

# Written Submission for the Pre-Budget Consultations in Advance of the 2021-2022 Federal Budget

By the Canadian Worker Co-op Federation

Solidarity Works / La Solidarité nous réussit

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February 19, 2021

**Recommendations:**

- Recommendation 1: That the Government of Canada support the *Building Community Resiliency* program designed to help to maintain 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 and systemic racism.
- Recommendation 3: That in working toward recovery, 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 restore tax fairness for worker co-operatives.

## How Worker Co-operatives Can Help Restart the Canadian Economy

### 1) **Building Community Resiliency: A Proposal to Maintain Jobs and Businesses**

COVID-19 has created grave economic uncertainty and a dramatic loss of employment in Canada, and there is a need for structural changes to help the economic recovery. To meet these challenges, the [Canadian Worker Co-operative Federation](#) (“CWCF”) has a vision and a plan to strengthen communities and their economies to save threatened businesses. CWCF has the experience, the required skills, and its networks to contribute. This proposal would aid the Government of Canada to efficiently and effectively deliver support to enterprises whose owners, investors, and workers are concerned about business survival.

Over 100 studies across many countries indicate that employee ownership (in co-operatives and other legal forms) 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 where ownership includes increased participation in decision-making, increased skills development.<sup>1</sup>

To save jobs and businesses during the COVID-19 crisis, CWCF is offering to partner with the Government to help restore the economy. One tool we have to relieve distressed business owners from carrying the entire burden of owning, operating and financing an enterprise, is to help them plan succession of their businesses to Worker- Co-operatives<sup>2</sup>. Whenever possible, the prior owners would continue to be important 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.

Worker Co-operatives have a proven track record and a superior survival rate compared to other enterprises.<sup>3</sup> They are built on the [internationally agreed-upon co-operative values and principles](#). Canada has approximately 9,000 co-ops in many sectors of the economy providing 18 million members with products and services in [savings and credit co-operatives](#), [insurance co-operatives](#) or [mutuals, agri-food, and housing](#)<sup>4</sup>. This initiative is a concrete response to [Motion M-100](#) adopted unanimously by Parliament, in the spring of 2017, calling for the establishment of a federal framework to promote the recognition and development of co-operatives in Canada.

CWCF’s proposal includes three elements:

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<sup>1</sup> 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>

<sup>2</sup> We define “Worker Co-operatives” as: co-operatives which are 100% employee-owned, plus multi-stakeholder co-ops with substantial worker control, and worker-shareholder co-ops. In Quebec, a multi-stakeholder co-operative is called “*coopérative de solidarité*.”

<sup>3</sup> <https://www.co-oplaw.org/special-topics/worker-cooperatives-performance-and-success-factors/>

<sup>4</sup> These hyperlinks are to examples of large co-operatives; see this federal [archived list](#) for more. In addition to CWCF, worker co-op federations are [le Réseau COOP](#), [Quebec Forestry Co-op Federation](#), and [Quebec Paramedic Co-op Federation](#).

- a) Invest in a dedicated long-term capital fund for the conversion of other forms of enterprise to Worker Co-operatives, as well as the development and expansion of other Worker Co-operatives, 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).

The total investment from the Government of Canada would be \$91 million. This program would assist the Government to help Small and Medium-Sized Enterprises ("SMEs") survive, facilitated by local networks. 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.

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](#).<sup>5</sup> The Program could be rolled out on a pilot basis in one region. For example, if it were piloted in Atlantic Canada, with 6.5% of the Canadian population, the corresponding contribution from the Federal Government would be approximately \$5.9 million.

## **2) Addressing Inequality**

CWCF recommends that the Government of Canada's economic recovery approach address income inequality and systemic racism, and our *Building Community Resiliency* program would address this directly. This is not only the right thing to do, but is urgently needed due to the emerging evidence that women, youth, and minority communities have been most 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 on their own 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.<sup>6</sup> Another study showed that lower-income workers (particularly workers nearing retirement) in worker-owned firms had dramatically higher household wealth, and employee ownership significantly narrowed the gender and racial wealth gap."<sup>7</sup>

We will seek to focus attention on Indigenous communities, minorities, rural communities, and other populations with precarious employment, including women and youth.

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<sup>5</sup> <https://canadianworker.coop/a-proposal-for-shining-light-into-this-darkness-with-the-solidarity-co-operative-movement/>

<sup>6</sup> [https://www.ownershipconomy.org/wp-content/uploads/2017/05/employee\\_ownership\\_and\\_economic\\_wellbeing\\_2017.pdf](https://www.ownershipconomy.org/wp-content/uploads/2017/05/employee_ownership_and_economic_wellbeing_2017.pdf)

<sup>7</sup> <https://smlr.rutgers.edu/rutgers-kellogg-report>

### 3) Addressing Climate Change

The other major, continuing 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, and more. 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,<sup>8</sup> 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) 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 from the Government. These reforms would help ensure fair taxation and regulation for Worker Co-operatives.

#### a) Ensure Tax Fairness in Forestry Co-operatives (Supporting the advocacy work of the *Fédération québécoise des coopératives forestières*)

Amendments to the Canadian *Income Tax Act* in 2016 negatively affected forestry worker and producer co-operatives with respect to the small business deduction for business income. Prior to December 15, 2016, a Canadian-controlled private corporation ("CCPC") was entitled to a small business deduction of \$500,000 per taxation year. Since December 15, 2016, each CCPC is entitled to a business limit of \$500,000 unless it is associated with another CCPC. If CCPCs are associated under the *Act*, they are entitled to only one \$500,000 business limit, which they share. Accountants have measured the scope of the change that has been introduced and notifying forestry entrepreneurs that they are losing their tax deduction because they are members of a co-operative. These amendments could have affected agricultural or fishing co-operatives, but Finance Canada provided tax relief so that the 2016 amendments do not apply to these co-operatives. The 2016 amendments jeopardize the survival of the co-operative model in the sustainable management of forest resources. Forestry co-ops should be entitled to the same tax relief as agricultural and fishing co-operatives.

#### b) 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

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<sup>8</sup> <http://canadianworker.coop/climate-change/>

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.

c) **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 of Canada's toolkit that can be developed in partnership with the Worker Co-operative sector. CWCF is ready and able to partner with the Government of Canada, to help build back better.