



CWCF
FCCT

CANADIAN
WORKER
CO-OP
FEDERATION

FÉDÉRATION
CANADIENNE DES
COOPÉRATIVES
DE TRAVAIL

Written Submission for the Pre-Budget Consultations in Advance of the 2022 Federal Budget

By the Canadian Worker Co-op Federation

Solidarity Works / La Solidarité nous réussit

Recommendations:

- Recommendation 1: That the Government support the *Building Community Resiliency* program to maintain and create jobs and businesses and that it contribute funding in the amount of \$91 million.
- Recommendation 2: That the Government's economic recovery approach address income inequality with a focus on equity-seeking groups.
- Recommendation 3: That the Government implement the recommendations in CWCF's Climate Change Statement which calls on the Government to focus on an integrated, regulatory approach to reducing greenhouse gas emissions.
- Recommendation 4: That the Government amend the *Income Tax Act* in order to create tax fairness for worker co-operatives.

How Worker Co-operatives Can Help Restart the Canadian Economy

1) Building Community Resiliency: A Proposal to Save Businesses

COVID-19 has created grave economic uncertainty and significant employment loss in Canada, with many businesses threatened. To meet these challenges, the [Canadian Worker Co-operative Federation](#) (“CWCF”) has a vision and a plan to save threatened businesses and to maintain/ create living-wage employment. CWCF has the experience, the required skills, and its networks to contribute. This proposal would aid the Government to effectively deliver support to enterprises whose owners, investors, and workers are concerned about business survival. The proposal can be tested if partially funded and operated initially as a pilot project, and CWCF is willing to explore a smaller, pilot approach.

Over 100 studies across many countries indicate that employee ownership is linked to :

- 1) increases in firm performance / productivity,
- 2) greater job stability with fewer layoffs in recessions,
- 3) significant potential to alleviate income inequality, and
- 4) improved quality of work life due to workers having greater control and more aligned incentives, and also increased skills development.¹

Worker Co-operatives have a proven track record and a superior survival rate compared to other enterprises.² They are built on the [internationally agreed-upon co-operative values and principles](#).

An important approach to relieve distressed business owners from carrying the entire burden of owning, operating and financing an enterprise, is to help them plan conversion of their businesses to Worker Co-operatives³. Whenever possible, the prior owners would continue to be participants in the businesses. CWCF would take on responsibility to deliver federal support to transitioning enterprises through its established networks, including willing allied organizations such as national, and provincial / territorial co-operative associations.

CWCF’s proposal includes three elements:

- a) Invest in a dedicated long-term capital fund for the conversion of other forms of enterprise to Worker Co-operatives, as well as development and expansion of Worker Co-operatives generally, in CWCF’s existing *Tenacity Works Fund*. (\$70 million)
- b) Invest in a granting pool for technical assistance to support business owners and the purchasers (employees and community members) as a business succession strategy. (\$19 million)
- c) Provide funds for the promotion of the program. (\$2 million).

Total investment from the Government would be \$91 million. This program would assist Small and Medium-Sized Enterprises (“SMEs”) to survive. Worker co-operatives have been successful in all regions of the country. All of the strengths of worker ownership outlined at the outset of this brief would become part of the DNA of SME’s which transition to worker co-operatives. The funds would be advanced over 5 years, but the revolving capital fund would continue indefinitely. Sectors which are especially in need of support and transformation, including home care / elder care, hospitality and tourism, will be prioritized.

¹ Does employee ownership improve performance?, by Douglas Kruse, Rutgers University, 2016, <https://wol.iza.org/uploads/articles/311/pdfs/does-employee-ownership-improve-performance.pdf>

² <https://www.co-oplaw.org/special-topics/worker-cooperatives-performance-and-success-factors/>

³ We define “Worker Co-operatives” as: co-operatives which are 100% employee-owned, plus multi-stakeholder co-ops (“*coopérative de solidarité*” in Quebec) with substantial worker control, and worker-shareholder co-ops.

CWCF represents Worker Co-operatives across the country in both official languages. We have a proven track record, infrastructure ready to go, and can scale up or down as required. The full proposal can be found [here](#). The Program could be rolled out on a pilot basis in one region or sector. E.g., if it were piloted in Atlantic Canada, with 6.5% of the Canadian population, the corresponding contribution from the Government would be \$5.9 million.

2) **Addressing Inequality**

CWCF recommends that the Government's economic recovery approach address income inequality and focus on equity-seeking groups. Our *Building Community Resiliency* program would address these issues directly. This is not only the right thing to do, but is urgently needed due to the evidence that women, youth, and racialized communities have been heavily impacted by COVID-19.

Worker co-operatives help to address inequality because the ratio of highest- to lowest-paid is far lower than in conventional businesses. They encourage people who would not become business owners by themselves to own a business collectively with others.

“One recent study showed that worker-owned firms were much more successful at attracting and retaining young workers and greatly improved their incomes, household wealth and job tenure.⁴ Another study showed that lower-income workers ... in worker-owned firms had dramatically higher household wealth, and employee ownership significantly narrowed the gender and racial wealth gap.⁵”

We will focus attention in racialized communities, in rural communities, and among women and youth.

3) **Addressing Climate Change**

The other major crisis we face is climate change. Climate change unequivocally threatens not only sustainable development, but the survival of millions of people around the world through food insecurity, extreme weather events, sea level rise, and more. CWCF is mandated on behalf of our members to advocate for action on climate change according to the co-operative values.

Many Worker Co-operatives in Canada are working toward sustainability and climate justice. The list includes Sustainability Solutions Group, la Forêt d'Arden, EnerGreen Builders, Sun Certified Builders, Vancouver Renewable Energy Co-op, etc. Yuill Herbert, past CWCF Director and Principal of Sustainability Solutions Group, has stated, “The unique value proposition is that co-operatives, unlike many other models of enterprise, can enable the transition to a fossil fuel-free society while combating inequality, enhancing democracy and ensuring local involvement and control, thus simultaneously achieving different aspects of the sustainable development goals: a win-win-win solution.”

We strongly encourage the Government to implement the recommendations in CWCF's Climate Change Statement,⁶ calling on the Government to focus on an integrated approach to reducing greenhouse gas emissions. Further, investing in CWCF's Tenacity Works Fund would enable support to the development and growth of co-ops working in building retrofits, green building, renewable energy, etc.

⁴ https://www.ownershipconomy.org/wp-content/uploads/2017/05/employee_ownership_and_economic_wellbeing_2017.pdf

⁵ <https://smlr.rutgers.edu/rutgers-kellogg-report>

⁶ <http://canadianworker.coop/climate-change/>

4) Income Tax Reform to Help Worker Co-ops Succeed in the Economic Recovery

Worker Co-operatives do not benefit from capital gains tax exemptions. To help level the playing field with business corporations, CWCF seeks the following regulatory reforms. These reforms would help ensure fair taxation and regulation for Worker Co-operatives.

a) Ensure Tax Fairness in Forestry Co-operatives

The Government should ensure that entrepreneurs are not penalized when it comes to their ability to claim the Small Business Deduction (SBD) because they are members of a co-operative and thus deemed a related party.

In 2016, with the passage of Bill C-29, the Federal Government brought in measures aimed at preventing multiplication of access to the SBD within a single economic group, which was a legitimate objective. However, the unintended consequence was that the provisions put at a disadvantage Canadian-controlled private corporation (CCPCs) that are members of co-operatives, or whose shareholders are members of co-operatives, because they are deemed a related party. Although co-operatives were not specifically targeted by these measures, they, and their members, are negatively affected.

Amendments adopted in 2017 and 2019 we welcome but only affected CCPCs and members of co-operatives involved in farming and fishing. As a result, the tax inequity continues for the other industrial sectors.

This can be accomplished by expanding the Specified Farming and Fishing Income (SSFI) definition, to apply to similar transactions with co-operatives in other industrial sectors, such as forestry.

b) Create a Federal Co-operative Investment Plan

The Quebec-based Co-operative Investment Plan (“CIP”) is a tax deduction program which applies to worker co-ops, agricultural co-ops, multi-stakeholder co-ops, and worker-shareholder co-ops. When members of an eligible co-op invest in preferred shares in their co-op, they receive a tax deduction of 125% of the amount invested, to a maximum of 30% of a person's adjusted net income for the year. The investment must stay in the co-op for at least 5 years.

The purpose of the program is to help eligible co-operatives to be capitalized and to support co-op members in capitalizing their co-ops. The Quebec CIP is one of the reasons that the Quebec worker co-op sector is as strong and dynamic as it is, and having a comparable program taxes throughout Canada would be very helpful to support and grow the worker co-op sector.

c) Fair Tax Treatment for Worker Co-ops which have Indivisible Reserves

An indivisible reserve in a Worker Co-op is property owned by the co-operative which cannot be divided among members. It is permanent co-operative capital, and is notionally seen as the value of the common effort of the members. This reserve can be controlled by the members, but not accessed by them for distribution to themselves individually. “Indivisible” means that if the co-op ceases to exist as a co-operative (e.g., because it is sold), the reserve will go to a co-op development fund or another co-operative organization and not be available to the members.

Because indivisible reserves cannot be cashed out by individual members, they provide long-term investment capital that supports longevity of the co-op, across generations. The indivisible reserve is a means by which co-op members can demonstrate strong commitment to the Worker Co-operative movement and its values.

The indivisible reserve can be created either because it is required by legislation (Quebec or Newfoundland – for all co-op types), or because the co-op decides to adopt it.

Co-ops that have indivisible reserves through legislation or which chose this option irrevocably in articles of incorporation would be mirroring a non-profit society to the degree that they make their reserve indivisible. Thus it would be fair that any surplus or profit which a co-operative puts into an indivisible reserve would be exempt from corporate tax, as this reserve is no longer for private benefit but for collective benefit.

d) **Restore the Pre-2011 Rules Regarding Self-directed RRSPs in Co-ops**

In 2011, Finance Canada changed the self-directed RRSP regulations such that individuals cannot hold 10% or more of any class of shares in a co-op and also hold RRSPs in that co-op. These new rules make it impossible for smaller co-ops to use RRSPs as a way to facilitate member financing of co-ops. This has significantly decreased the number of Worker Co-ops, and other co-ops, which can use a self-directed RRSP program.

Previously, the criteria for eligible investments was either to own less than 10% of the shares of the co-operative or if owning higher than 10% of the shares, that the shares eligible for inclusion in the holder's RRSP be restricted to a maximum value of \$25,000. It is this cap that we would like to see reinstated. Given inflation since 1992 when this \$25,000 limit was set, we would suggest that the cap be increased to approximately \$37,500 or another appropriate amount, with indexing every three to four years.

For consistency and equity reasons, we also believe that this fiscal measure should apply to both RRSPs and TFSAs to broaden the capacity for co-operatives to use these programs.

In conclusion, people naturally turn to each other for mutual support in times of crisis. The economic crisis of today, rooted in the COVID-19 pandemic, can be addressed in part by formal co-operation among workers and communities. CWCF benefits from the learnings in the [CoopConvert](#) project, led by University of Toronto and l'Université de Sherbrooke. Further, CWCF supports the mutually supportive recommendations of [Co-operatives and Mutuals Canada](#) and the People-Centred Economy Group.

The Worker Co-operative model should be one tool in the Government's toolkit that can be developed in partnership with the Worker Co-operative sector. CWCF is ready and able to partner with the Government, to help build back better.