



Written Submission for the
Pre-Budget Consultations in Advance of the
Upcoming 2023 Federal Budget

October 2022

Co-operatives and Mutuels Canada

RECOMMENDATIONS

Fiscal measures and taxation:

Recommendation 1: That the Government ensure that co-operative entrepreneurs and Canadian-controlled Private Corporations are not prevented from claiming the Small Business Deduction (SBD), simply because they are members of a co-operative operating in sectors other than agriculture and fisheries.

Recommendation 2: That the Government ratify the extended Tax-deferred Co-operative Share Program as a permanent fiscal measure.

Recommendation 3: That the Government establish a federal co-operative investment plan, inspired by Québec's Cooperative 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.

Recommendation 4: 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.

Investments in the growth of the co-operative and mutual sector:

Recommendation 5: That the Government re-establish and provide sufficient resources to a Co-operatives Secretariat within Innovation, Science, and Economic Development Canada (ISED).

Recommendation 6: That the Government encourage business conversions to co-operatives to help maintain local businesses threatened by financial hardship caused by the COVID-19 pandemic and offer an option to retirement-aged owners who do not have a succession plan, to protect Canadian jobs and create opportunities to share prosperity.

CONTEXT:

Co-operatives and mutuals are an important policy solution to help Canada chart a path out of the COVID-19 pandemic, fill important gaps in community services, provide support amid rising costs of living, and create jobs.

Co-ops are resilient and meet essential needs, operating in diverse sectors from housing and childcare to agriculture and retail and more. By their very nature, co-ops are rooted in communities and locally governed, while producing products and services made and delivered for Canadians, by Canadians.

Co-ops create sustainable economic opportunity and seek to include women, 2SLGBTQI+ people, newcomers, BIPOC communities, and others who can benefit from being part of a collectively-owned democratic co-operative in their community.

Co-operatives and Mutuals Canada (CMC) has proven to be a reliable partner for the Government of Canada in advancing an inclusive economic agenda. Presently a partner for the implementation of the Investment Readiness Program (IRP), CMC is working to engage the co-op sector to become investment-ready. CMC is an engaged stakeholder providing insight into the realities of today's co-operative movement in regular conversation with federal officials.

However, co-ops often face a lack of understanding by policymakers and are forgotten in the design of key federal programs and opportunities – by omission, not intention. CMC seeks to address that by helping government shape future programs to ensure co-ops are eligible for the many supports that non-cooperative businesses have access to.

There is a multi-partisan consensus about the value of co-ops. M-100: Role of Co-operatives, tabled by MP Alexandra Mendès, received unanimous support in the House of Commons on April 5, 2017. The Government of Canada can lead by ensuring co-ops have prominent support in Budget 2023 for the benefit of Canadians.

We would like to present the following recommendations:

Fiscal measures and taxation

Recommendation 1: That the Government ensures that co-operative entrepreneurs and Canadian-controlled Private Corporations are not prevented from claiming the Small Business Deduction (SBD), simply because they are members of a co-operative operating in sectors other than agriculture and fisheries.

- In 2016, with the passage of Bill C-29, the Federal Government brought in measures aimed at preventing multiplication of benefits derived from the Small Business Deduction (SBD). An unintended consequence was that the provisions penalized Canadian-controlled private corporation (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 its 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 above 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 is at the root cause of the eligibility issue.

Recommendation 2: That the Government ratify the recently extended Tax-deferred Co-operative Share Program as a permanent fiscal measure.

This program was originally created in 2005 and was planned for a 10-year period, but was renewed twice, in 2015, for a period of five years and again in the fall of 2020 until 2026. Its purpose is to help agricultural co-operatives meet their capitalization needs and was based on the December 2004 report of the House of Commons entitled “Study on Small Business Tax Measures: Canada’s Agricultural Co-operatives”. 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 to be stronger in the face of international competitors and current economic challenges.

Recommendation 3: That the Government establish a federal co-operative investment plan, inspired by Québec’s [Cooperative 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.

The plan in Québec supports certain co-operatives and federations of co-operatives that need equity capital for their development. Established in 1985, the program promotes the capitalization of co-operatives by

granting, under certain conditions, a tax incentive to investors who acquire shares issued by a qualifying co-operative. This could align with the goals of the [Social Finance Fund](#).

Recommendation 4: 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 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, should the indivisible reserve be eliminated.

Investments in the growth of co-operatives and mutuals:

Recommendation 5: That the Government re-establish and resource a Co-operatives Secretariat under Innovation, Science and Economic Development Canada (ISED).

This Secretariat would advise the Government on, and coordinate the implementation of, policies affecting co-operatives. It could also draft a federal co-operative strategy as committed to in Motion-100 and encourage the use of the business model for the social and economic development of Canada's communities. Lastly, it would provide a link between co-operative enterprises and the many federal departments and agencies with which they interact.

The 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 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.

Co-operatives and Mutuals Canada recognizes that despite significantly diminished resources being dedicated to co-operatives since 2013, some incremental progress has been made in recent years. These positive steps include data collaboration between ISED and Statistics Canada, the training of public servants at Regional Development Agencies, and the reduction of various program eligibility issues. However, significant progress cannot be accomplished without dedicated investments by the federal government.

[A new Co-operatives Secretariat](#) could ensure that:

- Co-operative options are considered in the development and implementation of federal policies,

measures and strategies such as the [Economic Development Strategy for Rural Canada](#), [Canada's Connectivity Strategy](#), the [Social Innovation and Social Finance Strategy](#) and the recommendations of [Canada's Economic Strategy Tables](#).

- Co-ops help maintain strong rural and remote communities and provide economic opportunities for population groups seriously impacted by the pandemic¹and/or underrepresented in Canada's business ecosystem.
- The Government's business infrastructure is engaged to identify opportunities, address barriers, allow the delivery of co-branded and tailored co-operative programs and leverage existing sector-led co-operative development funds.
- The Government and economic stakeholders have the key data points they need to inform policy decisions and engage co-operatives and co-operative networks in key sectors of the economy, such as digital industries, clean technology, health and seniors' services, early Learning and childcare, natural resources, and retail.
- The Government has the resources to develop, in consultation with provincial and territorial governments, Indigenous communities, and the co-operatives sector, a federal co-operative strategy to promote and support Canada's co-operative sector.

Recommendation 6: That the Government encourage business conversions to co-operatives to help maintain local businesses threatened by financial hardship caused by the COVID-19 pandemic and offer an option to retirement-aged owners who do not have a succession plan.

- 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. 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. Co-operatives and Mutuels Canada and the Canadian Worker Co-op Federation (CWCF), with the assistance of the Co-opConvert Project, have [prepared a detailed backgrounder](#) and would be delighted to provide more information if required.
- 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 and could be kept alive if the concept was broadly known among SME owners, workers, unions, and policymakers in Canada². Nearly two hundred successful examples can already be found from across Canada in many different industries.

² Vieta, M., Tarhan, D., Duguid, F., & Guillotte, C.A. (2021). [Canada's SMEs, Business Succession, and Conversion to Co-operatives](#). Co-opConvert Report No. 1. Toronto: Centre for Learning, Social Economy & Work, University of Toronto.

- Business succession through employee-ownership and co-op conversion has a higher success rate than succession to family members; co-operative associations have the economic development expertise and experts on the ground, who can help convert existing SMEs into co-operatives.
- CMC requests funding over three years to enable and accelerate conversions to consumer, producer, and multi-stakeholder co-operatives through its provincial and territorial network and also encourages the Government to support employee-ownership conversions, through dedicated and additional support of the Canadian Worker Co-operative Federation (CWCF).

ABOUT CO-OPERATIVES AND MUTUALS CANADA (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 (businesses). Our members are 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 in their respective provinces and territories, CMC also provides a voice to the 52% of active non-financial co-operatives who have no employees and to the 99.1% that do and operate as small and medium enterprises (SME)³.

³ Government of Canada (2019), [Financial and non-financial statistics on Canadian non-financial co-operatives](#)