

Indivisible Reserves

CMC is advocating that the Government of Canada implement fair tax treatment and/or other fair public policy treatment for co-operatives with an indivisible reserve. This is regardless of whether the reserve is mandatory or adopted by irrevocable choice of a co-operative.

An indivisible reserve is a reserve, derived from a portion of a co-operative's annual surpluses. These reserves cannot be divided amongst members of a co-operative. Instead, at dissolution or sale, they are allocated to another co-operative entity. It is permanent co-operative capital treated as a public good similar to all reserves in non-profit organizations (including non-profit co-operatives) on the basis that members have no private claim to it. It contributes to the capitalization, longevity, and development of co-operatives, while acting as a disincentive to demutualization.

Many countries support co-operatives with indivisible reserves by removing the burden of corporate taxation on the proportion of their income allocated to the indivisible reserve. Legislative safeguards can also be put in place to:

- ensure that the tax-related benefits, or,
- any related federal financial support is protected and paid back, in the event of dissolution or liquidation.

The International Co-operative Alliance (ICA) in its Guidance notes to the Co-operative Principles (2015) points out that an indivisible reserve emphasizes the co-operative difference. This is under the third co-operative principle, *Member Economic Participation* because at least part of the capital becomes common property of the co-operative. “In long-established co-operatives, the indivisible reserves represent the accomplishments of many generations of members¹...” “The whole structure of co-operative enterprise is designed around the concept of capital being in service of people and labour, not labour and people being in servitude to capital”². It is for this reason that when members are developing their co-operative or possibly setting up reserves, at least part of the latter should be indivisible.

There are jurisdictions where the indivisible reserve is mandatory for all types of co-operatives, specifically Quebec and Newfoundland. However, it is also mandatory in non-profit housing co-operatives across Canada. CMC is not advocating for mandatory indivisible reserves in “for-profit” co-ops, only that there is fair tax treatment and/or other fair public policy implemented for co-operatives that have them.

About CMC

CMC is the national/bilingual apex organization with a mandate to support the development of Canada's national ecosystem of 7,000 small, mid-sized and large co-operative enterprises

¹ International Co-operative Alliance, [Guidance notes on Co-operative Principles, 2015](#), page 33

² International Co-operative Alliance, [Guidance notes on Co-operative Principles, 2015](#), page 30

(businesses). Our members include some of Canada's largest financial and non-financial co-operatives, provincial/territorial co-operative associations, and national sector federations. In addition to representing some of the largest employers, CMC also provides a voice to

- the 52 per cent of active non-financial co-operatives who have no employees and
- the 99.1 per cent that do have employees and operate as small or medium enterprises (SME)¹.

¹Government of Canada, [Financial and non-financial statistics on Canadian non-financial co-operatives, 2019](#)