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Recommendation #1: Ensuring Access to Government-Funded Programs and Initiatives.

Recommendation #2: Increasing Support and Access to the Business Development Bank of Canada.

Recommendation #3: Ratifying the Tax-deferred Co-operative Share Program as a Permanent Fiscal Measure.

Recommendation #4: Promoting Business Conversions to Co-operatives for Economic Succession Planning.

Recommendation #5: Creating a Canadian Co-operative Capacity Building Program.

Recommendation #6: Ensuring that Tax Rules are Harmonized to Include Worker Co-operatives, When Providing Incentives to Facilitate the Creation of Employee Ownership Trusts.

Recommendation #7: Ensuring Co-operative Entrepreneurs and All Canadian-Controlled Private Corporations Can Access the Small Business Deduction (SBD).

Recommendation #8: Re-establishing and Resourcing a Co-operatives Secretariat within Innovation, Science and Economic Development Canada (ISED).

Recommendation #9: Establishing a Federal Co-operative Investment Plan, Inspired by Québec's Co-operative Investment Plan (*Régime d'investissement coopératif*).

Recommendation #10: Implementing Fair Tax Treatment and/or Other Fair Public Policy Treatment for Co-operatives with an Indivisible Reserve.

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Recommendation #1: Ensuring Access to Government-Funded Programs and Initiatives

Canadian co-operatives, the vast majority of which are small and medium enterprises, should be able to access the right financing opportunities to help them achieve their goals and objectives. This includes all applicable Government of Canada business infrastructure or relief programs.

Most programs do not specifically include co-operatives, and often cannot administratively process collective ownership/entrepreneurship, thereby creating an artificial barrier that prevents or delays the participation of co-operatives who meet all other criteria.

Co-operatives and Mutuals Canada (CMC) recommends that the Government of Canada invest the resources required, through Innovation, Science and Economic Development Canada, to perform an eligibility audit of relevant federal business infrastructure programs, partnerships, and initiatives. Notably, funding guides and manuals at the departmental level should be examined and flagged proactively, to be amended as required.

Recommendation #2: Increasing Support and Access to the Business Development Bank of Canada

CMC would like to see the Business Development Bank of Canada (BDC) amend its policies, procedures, and practices, including internal training, to better serve non-traditional business models such as co-operatives and mutuals as well as increase the number of co-operatives and social enterprises in its broader portfolio.

This gap was identified in the recent BDC Legislative Review 2010–2022 and, despite assets of $47.8 billion committed to 95,000 SMEs in 2022, only fifty-four co-operatives were part of its client portfolio, and this number has remained low through the years.

Recommendation #3: .Ratifying 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 since been twice renewed – once in 2015 and again in 2020 continuing through to 2026. Its purpose has been to help agricultural co-operatives meet their capitalization needs. This measure has a very minimal $5 million per year tax deferral impact on the country's finances. However, it provides increased stability and helps the co-operative model remain a viable option for agri-businesses, while allowing Canadian co-operatives strength when faced with international competitors and economic challenges.

This highly effective and important fiscal measure should be made permanent by virtue of its importance to Canada's producers and processing infrastructure. Waiting to act or delaying this decision to later, has a negative impact on the financial and strategic planning ability of these co-operatives, who cannot wait until 2026 to plan for the years that will follow.

Recommendation #4: Promoting Business Conversions to Co-operatives for Economic Succession Planning.

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

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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 small and rural communities.

BCCs 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 were broadly known among SME owners, workers, unions, and policymakers in Canada.

This recommendation is also linked to the Government's efforts to enable Employee Ownership Trust, as listed in recommendation #6 below.

Recommendation #5: Creating a Canadian Co-operative Capacity Building Program (CCBP)

Co-operatives create possibilities in communities, solve local challenges, enable job creation, promote access to democratic economic opportunities, and are proven to be more resilient in the face of adversity.

The coming years are an essential chance for the growth of co-operatives, both existing and new. While co-operatives were included as eligible organizations in funding streams such as the Investment Readiness Program and Community Services Recovery Fund, the federal government has not specifically invested in co-operatives (other than those serving housing needs) in many years.

A tailor-made CCBP equipped with $30 million in federal funding would help co-operatives 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. CMC 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 and bilingual delivery partner.

Significant federal funding has been invested through various organizations in supporting the launch and scaling of standard SMEs, and similar but targeted activities to support and promote the co-operatives' collective enterprise and entrepreneurship model is required.

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 Opportunities (enabling diverse communities to create economic growth)
- Rural Economic Development (developing or growing co-operatives 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 the 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

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responsible for supporting co-operatives in each 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-operative 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 the Fund Manager to support administration of the CCBP.

Recommendation #6: Ensuring that Tax Rules are Harmonized to Include Worker Co-operatives, When Providing Incentives to Facilitate the Creation of Employee Ownership Trusts

The Government of Canada should ensure that incentives to encourage more business owners to sell to employees are considered, and are harmonized, with the scenario of employee-owned worker co-operatives successions, not only Employee-Ownership Trusts.

There are several types of employee ownership structures, and when employees become owners, they should have the choice of the legal structure under which they wish to operate. As a result, the various incentives and taxation considerations for the seller, the enterprise, and the employees should receive equal treatment in the various forms of employee ownership.

Recommendation #7: Ensuring Co-operative Entrepreneurs and all Canadian-controlled Private Corporations can access 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.

Building on the past work of the Joint Committee on Taxation of the Canadian Bar Association and the Chartered Professional Accountants of Canada that led to amendments in 2017 and 2019 for CCPCs and members of co-operatives involved in farming and fishing, we ask for further amendments to the Small Business Deduction Rules under Section 125 of the Income Tax Act be implemented, to resolve the eligibility issue for co-operatives operating in other industrial sectors, as they have a similar structure and the logic model for the amendments should also apply,

Recommendation #8: Re-establishing and Resourcing a Co-operatives Secretariat or Centre.

This Secretariat or Centre would advise the Government on, and coordinate the implementation of, policies affecting co-operatives, and provide a “co-operative lens” on latest programs and initiatives. Designating and resourcing a public service team as a formalized Co-operatives Secretariat would also allow for enhanced coordination within Government and provide a link between co-operative enterprises

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and the many federal departments and agencies with which they interact. This Centre would also work on a federal co-operative strategy as committed to in the unanimously-supported multi-partisan Motion M-100 in 2017, as well as encourage the use of the business model for the social and economic development of Canada's communities.

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.

CMC appreciates the partnership of key public service allies, including those at ISED who hold the responsibility for "for-profit" co-operatives 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.

Recommendation #9: Establishing a Federal Co-operative Investment Plan, Inspired by Québec's Co-operative Investment Plan (*Régime d'investissement coopératif*).

This new and innovative plan would 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 co-operatives and federations of co-operatives that need equity capital for their development with their provincial-level program. The program was established in 1985 and promotes capitalization by granting, under certain conditions, a tax incentive to investors who acquire shares issued by a qualifying co-operative. Ssimilar support can be found in Nova Scotia which enables co-operatives growth. Doing so federally would align with current efforts to capitalize social purpose organizations, including co-operatives.

Recommendation 10: Implementing Fair Tax Treatment and/or Other Fair Public Policy Treatment for Co-operatives with an Indivisible Reserve.

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. At dissolution or sale, it 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. In some jurisdictions, the reserve is mandatory and in other cases, it is adopted by irrevocable choice of the members of a co-operative.

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.