deduction of interest

on other than bank loans has been changed to interest only on borrowing from members.

Reference is made to a recent proposal offering amendments to the present bill contained in *Votes and Proceedings* No. 189. The observation of the officials of the wheat pool in this instance is that they will have very little effect on their operations. These amendments may help some of the smaller co-operatives, but they will have little effect on the operations in which such co-operatives are involved. I see that Your Honour is giving me the eye to indicate that my time has expired. I would like to complete the brief, Mr. Chairman, but I realize that requires the unanimous consent of the House.

**The Deputy Chairman:** Order, please. It does require the unanimous consent of the House. Does the House agree to allowing the hon. member to complete his remarks?

**Some hon. Members:** Agreed.

**Mr. Mazankowski:** I thank hon. members for their co-operation. I want to put this submission on the record because it is very important to the western grain economy and to co-operative movements which provide a service but are not necessarily in competition with private enterprise. I quote:

The only occasion a co-operative such as ours could use this provision—

Here they are referring to the amendment that is proposed.

—advantageously would occur when its earnings were relatively low and this would be a level too low to effectively service our capital. The ultimate result therefore, of these provisions would be to effectively institute a minimum tax on co-operative earnings which amounts to a tax on capital rather than on earnings. This is a discriminatory provision against a taxpayer wishing to distribute earnings based on patronage rather than on capital, which would effectively destroy this form of business enterprise.

Under Bill C-259 and the amendments proposed therein, it will be imperative to distribute some tax paid money to service our capital structure. In this regard, there is no provision to allow for any tax credits to a member-shareholder comparable to that for a recipient of dividends from a corporation. Rather than request such a provision, we feel it would be much simpler and more correct in principle, to delete the limitation imposed by the capital-employed formula.

No other western country imposes, so far as we are aware, such a penalty on the co-operative method of doing business.

• (3:10 p.m.)

I do not believe that in this day and age, having developed hand in hand with the co-operative movement, we should be instituting tax measures which would destroy the whole principle upon which co-operatives are founded. The proposal put forward in the bill strikes at the very principles of the movement and I appeal to the minister to take these submissions into consideration with a view to ensuring co-operators of the degree of equity which has been spoken of in so many of the documents put forward by the government in support of its tax proposals. If organizations such as the Alberta Wheat Pool, whose success or failure depends largely on the agricultural community, fail to survive, it will only mean a much greater cost in the distribution and handling of grain, an increase which will directly affect farmers. We know the government has proposed a policy by which it intends to reduce