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CO-OPERATIVE BUSINESS IN CANADA

(Prepared in the Economic Division,
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Origin

The life of the pioneers in many parts of Canada required a considerable degree of co-operation to permit survival. Much of this co-operation was informal and took the form of barn-raising bees, exchange of labour and assistance to those in difficulties.

Some pioneer or farmer business organizations were formed in various parts of Canada at an early date. It is not really known which were the first to embrace co-operative principles, as we now understand them, to a sufficient degree to warrant being called co-operatives.

The conception of the co-operative store, as developed by the Rochdale Pioneers, was adopted by coal miners in Nova Scotia in the 1860's. A co-operative store was opened in Stellarton in 1861 and at least nine others commenced business in various parts of Nova Scotia before 1900. None of these survived beyond the period of the First World War.

The British Canadian Co-operative Society at Sydney Mines, Nova Scotia, organized in 1906, is the oldest and one of the most successful purchasing co-operatives in Canada today.

A Canadian farmer's organization known as the Dominion Grange was granted a federal charter in 1877. It established quite a number of co-operative enterprises in Ontario and Manitoba, none of which was conspicuously successful.

Development of the co-operative movement in Quebec is generally traced to the founding of La Caisse Populaire de Levis in 1900 by Alphonse Desjardins. Actually about 30 mutual fire insurance societies had been formed in Quebec between 1852 and 1900, and functioned in accordance with basic co-operative principles.

Agriculture in the Prairie Provinces entered a phase of rapid development about 1890, which encouraged attempts by the early settlers to establish more satisfactory marketing facilities. The beginnings of the co-operative movement in this section of Canada can be traced to organizations formed by the farmers at that time. Development of the Saskatchewan Co-operative Creameries commenced before 1900 and of the United Grain Growers in 1905.

By 1907 there was a considerable number of co-operatives scattered across Canada. They were hampered, in most provinces, by the lack of appropriate legislation dealing with their incorporation and operation. A federal statute was sought but

The fight for satisfactory legislation made co-operatives conscious of the need for united action in education and in presenting their views to governmental agencies. Consequently, the Co-operative Union of Canada was founded in 1909.

Growth of the co-operative movement in Canada has followed an irregular pattern. The first 15 years of the present century appear to have been a period of very rapid expansion, especially for purchasing co-operatives. However, the new co-operatives were poorly equipped to cope with the rapid changes in price levels which occurred between 1916 and 1924, with the result that many of them failed during this period.

Meanwhile, the farmers of Western Canada, having already built a system of co-operative grain elevators and creameries, developed a keen interest in the pooling principle, whereby they might receive average annual prices for their produce rather than the prevailing market price on delivery date. This approach was particularly attractive in the marketing of cereal grains, as the farmer usually delivered most of his grain during the fall months when prices often declined to seasonal lows. Consequently, Prairie farmers organized three large grain pools, which by 1925 were handling about half the grain marketed in the Prairie Provinces. A number of other pools were organized during the 1920's, following the pattern set by the grain pools.

The severe depression that commenced in 1929 caused serious difficulties for pooling co-operatives. Prices of agricultural commodities held a downward trend for over three years. Consequently, the pools had difficulty in realizing even delivery-date prices on produce purchased. Some of the pools failed; others abandoned the pooling principle. Nevertheless a very large sector of the co-operative marketing structure built by the Prairie farmers during the 1920's survived the Great Depression and continued to play an important role in the marketing of agricultural products. Grain co-operatives now handle well over half the grain marketed in Canada. They no longer operate pools in Western Canada. They assemble and store grain as agents of the Canadian Wheat Board.

The early 1930's brought a revival of interest in co-operative purchasing. Emphasis turned to the purchase of farm supplies. In the Prairie Provinces the mechanization of agriculture led to special interest in savings on the cost of petroleum. A small group of farmers organized Consumers Co-operative Refineries Ltd. in 1935 and built the first co-operative oil refinery in the world. This was the beginning of an upsurge in co-operative purchasing in Canada, which continues to this day. Co-operative marketing also made considerable strides between 1935 and 1950, although little growth has been evident during the last decade.

Marketing and Purchasing Co-operatives

During the year ended July 31, 1959, the total business done by co-operative marketing and purchasing associations, other than fishermen's, exceeded \$1.3 billion, the highest yet reported. Seventy-three per cent consisted of the marketing of farm products; most of the balance was represented by purchase of farm supplies. In addition, the 77 fishermen's co-operatives that reported did over \$25-million worth of business, mainly in marketing fish.

Table 1. - Marketing and Purchasing Co-operatives
In Canada, 1932 - 1959.

Crop Year: Ended	Associations	Total Business		
		Including Other Revenue	Marketing	Purchasing
	- number -	- thousand dollars -		
1932 ^{a/}	795	145,303.9	134,611.1	10,665.5
1935	697	130,384.9	120,853.6	9,241.8
1940	1,151	236,322.5	214,293.4	21,129.8
1945	1,824	585,650.1	500,481.6	81,360.9
1950	2,495	1,015,264.0	803,639.0	206,082.0
1955	1,949	941,377.0	707,047.0	228,446.0
1958	2,002	1,209,805.0	898,168.0	296,743.0
1959	1,980	1,299,672.0	947,835.5	332,943.9

a/ 1932 is the first year these data are available.

The volume of the marketing and purchasing business of co-operatives for each occupied farm and for each person in the farm population is not quite as large in Canada as it is in the United States. Using the latest Census data available, the figures for the United States were \$1,920 a farm and \$440 a person in 1955. Comparable 1956 figures for Canada were \$1,826 and \$399. While these figures require some adjustment for the limited volume of business carried on with the non-farm population, they indicate that the extent of development of co-operation in the agricultural sector is similar in the two countries.

Nevertheless, co-operatives handle a larger share of total farm marketings in Canada than in the United States. In Canada about a third of all commercially marketed farm produce is sold through co-operative associations. In the United States the corresponding proportion is about one quarter.

In recent years the farm-supply business of co-operatives in the United States has been about nine times as great as the total purchasing business of Canadian co-operatives. As net farm income in the United States is over ten times as great as in Canada, this suggests that the Canadian co-operatives may have a larger share of the farm-supply business than those in the United States. However, the United States figure excludes the business of urban purchasing co-operatives, while the Canadian figure includes it. Although separate data are not available on the urban business of Canadian purchasing co-operatives, such business is known to be small in comparison with that in farming areas.

Table 2. - Farm Products Marketed by Co-operatives in Canada, 1959

Commodity Group	Value -Thousand dollars-
Grain and Seed	\$366,590
Livestock and Livestock Products	287,204
Dairy Products	203,651
Fruits and Vegetables	41,682
Eggs and Poultry	36,128
All other	12,580
TOTAL	\$947,835

In 1959 co-operatives were the first handlers or did the first assembling of 32 per cent of all commercially-marketed farm produce in Canada. The proportion handled co-operatively varied considerably by commodity: 59 per cent of the grains, 53 per cent of the honey, 45 per cent of the wool, 43 per cent of the maple products, 30 per cent of livestock, 28 per cent of fruits and vegetables, 26 per cent of the dairy products and 12 per cent of the poultry and eggs.

Grains from the Prairie Provinces constituted by far the most important commodity marketed, followed by livestock and livestock products and dairy products. The dominance of these commodity groups in co-operative marketing in Canada reflects their importance in the agricultural economy of the country, although co-operatives handle a larger share of the grain marketed than of the output of other major agricultural commodities. The relatively small value of eggs and poultry products, fruits and vegetables and other commodities arises largely from the lower value of total output of these products.

Farm supplies accounted for the Greater part of co-operative purchases of \$332.9 million in 1958-59 (Table 3). The co-operative purchasing of feed is very important in Central and Eastern Canada, as much of the grain fed in these areas is shipped considerable distances. Petroleum products are the main commodity purchased co-operatively in the Prairie Provinces, where grain production leads to heavy usage.

Table 3. - Merchandise and Supplies sold through Co-operatives in Canada, 1959

Commodity Group	Value -thousand dollars-
Feed, Fertilizers & Spray Material	\$108,858
Food Products	94,462
Petroleum Products & Auto Accessories	57,855
Hardware	21,463

Co-operative purchasing of some consumer goods, especially food products, is quite substantial. However, this does not signify any extensive urban development of purchasing co-operatives. Many farmers purchase their groceries co-operatively and few co-operative stores have commenced operation without farmer leadership and support. Co-operative supermarkets now serve large numbers of urban people in most of the cities of Western Canada, but even these co-operatives have depended to a considerable extent on farmer support.

A large portion of the co-operative marketing in Canada is carried out by province-wide organizations, each of which performs assembling, storage and selling functions with respect to a few closely-related commodities. Some, such as milk and cream, are generally processed by the co-operative buying them. Most of the grain and livestock marketed through co-operatives are processed by other firms. Nevertheless, there is some co-operative processing in these fields, as the Saskatchewan Co-operative Producers Limited, now known as the Saskatchewan Wheat Pool, operates a flour mill, and there are co-operative abattoirs in Ontario and Quebec. Another co-operative abattoir recently commenced operation in Nova Scotia.

There are a number of marketing co-operatives that operate on an interprovincial basis. The United Grain Growers Limited has elevators distributed throughout Western Canada and terminals on the Great Lakes and at Vancouver.

Canadian Co-operative Wheat Producers Limited represents the three western wheat pools. This organization is not an operating company, its purpose being that of liaison organization. It provides the means through which the three member wheat pools consider programmes and policies common to each of the members and to the many thousands of grain producers in the three Prairies Provinces.

Canadian Co-operative Wool Growers Limited operates on a national basis and handled almost 70 per cent of the wool going through government-registered stations during the past five years.

Canadian Co-operative Implements Limited, an independent, farmer-owned association, was set up in 1940, with head office in Winnipeg, to manufacture farm machinery. Its membership extends over the Prairie Provinces and western Ontario. Sales of machinery by the company in 1958 amounted to almost \$3-million.

Other co-operatives, especially in Central and Eastern Canada, market a variety of agricultural products and combine marketing with purchasing farm supplies. Such co-operatives are generally local organizations serving farmers round one trading centre. Likewise, purchasing co-operatives are usually organized on a local basis.

Co-operative Wholesales

Most, if not all, of the co-operatives that purchase either farm supplies or consumer goods for their members are affiliated with one or more of the ten co-operative wholesales in Canada. Some of these wholesales act as central marketing agencies for farm products as well as wholesalers of farm supplies, machinery and consumer goods. Their total assets exceeded \$65 million in 1958. Sales of over \$250 million that year were practically double the amount of business done in 1950.

Over 85 per cent of the total business of the regional wholesales was reported by the three largest: La Coopérative fédérée de Québec, United Co-operatives of Ontario, and Federated Co-operatives in the Prairie Provinces. La Coopérative fédérée, with a turnover of about \$100 million annually, is recognized as one of the mainstays of agriculture in Quebec.

United Co-operatives of Ontario does a large business in purchasing farm supplies, petroleum and equipment. This organization is also an important manufacturer of feed, and has recently added a fertilizer factory. Until 1958 it also carried on a large business in the marketing of farm products, but much of this business has now been transferred to a new co-operative, The United Dairy and Poultry Co-operative Limited.

Federated Co-operatives Limited, operating in the Prairie Provinces, is the result of amalgamation in 1955 of two provincial wholesales, those of Saskatchewan and Manitoba. The head office is in Saskatoon, with branches in Regina and Winnipeg. In addition to dealing in farm products and supplies, it produces in its factories and mines petroleum products, coal, lumber, livestock feeds and vegetable oils. It is expected that the operations of Federated Co-operatives will extend to Alberta in 1961, through amalgamation with the wholesale in that province.

The provincial and regional wholesales have joined to form Interprovincial Co-operatives Limited, a central agency that serves to co-ordinate purchases of member wholesales by consolidating the buying. Incorporated in 1940 under federal legislation, this company has the authority to acquire and operate productive and manufacturing facilities and to act as a distributor for co-operative processing and manufacturing plants. Interprovincial Co-operatives Limited handles numerous household appliances and supplies of all kinds. It operates a chemical plant in Manitoba, a food plant in British Columbia and a bag factory in Quebec. The company has control of the "co-op" label, which is used to denote a high standard in co-operative products. Goods being sold under this label are increasing in variety and quantity each year. Interprovincial Co-operatives Limited also conducts an export and import business. Sales by Interprovincial in 1958 exceeded \$20 million.

International Trading

British consumers are among the biggest users of Canadian farm products. The Co-operative Wholesale Society of Britain is the largest non-governmental buyer of Canada's food products. The wheat imported by this society from Canada is about 12 per cent of the total Canadian wheat imported by the United Kingdom. In 1958 this society spent \$26 million for Canadian agricultural products, of which \$18 million was for wheat.

Canadian wholesale co-operatives are members of National Co-operatives Limited in the United States with which they do a considerable amount of business every year. In 1958 Canadian co-operatives reported investments of about \$150,000 in National Co-operatives Limited.

Although the range of supplies and commodities offered to their member co-operatives is wide, the wholesales have not reached the point where they can satisfy the demand in full.

Financial Structure

Although the proportion of agricultural products marketed through co-operatives has changed little for some years, the co-operative purchasing of farm supplies and consumer goods has continued to expand. This growth has been associated with a rapid increase in the total assets of the movement. In 1958 marketing and purchasing co-operatives had total assets of \$507 million, of which \$157 million was invested in plant and equipment. This was considerably more than double the assets a decade earlier.

At least 44 per cent of the capital of these co-operatives was provided by the members as indicated by their equity of \$222 million. Actually, a substantial portion of the \$285 million of liabilities to the public was made up of loans from members and various types of co-operatives. In recent years co-operatives have sold debentures and other securities, which have been offered to the general public but it is probable that a considerable proportion of these securities have been bought by members of co-operative associations and by co-operative organizations.

Within the co-operative movement local marketing and purchasing co-operatives may obtain loans from credit unions, central credit societies or the co-operative wholesales. In several provinces central credit societies have centralized surplus funds of co-operatives and credit unions, making them available for loan to other co-operatives and credit unions. The co-operative insurance companies deposit their surplus funds with the central credit unions and credit societies as well as making direct loans to co-operatives and investing in co-operative securities.

The assets of the co-operative wholesales in 1958 totalled \$66 million. Of this \$28 million were provided by the local co-operative associations which were members of the wholesales.

Fishermen's Co-operatives

During the year ended July 31, 1958, Canadian fishermen's co-operatives sold over \$22 million of fish and fishing supplies. Fishermen's co-operatives are operating in all the provinces except Alberta and Manitoba.

There are four federations of fishermen's co-operatives in Canada, namely United Maritime Fishermen, Quebec United Fishermen, Ontario Fishermen's Federation and Saskatchewan Co-operative Fisheries Limited. British Columbia fishermen operate their own co-operative marine insurance company. Membership in the 80 fishing co-operatives that reported for the year totalled close to 10,000.

Service Co-operatives

Membership in the 800 service co-operatives that reported in 1958 amounted to 250,000, and total revenue from services rendered approached \$14 million. Types of services provided included electricity, water, transport, telephone, community-halls, medical insurance, restaurants, frozen food lockers, boarding-houses, machinery, and building and financing houses as well as a variety of other activities.

Expansion of power-line electricity to rural portions of Alberta and to a lesser extent of Quebec is being financed largely through electrification co-operatives. These co-operatives organize the farmers of a community to secure electric services for their farms. When the necessary membership is obtained the co-operative contracts with a province-wide power company to build power-lines, maintain them and provide power. The power company bills the co-operative for construction at cost. The co-operative has access to long-term government guaranteed loans to pay for the power-line. Each member contracts with the co-operative to pay his share of the loan during its term. These co-operatives have within the past 12 years brought electricity to over 45,000 Alberta farms. Thus co-operatives have brought electricity to over half of the farms in a province, where private companies a few years ago considered rural electrification too costly.

Housing co-operatives have been most evident in Quebec, Nova Scotia, Newfoundland and Ontario. Although co-operative housing projects are eligible for loans under the National Housing Act, the financing of some such projects has been done through co-operative insurance companies or other co-operative organizations. The Caisses Populaires in Quebec lent \$84 million during 1958 on mortgages for home construction.

About 50 medical service co-operatives were functioning in Canada in 1958 with hospitalization as the chief benefit to members. Ontario has been well represented in this type of co-operative. The entry of the federal and provincial governments into hospitalization insurance is changing the role of this type of co-operative.

Co-operative Insurance

Co-operative insurance companies are active in all provinces, and embrace the fields of life, automobile, fire, general-casualty and fidelity insurance. Co-operative hail insurance also has been available for a number of years.

Life insurance has long been available in Canada through "mutual" companies. At any rate, some of these mutuals were essentially co-operative in nature at the time of their founding, but statutory provisions governing life-insurance companies in Canada make it very difficult to maintain democratic policy-holder control in a larger insurance firm.

Co-operative Life Insurance Company, originally a provincial company in Saskatchewan, was incorporated under federal legislation in 1947 and operates in all provinces except Quebec where L'Assurance-vie Desjardins ltée, another co-operative, has been operating since 1949. Other companies operating in Quebec and the Maritimes include Les Artisans canadiens-français, and la Société l'Assomption. In Ontario Co-operators Insurance Association has offered automobile and casualty insurance since 1949. A companion company, Co-operators Life Insurance Association, was established in Ontario.

Co-operative Fire and Casualty Company, incorporated in 1951 under a special Act of the Parliament of Canada, has offices in the four Atlantic and in the four Western Provinces. Farm mutual fire insurance companies, which are to a great extent co-operative in their operation, are among the earliest co-operatives in Canada and still conduct a substantial business.

Credit Unions

The first "caisse populaire" in Canada was organized at Lévis, Quebec, by Alphonse Desjardins in the year 1900. Two other "caisses populaires" were organized by him in the province before the Co-operative Syndicates Act was passed in 1906, controlling the operations of "caisses populaires" in the province. By 1930 "caisses populaires" had made considerable progress in Quebec, but other provinces lacked appropriate legislation for their incorporation and supervision, with the result that few were organized, some of these few failed but others are still in operation. Meanwhile the idea of the industrial credit union evolved in the United States out of modifications of the "caisse populaire" to suit the needs of industrial workers.

Conditions of the 1930's brought keen interest in credit unions. The idea received considerable impetus from the Antigonish movement in Nova Scotia. Management of industrial firms began to recognize the potential of credit unions in helping their employees. In a few years appropriate legislation was adopted in all provinces and the credit-union movement entered a phase of rapid growth which continues (Table 4). By 1958 there were 4400 credit unions^{1/} in Canada with 2.2 million members and over \$1,000 million assets. Credit unions now have more members and more assets than all other types of co-operatives taken together.

Table 4. - Credit Unions in Canada, 1920 - 1958

Year	: Number : Chartered	: Members	: Assets
	- number -		- million dollars -
1920	113	31,029	6
1925	122	33,279	8
1930	179	45,767	11
1935	277	52,045	10
1940	1,167	201,137	25
1945	2,219	590,794	146
1950	2,965	1,036,175	312
1955	4,100	1,731,328	653
1958	4,436	2,212,698	1,008

The Province of Quebec has maintained its prominence in the movement, with a third of all the credit unions in the country, half of the total membership and over 60 per cent of the assets.

Central credit unions have been formed in all provinces. These act as depositaries for the surplus funds of their member locals and make loans to their members and to other co-operative organizations. Membership of the centrals is composed chiefly of local credit unions, but in some provinces it also includes some co-operatives. There were 27 central and co-operative credit societies in Canada in 1958, some of which served a small region while others served whole provinces. They reported total assets

^{1/} This includes "caisses populaires". Although there are differences between the two institutions, it is quite acceptable to use the phrase "credit union" as the English translation of the French "caisse populaire".

of \$126 million, including investments and loans to members of \$94 million. Members' deposits with the centrals amounted to \$93 million. Total loans granted to their members since inception amounted to almost \$300 million.

The Canadian Co-operative Credit Society was organized in 1953 to operate on the national level as a central credit organization for the co-operative movement in general. Its members include both provincial co-operative credit societies, or central credit unions, and co-operative wholesales.

Supervision and Direction

The co-operative wholesales have adopted the policy of providing certain supervisory services to local associations. Some of the wholesales maintain qualified auditors in the field doing continuous audits and making monthly reports to boards of directors. These centrals also provide income-tax services by which the income-tax returns of the locals are scrutinized before filing. Some central co-operatives have agreements whereby the business affairs of some locals are managed under the direction of the wholesale.

The great majority of Canadian co-operatives are incorporated under provincial authority. Although there is no general federal co-operative legislation, a few co-operatives, which operate in more than one province or in the territories, have been set up under federal legislation.

The extent of supervision and guidance offered co-operatives varies considerably from province to province. In some provinces government services are limited to those activities necessary to ensure that all co-operatives are properly incorporated and that the correct legal procedures are followed in amalgamation and dissolutions. In other provinces the registrar of co-operative associations has a small staff to assist co-operatives in organization and to offer valuable advisory services. In at least one province a regular system has been developed of inspecting co-operatives and reviewing their operations with officers and directors.

There is generally much more supervision of credit unions than other co-operatives. In most provinces each credit union is inspected by a government representative about once a year. In Ontario, Credit Union League field-men carry out a considerable portion of this inspection work. In Quebec, central credit-union federations are responsible for all inspection work and receive grants from the provincial government to perform this function. An inspection concerns itself with compliance with the act and bylaws as well as detection of unsound management practices or other conditions which may impair the financial soundness of the credit union.

Education

There are good indications that in Canada co-operative leaders are combining a philosophical with a business-like approach, which in turn is fortified by a sound educational background. Such an approach is indicated in a unity of purpose and thought that will be of considerable benefit to the future of co-operation in Canada. There are many examples of this unity in the variety of interests shown by the co-operative leaders in the various phases and organizations of the movement.

Two important co-operative organizations with national interest work together to promote co-operative education and organization in their particular areas. The Co-operative Union of Canada, which celebrated its fiftieth anniversary in 1959, concentrates its efforts in English-speaking areas. Le Conseil canadien de la coopération serves the co-operatives in the areas where the French-language predominates.

These two organizations work closely together in planning matters of co-operative development. Both are members of the International Co-operative Alliance, the headquarters of which are in London, England.

In turn there are eight provincial co-operative unions that are members of the Co-operative Union of Canada. Membership of the Co-operative Union of Canada also includes interprovincial co-operative credit, manufacturing, marketing and insurance societies. Credit Union National Association, Co-operative Wholesale Society of Great Britain and Scottish Co-operative Wholesale Society are affiliate members.

Since the early 1930's, St. Francis Xavier University at Antigonish, Nova Scotia, has carried on extension work in the Maritime Provinces to organize and assist co-operatives. In more recent years a variety of courses has been developed to train people in co-operation. Some of these are short courses for directors and managers of existing co-operatives and credit unions. However, courses are also offered which are an integral part of university work. In addition special courses are offered for visitors from other countries who wish to learn about co-operatives in Canada. Some other universities offer one or two course on co-operatives, but none has as extensive a programme as St. Francis Xavier.

In Saskatoon, the Co-operative Institute was established in 1955 under the sponsorship of Federated Co-operatives. It has concentrated on short courses, often of only one or two weeks duration for co-operative directors, managers and employees. Recently the Co-operative Institute was re-organized as Western Co-operative College with support from co-operatives in the four western provinces. A drive was under way at the time of writing (May 1960) to raise the necessary funds to erect an appropriate building near the university campus at Saskatoon.

Taxation

Under Section 73 of the Income Tax 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.

To qualify for this exemption co-operatives must comply with certain additional provisions:

- 1) The charter, by-laws or contract, with members or customers, must hold forth the prospect that patronage dividends will be paid.
- 2) No member may have more than one vote in the conduct of the affairs of the co-operative.
- 3) At least 90 per cent of the members must be individuals and at least 90 per cent of the shares, if any, must be held by individuals.

- 4) The rate of interest on member capital, or dividends on shares, must not exceed 5 per cent.
- 5) Non-member business must not exceed 20 per cent of the total business.
- 6) The co-operative must not be a continuation of a previous business in which many of the members had a substantial interest.

All Canadian co-operatives must file income-tax returns, whether they are subject to tax or not.

Under Section 75 of the Income Tax Act, patronage dividends paid by any business co-operative or otherwise are allowable as a deduction in computing taxable income. In order to claim this reduction, a firm must have "held forth 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.

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.
- 3) By applying the refund against a debt of the customer, providing the co-operative has statutory or written authority from the customer to do so.
- 4) By retention by the co-operative as a loan from a member, providing the member or customer has given a written authority to the co-operative for this purpose.
- 5) By applying the refund on account of a loan or purchase of shares pursuant to a by-law that requires the member to make a loan or purchase shares and authorizes the application of the patronage dividend thereon, if the statute under which the co-operative is constituted provides that all by-laws of the co-operative are binding on all members.

There are, however, limitations on the amount of refund allowable as a deduction from income. A co-operative, having complied with the requirements as set forth above, cannot claim as an allowance a refund to members greater than the income arising from member business. All refunds paid to non-members may be deducted from income.

Furthermore, the amount of refund cannot reduce the taxable income below 3 per cent of the capital employed in the business with the exception that such capital includes all borrowed money other than money borrowed from chartered banks and credit unions. However, the 3 per cent capital employed may be reduced by an interest paid on money borrowed from sources other than chartered banks and credit unions.

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