Explanatory Notes.

1. Sections 1 and 4 should be read together.

Section 1 is a re-enactment of paragraph *(n)* of section 4 with the words added "except as hereinafter provided by section nineteen". This exception is made to take care of the amendment contained in section 4 of the Bill.

2. Section 2. This is to extend the principle already contained in the Income War Tax Act under section 4 *(g)*—

"The income of mutual corporations not having a capital represented by shares, no part of the income of which inures to the profit of any member thereof."

The amendment will permit of co-operative companies having share capital and the maintaining of reserves necessary for the carrying out of the objects of such associations. The exemption is based on the principle that the producers receive back from the association all the moneys realized on the product co-operatively sold, less expenses and reserves required for continuance of the business and similarly in respect of co-operative purchases effected on behalf of members of such associations. It is also to permit of subsidiary companies being incorporated for the purpose of financing such co-operative schemes, provided the subsidiary is owned by the co-operative company itself.

In the neighbourhood of most co-operative associations are a number of persons who although not members, transact business through such associations. Such incidental business is to be permitted provided it does not exceed 20% of the business carried on for the members of the co-operative association.