

projects have been undertaken in approximately 18 towns or cities in the Province of Quebec, one of which comprises 125 houses. At least 10 more projects are under consideration in that Province.

Co-operative principles have also been applied to transportation—members' transportation by bus to and from work, or trucking farm products—restaurants, seed cleaning, printing and publishing, electrification, and room and board facilities.

### THE ROYAL COMMISSION ON CO-OPERATIVES\*

**Income Tax on Co-operatives.**—The income tax was introduced into Canada in 1917 as a war measure and has remained ever since. In the original Act the income of mutual corporations, not having share capital, was exempt. In 1919 a ruling was made permitting patronage dividends to be considered as trade discounts deductible before arriving at taxable income. The income tax authorities held that dividends paid to shareholders as interest on capital, are profits and gains, liable to assessment as income of the co-operative society and this view was upheld by the Courts in 1929.

Following this adverse decision, representations were made to the Government asking that the entire surpluses made by co-operatives in trade relations with their members be recognized as savings and not as taxable income or profit. The Income War Tax Act was amended in 1930 by inserting in Section 4, which enumerates various classes of profits that shall not be liable to taxation under the Act, paragraph (p) as follows:—

"The income of farmers', dairymen's, livestockmen's, fruit growers', poultrymen's, fishermen's and other like co-operative companies and associations, whether with or without share capital, organized and operated on a co-operative basis, which organizations

"(a) market the products of the members or shareholders of such co-operative organizations under an obligation to pay to them the proceeds from the sales on the basis of quantity and quality, less necessary expenses and reserves;

"(b) purchase supplies and equipment for the use of such members under an obligation to turn such supplies and equipment over to them at cost, plus necessary expenses and reserves.

"Such companies and associations may market the produce of, or purchase supplies and equipment for non-members of the company or association provided the value thereof does not exceed twenty per centum of the value of produce, supplies or equipment marketed or purchased for the members or shareholders.

"This exemption shall extend to companies and associations owned or controlled by such co-operative companies and associations and organized for the purpose of financing their operations."

At the time of its enactment, the explanatory paragraphs printed in connection with the Bill and the statements of its sponsors in the House made it clear that it was intended to exempt all co-operatives, of the marketing and consumer type, from liability for income tax. This was found to be quite satisfactory for a time but trouble developed from internal and external causes. The clause itself was not sufficiently explicit and the word "co-operative" was not defined. Co-operatives entered fields of processing and manufacturing that they had not engaged in at the time this exemption was granted, methods of financing were introduced such as revolving funds, federations came into being and subsidiary companies were acquired or formed for purposes other than financing operations. Under these conditions, the Income Tax officials had difficulty interpreting the Act in a satis-

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