

*Income Tax Act*

co-operatives have long been aware of the high prices people have to pay for goods and services. So, on their own initiative they tried to do something about it by forming their own organization, the object being to obtain goods and services at as low a price as possible through an organization under their control. Technically any overcharge is returned to the member as a patronage dividend. The same effect could be obtained by lowering the purchase price in the first instance. Some co-operatives do this now. The direct charge co-operative here in Ottawa offers its members groceries at cost prices and charges them a fee to cover the costs of operation such as rent, staff costs, lights, heat and water. No matter what the method, the principle is the same. The object is to reduce costs and improve the economic well-being of the participants. Why does the government accept the principle in one case and reject it in another through the application of the tax reform bill?

Why does the government insist on taxing co-operatives on the basis of imputed income? Where else in the world has such a concept ever been applied? If such a concept were applied to normal commercial enterprises they would face chaos and disorder. Why then force co-operatives to pay tax on capital employed? Would it not be more practical and make more sense to follow the recommendations of the co-operative people to have a withholding tax or some other method that is at least related to fundamental tax principles?

The principle of double taxation has generally been avoided by the government. In this legislation it is proposed that taxes be imposed on the commercial level, whereas the earnings are also taxable in the hands of the co-operative members when distributed as patronage dividends. I say to the parliamentary secretary that any farmer who does receive a patronage dividend this year from his co-operative is damned lucky because costs are higher and co-operatives are working on lower margins and the farmers are receiving low prices for their grain. For instance, if a farmer receives a patronage dividend as a result of the purchase of fertilizer, that reduces his cost and increases his taxable income. He pays tax on that at his rate. Why should there be double taxation?

The unfairness and inconsistency of the legislation is again shown by the tax on capital employed. In the definition of capital, reserves are included. If a co-operative places taxable earnings in reserves, and then those reserves are used as the basis for the imposition of a further tax that is unfair. This amount which is in reserve could compound itself until it strangled the co-operative. No wonder members of these co-operatives feel they are not receiving equitable treatment under this legislation.

I should refer again to our concern for principle as members of the co-operative movement. I am still a member of a co-operative. If patronage dividends reduce the costs of goods and services in a co-operative or in any other business, why should there be any restriction on this procedure? What recommendations put forward by the co-operatives were unreasonable? This is something I have never understood or been told. Why can we not be told what is wrong with the demand of the co-operatives?

I say to the parliamentary secretary, through you, Mr. Chairman, that I do not know who the minister's advisers are. I know a lot of people but I do not know those who

[Mr. Whelan.]

are really advising him on this matter. This is much like writing unsigned letters to the daily newspaper. I have recommended on occasion in letters to the minister that some of his top advisers be fired, with little result.

**Some hon. Members:** Hear, hear!

**Mr. Whelan:** I say through you, Mr. Chairman, that if the minister's top adviser on credit unions and co-operatives is the person to whom I just referred, I again recommend that he be fired. If the advice is coming from some of the subordinates I do not know, I recommend that they be fired also.

**An hon. Member:** Fire the lot of them.

**Mr. Whelan:** It is more difficult to get rid of a civil servant than a backbencher, because top civil servants are here forever and backbenchers come and go like the wind. If we pass this legislation in its present form, when this backbencher goes he will go in the damndest storm you ever saw.

I also want to say that Carter and all those other so-called smart people can make all the recommendations and reports they want. I remember who appointed Carter to make this report. However, the Members of Parliament are the ones who are elected to run this country, and I know that the majority of the Members of Parliament are not in favour of taxation for co-operatives and credit unions in the manner presently suggested.

**Some hon. Members:** Hear, hear!

• (12.20 p.m.)

**Mr. Peters:** Mr. Chairman, I have been very interested in the remarks made by the Liberal backbencher from Essex on this matter.

**An hon. Member:** An outstanding member.

**Mr. Knowles (Winnipeg North Centre):** He should be on the front bench.

**Mr. Peters:** It seems to me he has pointed out the problem which faces us without becoming involved in all the detail and the complex arguments which have been made by the parliamentary secretary. After listening to him, I am impelled to ask the parliamentary secretary what we have done about the churches. Have we decided to tax the income of all churches? I remember when I was a small child my father spent a good deal of his time organizing the co-operative movement all across northern Ontario. He organized one for the government of Ontario which was very much like to a religious organization. He believed the people should get together and should work together in a specific field to set up a co-op. He established a creamery co-op in an area where there was no market for the producer's cream. He established a co-op for a group of farmers in the Kapuskasing area. He organized a number of co-operatives for people pretty much in the manner the hon. member for Essex described. He believed people should be able to help themselves. He believed they could help themselves if they were provided with certain background material that would allow them to organize together and to work together to help themselves. No co-operative was ever established for the pur-