

- “(9) That associations incorporated or registered under provincial co-operative legislation, or incorporated as a co-operative under Dominion authority, for the purpose of providing telephone services, distribution of electric power, or medical and hospital services, be exempt from income and excess profits taxes.
- “(10) That the Minister be given power to require all persons to make such annual returns of ‘patronage dividends’ declared, or ‘deductions’ made, as may be deemed desirable.”

Recommendations 1 and 2 do away with the present provisions regarding the exemption of co-operatives and recommend that they be taxed as other companies. The Co-operative Union suggested that a co-operative be defined. It was expected that the Commission would find a suitable definition. However, they propose that all businesses be treated alike and avoid the extremely difficult problem of determining the degree of co-operation that would qualify for special tax privileges. Patronage bonuses, refunds of excess handling charges, and other similar amounts which are paid or credited to customers in proportion to the quantity, quality or value of goods acquired, or sold, or services rendered are to be deducted in computing taxable income provided certain conditions are complied with. The co-operative or company or firm must hold forth the prospect to customers that payments will be made in proportion to patronage, such payments are to be made at the same rate to all customers and are to be paid in cash or its equivalent within six months of the annual meeting or credited within this period to each customer and withdrawable by him on giving reasonable notice. Application of patronage bonuses on the payment of shares or other investments is deemed to be payment equivalent to cash. Similarly, deductions from the gross proceeds of a customer's products are to be excluded from the taxable income of the association if applied against an obligation to purchase shares or make some other investment or if credited to the customer and withdrawable by him on giving reasonable notice.

Patronage dividends and deductions from gross proceeds credited to customers and *not* withdrawable on notice, will be taxable income in the year earned but may be deducted from taxable income in the year in which they are paid out.

These recommendations will likely lead to some clarification of the equity side of the balance sheet. Hitherto balance sheets have been prepared showing deferred dividends and revolving funds and it has been impossible to determine whether such credits were liabilities or part of the capital and surplus. Amounts that are to be paid out at a fixed date or on demand will go into one category and amounts that may be paid out as, if, and when conditions warrant or the directors decide will go into another category.

With regard to interest the recommendations are that interest on any form of investment in or loan to the association having a fixed date of maturity on which the interest is payable annually at a rate fixed at the time the loan or investment was made be allowed as a deduction. Also, interest on any form of loan or investment withdrawable on notice be allowed provided interest at a rate fixed in advance is payable annually. This leaves as taxable, interest paid at varying rates or only if earned, and interest on investments with no maturity date and not redeemable after notice.

With regard to reasonable notice of withdrawal of patronage dividends at credit or loans to, or investments in the co-operative, one is referred to the practice in Great Britain as set out in Appendix D of the Report. In Great Britain, the bylaws of the societies provide for reasonable notice of large withdrawals and limit the number of shares that may be redeemed to 10 p.c. in any one year. In periods of crisis the directors may temporarily suspend redemption of shares.