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Submission from Co-operatives and Mutuals Canada
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Recommendation #1: Creating a Canadian Co-operative Capacity Building Program.

Recommendation #2: Ensuring co-operative entrepreneurs and Canadian-controlled Private Corporations are not prevented from claiming the Small Business Deduction (SBD).

Recommendation #3: Encouraging business conversions to co-operatives for economic succession planning, and ensuring equal footing for worker co-ops to any incentives provided for Employee Ownership Trusts.

Recommendation #4: Ratifying the extended Tax-deferred Co-operative Share Program as a permanent fiscal measure.

Recommendation #5: Establishing a federal co-operative investment plan, inspired by Québec's Co-operative Investment Plan (Régime d'investissement coopératif).

Recommendation #6: Implementing fair tax treatment and/or other fair public policy treatment for co-operatives with an indivisible reserve.

Recommendation #7: Re-establishing and resourcing a Co-operatives Secretariat within Innovation, Science, and Economic Development Canada (ISED).

For More Information

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Recommendation #1: Creating a Canadian Co-operative Capacity Building Program (CCBP)

The Canadian co-operative movement is a critical partner for the Government of Canada to advance an agenda of inclusive economic growth. Co-ops create opportunity in communities, solve local challenges, enable job creation, promote access to democratic economic opportunity, and are proven to be more resilient in the face of adversity.

A tailor-made CCBP equipped with $30 million in federal funding would help co-ops start up, scale up, gain skills and expertise, and prepare for their next steps so they are ready to solve community challenges and meet needs across Canada. Co-operatives and Mutuals Canada is ready and able to be the national fund manager (NFM) for a program of non-repayable funding, and to coordinate and oversee the delivery of the program on behalf of the Government of Canada, as a trusted partner.

The only recent historical federal investment into co-operative development was the Co-operative Development Initiative (CDI) from 2003-2013, which aimed to *"enhance the contribution of co-ops to meet the economic needs of Canadians by working collaboratively with local, regional, and national co-operatives, academics and government sector stakeholders to create an enabling environment for co-op development and growth"*. This program invested federal funds in a productive and measurable manner and had high uptake from existing and emerging co-ops that sought support - with 521 applications and 150 recipients in the final three-year funding period alone.

A 2020 survey of co-ops published by ISED confirms that for-profit co-ops were, on average, more resilient than standard SMEs during the pandemic, by measures including being statistically more locally oriented, more likely to have an online presence, more innovative, and less likely to need to close down operations temporarily. These attributes put co-ops in a strong position as the Canadian economy builds back up to be stronger, more agile, and more inclusive, but funding is required to enable enhanced capacity.

The coming years are an essential opportunity for the growth of co-ops, both existing and new. While co-ops have had certain opportunities extended to include them among other eligible organizations, through programming like the Investment Readiness Program and Community Services Recovery Fund, government has not specifically invested in co-operatives (other than those serving housing needs) in many years.

Co-op enterprises, especially entities that are smaller and community-driven, struggle to connect to federal programs that are not designed for their needs (exclusive criteria) or have inaccessible requirements (creating significant burden for co-op organizations hoping to apply). Most programs are not structured in a way that can support collective ownership/entrepreneurship, nor any conversions of private businesses to the co-operative model.

Federal funding has been invested through various organizations in supporting standard SMEs; for example, in 2019, the federal budget committed $38 million over five years to support young entrepreneurs through Futurpreneur Canada. Similar support to enable co-operation and promote the co-operative business model is required; it would be a logical solution to promote inclusive economic growth in Canada and help address the succession crisis for small and medium enterprises in Canada, especially to preserve economic drivers in rural and remote communities.

Why Work With CMC As National Fund Manager

Co-operatives and Mutuals Canada is a bilingual association that supports and unites 7000 small, medium, and large co-operatives and mutuals throughout Canada. Our members also include various provincial and territorial associations and sectoral federations that help encourage inter-cooperation.

CMC has a significant national reach, and with a long history through prior organizations, the Canadian Co-operative Association and le Conseil canadien de la coopération et mutualité – who merged to create CMC as a bilingual national association.

CMC has experience as a reliable partner, including the CDI that concluded in 2013, and currently, as an ongoing ecosystem partner for the Investment Readiness Program (IRP). Through the IRP, CMC has worked closely with Employment and Social Development Canada (ESDC) and helped social purpose organizations navigate applications to promote their success.

An external fund manager - as has been implemented with recent federal initiatives - will allow government to maximize program reach without further FTE requirements within the public service.

Program Design

Priority applications would address one or more of the following categories:

- Agricultural Innovation and Food Security (promoting access to good-quality local food)
- Climate Solutions (clean technology, green innovation, renewable energy)
- Inclusive Economic Opportunity (enabling diverse communities to create economic growth)
- Rural Economic Development (developing or growing co-ops in rural and remote Canada)
- Business Succession (through co-operatives, to preserve economic drivers and community resources amid aging/retiring business owner demographics)

Funds can be distributed according to agreed-upon priority groups and regions, and/or proportionally across Canada in a geographic manner that corresponds with seven regional economic development agencies' territories. In doing so, successful applicants would be expected to work with their local RDA and co-operative organization - e.g. a provincial association or provincial/national sectoral federation responsible for supporting co-ops in a given sector - to access additional resources within their region and sector, such as events, training, networking, or advice.

A previous federal Co-operative Development Initiative from 2003-2013 focused on both "Innovative Co-operative Projects" and "Advisory Services" with funds eventually being allocated in nearly equal amounts between the two components in the final round of funding.

Similarly, a successful CCBP would allow for eligible expenses including:

1. Co-op development services (consulting, coaching, strategy)
2. Education (training, workshops, courses, for staff/volunteers/directors)
3. Administrative supports (financial, legal, compliance)
4. Research and insights (market research, data collection and analysis)

*Basic program management fees payable to fund manager to support administration of the CCBP.

Recommendation 2: Ensuring that co-operative entrepreneurs and Canadian-controlled Private Corporations are not prevented from claiming the Small Business Deduction (SBD).

• In 2016, Bill C-29 brought in measures aimed at preventing multiplication of benefits derived from the SBD. An unintended consequence was that the provisions penalized Canadian-controlled private corporations (CCPCs) that are members of co-operatives, or whose shareholders are members of co-operatives, because they are now unfairly deemed a related party. Although co-operatives were not specifically targeted by these measures, they, and their members, were affected and continue to operate with financial consequences.

• Amendments adopted in 2017 and 2019 were welcome but these only resolved the issue for CCPCs, and members of co-operatives involved in farming and fishing. The tax inequity continues for the other industrial sectors despite their structural similarity to farming and fishing co-operatives.

• Building on the prior amendments as well as the work of the Joint Committee on Taxation of the Canadian Bar Association and the Chartered Professional Accountants of Canada, we ask for further amendments to the Small Business Deduction Rules under Section 125 of the Income Tax Act to address the concerns related to the statutory language that have caused the eligibility issue.

Recommendation 3: Encouraging business conversions to co-operatives for economic succession planning, and ensuring equal footing for worker co-ops as any incentives provided for Employee Ownership Trusts.

• Business Conversions to Co-operatives (BCCs) take place when private, public, or non-profit entities transition for a variety of possible reasons into a co-operative corporation.

• Recently, in Budget 2022, the Government committed to enabling Employee Ownership Trusts, and in Budget 2023, EOT changes were proposed for the Income Tax Act. The Canadian Worker Co-operative Federation, a CMC member, is advocating that any tax or other incentives be extended to worker co-ops in a comparable manner to ensure equal footing.

By supporting this recommendation, helping raise awareness throughout its business ecosystem and leveraging existing sector-led co-operative development funds, the Government of Canada would prevent the closure of locally-based businesses and the elimination of economic drivers, including many from in small and rural communities.

• Conversions are a tried-and-true solution for business rescue and succession in numerous jurisdictions around the world, and many jobs and potentially thousands of businesses could be kept alive if the concept was broadly known among SME owners, workers, unions, and policymakers in Canada.

Recommendation 4: Ratifying the recently extended Tax-deferred Co-operative Share Program as a permanent fiscal measure beyond 2026.

This government-initiated program was originally created in 2005 and was planned for a 10-year period, but has been twice renewed, in 2015 and again in 2020 to continue through 2026. Its purpose has been to help agricultural co-operatives meet their capitalization needs. This $5 million per year tax deferral program provides increased stability and helps the co-operative business model remain a viable option for agri-businesses, while allowing Canadian co-operatives strength when faced with international competitors and economic challenges.

Recommendation 5: Establishing a federal co-operative investment plan, inspired by Québec's Co-operative Investment Plan (Régime d'investissement coopératif), that will support the capitalization of qualifying co-operatives and federations of co-operatives needing equity capital for their development, by providing a tax incentive for investors.

Québec supports certain co-operatives and federations of co-operatives that need equity capital for their development. Established in 1985, the program promotes capitalization by granting, under certain conditions, a tax incentive to investors who acquire shares issued by a qualifying co-operative. Similar supports in Nova Scotia also enable co-op growth. Doing so federally would align with current efforts to capitalize social purpose organizations, including co-ops.

Recommendation 6: That the Government implement fair tax treatment and/or other fair public policy treatment for co-operatives with an indivisible reserve, 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, which cannot be divided among members of the co-operative, and at dissolution or sale is allocated to another co-operative entity. It is permanent co-operative capital treated as a public good similar to all reserves in nonprofit 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, should the indivisible reserve be eliminated.

Recommendation 7: Re-establishing and resourcing a Co-operatives Secretariat under Innovation, Science and Economic Development Canada (ISED).

CMC appreciates the partnership of key public service allies, including those at ISED who hold the responsibility for "for-profit" co-ops and those involved with Social Innovation at ESDC. However, co-operatives face unique challenges in wayfinding and understanding government given their varied operations across virtually all economic sectors.

Designating and resourcing a public service team as a formalized Co-operatives Secretariat would allow for enhanced coordination and partnership. It could also be tasked with drafting a federal co-operative strategy as committed to in the unanimously-supported multi-partisan Motion M-100 in 2017.

A former Co-operatives Secretariat was established and successfully operated for 26 years under Agriculture Canada / Agriculture and Agri-Food Canada between 1987 and 2013. It merged with the larger Rural Secretariat in 2012, to become the Rural and Co-operatives Secretariat, which was defunded and disbanded in 2013. At that time, responsibility for the non-financial co-operatives file, as well as the two remaining employees, were transferred to ISED.