ENABLING COMMUNITY INVESTMENT

Policy Brief

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ABOUT US

The Community Social Planning Council of Greater Victoria is one of the oldest charitable organizations in the Capital Region, founded by citizens concerned with the impacts of the Great Depression in 1938. We are now working to create the next generation of vehicles for community development to respond to the new socio-economic challenges that our region and province faces. We believe that harnessing our own investment financing as a source of capital for affordable housing, local job creation, and environmental sustainability is a community development innovation our region can achieve.

ACKNOWLEDGEMENTS

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EXECUTIVE SUMMARY

Community Investment Funds (CIFs) are locally sourced and controlled pools of capital that are capitalized by individual investors within a specific geography or community. The proceeds of CIFs are directed towards a range of businesses and organizations that help achieve provincial objectives such as job creation, small and medium sized business development, and affordable housing. Many community investment funds are enabled by policy tools that include investor tax credits and, in the strongest examples, the articulation of simplified regulatory environment that eases the process of registering and reporting for a community investment fund.

Community Investment Funds (CIFs) have demonstrated success in helping provincial governments achieve policy objectives in job creation, small and medium sized business development, and affordable housing development. This is achieved by enabling local residents to form locally-controlled capital pools that provide a vehicle through which accredited and non-accredited investors can easily invest in their own communities.

Currently, four Canadian provinces (Nova Scotia, Prince Edward Island, New Brunswick, Manitoba) have established Community Economic Development Investment Fund (CEDIF) programs or enabling legislation. Collectively these programs have raised hundreds of millions of dollars from local investors and in some cases have had a profound impact on redirecting outward-bound investment and RRSP flows toward local projects. British Columbia currently lacks the policy environment that has been proven to enable CIFs to thrive in other jurisdictions. Specifically, the creation of an investor tax credit and the simplification of the securities process for recognized CIFs would allow open up a new source of capital for community investment.

There is opportunity now for the government of British Columbia to create a community investment strategy to enable BC residents to contribute to the health and prosperity of their communities while contributing to job creation, business development and affordable housing development goals. Specifically, this report recommends that the provincial government take action in the following areas:

1. Simplify the Securities Environment

   The Province of British Columbia should work with community partners and stakeholders to recognize Community Investment Funds in regulation and simplify the securities process and oversight that these funds must comply with; this should include waiving the IFRS audit requirement.

2. Use a Tax Credit to Encourage Investment

   The Province of British Columbia should create a personal tax credit for investments in Community Investment Funds; this tax credit should roll over to encourage investors to make long term commitments to Community Investment Funds. The VCP program should also be reformed to align with the Community Investment Fund program.

3. Leveraging the Co-operative Advantage

   The Province of British Columbia should designate a representative to work with federal partners to update Regulation 4901 Sec 136 (2) of the Income Tax Act to reflect the modern realities and sophistication of co-operatives in raising capital from partners while retaining the RRSP-eligible status investment co-operatives currently enjoy.

   The Province of British Columbia should work with the BC Securities Commission to review and increase the exempt capital amount for co-operatives.

   The Province of British Columbia should work with the BC Securities Commission to explore a sector-controlled model of oversight for the sale of securities by co-operatives.

4. Recognize Investment in Local Capital Pools as RRSP-Eligible Investments

   The Province of British Columbia should designate a representative to work with federal partners to have investments in Community Investment Funds recognized as pre-qualified RRSP-eligible investments.

5. Federal Regulation Changes

   The Province of British Columbia should designate a representative to work with federal partners to reconsider the 2011 changes to Income Tax regulations that prohibit the holding of more than 10% of a class of shares of a co-operative in an RRSP.

INTRODUCTION

The British Columbia government has identified the expansion of a full range of affordable housing options, as well as business innovation, entrepreneurship and job creation, as key strategic priorities. Some actions have already been taken towards these goals. For example, the provincial Housing Matters Strategy (2014) identifies a key role of the provincial government is to act as a "catalyst" that enables partner investment in affordable housing (p. 9). Similarly, the 2011 expansion of the Small Business Venture Tax Credit has increased access to capital for some small businesses but more can be accomplished by enabling the innovative community-led investment model outlined in this paper.

Community Investment Funds (CIFs) and other locally-based forms of social finance are essential tools in raising capital to invest in community economic and social development. These vehicles have a long history of community economic development financing across the globe and an established track record of success. CIFs are an essential component of strengthening local economies, increasing local engagement in economic activity, and revitalizing local communities. They are an essential component of building a more people- and community-centered economy that provides the opportunity to build sustainable livelihoods for residents and communities.

Community Investment Funds (CIFs) are locally sourced and controlled pools of capital that are capitalized by individual investors within a specific geography or community. The proceeds of CIFs are directed towards a range of businesses and organizations that help achieve provincial objectives such as job creation (many provinces require recipients of CIF funds to hire a percentage of their workforce locally), small and medium sized business development, and affordable housing. In most cases, community investment funds are enabled by policy tools that include investor tax credits and, in the strongest examples, the articulation of simplified regulatory environment that eases the process of registering and reporting for a community investment fund.

Across Canada, these examples have demonstrated outcomes in increasing investment in locally owned businesses, contributing to job creation, and generating new sources of capital for housing and other community services. There is a solid base to build on to expand this dynamic approach to retaining local investment capital in local communities, particularly investments in tax deferred retirement savings (RRSPs). This approach is now being proposed for British Columbia, and is being implemented in Alberta, Nova Scotia, New Brunswick and PEI. Interest is growing across Canada in these vehicles for local and ethical social financing.

This policy paper is based on the experience of the Community Social Planning Council of Greater Victoria in developing a Community Investment Fund for Vancouver Island and is informed by the evidence of what is working and why in other Canadian jurisdictions. There are challenges in the BC legislative and regulatory environment to create a viable and accountable Community Investment Fund framework. The policy paper provides an analysis of:

- The model being implemented for Vancouver Island;
- Challenges involved in the current BC regulatory environment;
- Examples of current models in Canada;
- Solutions available based on practice in other jurisdictions, and;
- Recommendations on future action to enable a vibrant community and social investment sector for the betterment of BC communities.

PROBLEM ANALYSIS

Community Investment Funds (CIFs) have demonstrated success in helping provincial governments achieve policy objectives in job creation, small and medium sized business development, and affordable housing development. This is achieved by enabling local residents to form locally-controlled capital pools that provide a vehicle through which accredited and non-accredited investors can easily invest in their own communities. British Columbia currently lacks the policy environment that has been proven to enable CIFs to thrive in other jurisdictions. Specifically, the creation of an investor tax credit and the simplification of the securities process for recognized CIFs would allow open up a new source of capital for community investment.

Table: Community Investment Funds Enabling Policy Logic Model

Public Policy	Intermediate Outcome	Intermediate Outcome	Intermediate Outcome	Long-term Outcome
Enabling Policy environment for Community Investment Funds	New opportunities and incentive to invest locally for non-accredited investors	Formation of new local capital pools	Increased % of local investment dollars invested in BC	New job creation, community enterprise expansion and creation of new community-based projects

VANCOUVER ISLAND COMMUNITY INVESTMENT CO-OPERATIVE

The Vancouver Island Community Investment Co-operative (or Community Investment Fund) is designed to address two pressing needs on Vancouver Island: a need among affordable housing and social enterprise developers to access diversified sources of capital and a growing demand among local investors to see their investment dollars at work in their own community. The CIF will contribute significantly to achieving affordable, family and workforce housing targets set by local, regional and provincial governments and to business diversification, growth and expansion in the region.

Currently, local investing remains largely out of reach for non-accredited investors. Securities Regulations that have been established to protect investors from fraud have cut off an important source of capital from our communities and forced most local investors to send their money off-shore or out of the community. In 2010, residents of the Vancouver Island contributed over $571 million to Registered Retirement Savings Plans alone; and yet very little of this investment makes its way into the type of community-based projects and small scale community enterprise growth that community investment funds are designed to resource. A relatively young Community Investment Fund in Nova Scotia has already captured 2% of their region's RRSPs and directed it into local projects. In Greater Victoria alone this would result in the creation of 36 units of affordable housing each year, enable small and medium size businesses to create roughly 13 new jobs[1], or help grow the revenues of several small businesses.

Structure

The Vancouver Island Community Investment Co-operative (operating name: Community Investment Fund or "CIF") is a legally incorporated for-profit co-operative under the BC *Co-operative* Association Act that raises community capital with a portion of its portfolio directed to the development of affordable housing. The CIF has been created to provide an investment opportunity for residents of Vancouver Island and the Gulf Islands to invest on the Island. Investor capital is pooled with that of all other investors within a given class of investment shares and the proceeds are used to make equity or debt investments in a range of projects. As such, both the risk and return from these investments is pooled across all investors in a given class. The CIF is targeting below market financial returns for investors of approximately 2%, combined with a high social and community return.

[1] Calculation based on Hellman and Volker's 2010 evaluation of the Venture Capital Program in British Columbia, which found that, on average, companies in the program raise $1.3 M/year and add an average of 2.43 new jobs per year in the program.

The Community Investment Fund raises capital through the periodic issuance of investment shares, subject to regulation by the BC Securities Commission. Investments in the CIF are eligible for inclusion in one's self-directed RRSP through a program of the Canadian Worker Co-op Federation, which acts as the custodian. Membership and investment are limited to residents of British Columbia.

The Community Investment Fund is governed by a local volunteer Board. The Founding Board is made up of five local entrepreneurs, non-profit leaders, and venture investors. Investment decisions will be vetted by an Investment Committee. This committee will include local experts with experience in financial services and investment, business and real estate valuation. The investment committee will review all prospective investments to ensure their financial viability and social impact and make a recommendation to the Board for decision. An ethical investment "screen" will be used to assess investment options based on sustainable social, economic and environmental impacts.

Why is this the right approach for Vancouver Island?

While affordable housing and community enterprise developers can currently raise equity from non-accredited investors through the one of the avenues permitted under Securities regulations, the cost and complexity of doing so is prohibitive for most. As such, projects with potential for high social return stall out, and local investors are unable to support projects in their own community.

In developing the Community Investment Fund model, we aimed to help overcome some of these challenges by creating a vehicle that:

- Can be used to invest in a mix of project types, including affordable housing, mixed use real estate and commercial ventures with a strong social outcome;
- Can be deployed multiple times so as to reduce the cost barrier that affordable housing, real estate and local enterprises currently face in raising private capital;
- Is replicable and helps build the professional and technical relationships that other communities can draw on in the future;
- Is available to local private, non-accredited investors (RRSP eligibility is important to this) and institutional investment (e.g. Foundations, local governments) where appropriate ,and;
- Is financially and administratively nimble and lightweight.

However, through our research and design process we have identified a number of barriers to the successful implementation of the Community Investment Fund model in British Columbia. These are outlined in the section to follow.

BARRIERS FOR COMMUNITY INVESTMENT FUNDS IN BC

Provincial

i. Securities Environment:

The sale of investment shares is subject to regulation by the BC Securities Commission. The Vancouver Island Community Investment Fund will comply with National Instrument 45-106-Prospectus and Registration Exemptions. This means that when selling shares to the public, beyond a limited number of 'friends, family and close business associates or Accredited Investors', the CIF will produce and make available an Offering Memorandum.

The Offering Memorandum is a full and frank disclosure of the investment opportunity, its risks, financial model and the expertise of those involved. While producing an Offering Memorandum is not inherently difficult, it is detailed and requires the involvement of a number of professionals, and as such is costly. The cost of producing an Offering Memorandum will vary widely depending on the nature of the activities, but at a minimum will generally cost around $15,000- $20,000 to produce. An Offering Memorandum requires continuous updating to ensure the accuracy of the information contained Since 2011 those utilizing the National Instrument 45-106-Prospectus and Registration Exemptions have been required to comply with a higher audit standard (the cost of which is estimated ~$20,000) than was previously required. The combination of these factors, coupled with limited experience in navigating 'the world of securities' among the community (economic) development sector, puts this option out of reach for most community-based initiatives.

ii. Lack of Appropriate Tax Credit

Our scan of other provinces demonstrates that investor tax credits have been critical to creating incentives for local investment. BC lacks an equivalent tax credit program. The closest equivalent is the existing Venture Capital Program (VCP) that provides a 30% tax credit for equity investments in select industries and activities through either direct investment in an eligible business corporation, a Venture Capital Corporation or a Labour Sponsored Venture Capital Corporation.

The Venture Capital Program (VCP) is not open to companies incorporated under the BC *Co-operative Association Act*. The VCP contains several specify budgets to drive investment towards identified sectors and priorities. Within the program, the Community Diversification budget is allocated for regional economic diversification, but is not open to investments in the Lower Mainland and the Capital Region. The Community Diversification component of the VCP program is undersubscribed. This is puzzling given that it is well documented that rural communities are in need of capital investment.

Federal

i. Income Tax Act and RRSP eligibility

Specified Co-operative Corporation and Income Tax Act

Investment Shares in a co-operative are RRSP eligible providing they meet the definition of a Specified Co-operative Corporation under the Income Tax Act.

The Income Tax Act (ITA) Regulations state that a qualifying investment (i.e., one suitable for inclusion in a self-directed RSP or similar) includes a qualifying share in a specified co-operative corporation. A specified co-operative corporation is defined (in Regulation 4901) as a co-operative corporation. The ITA defines "co-operative corporation" in s.136(2):

> *(2) In this section, "co-operative corporation" means a corporation that was incorporated or continued by or under the provisions of a law, of Canada or of a province, that provide for the establishment of the corporation as a co-operative corporation or that provide for the establishment of co-operative corporations, for the purpose of marketing (including processing incident to or connected to the marketing) natural products belonging to or acquired from its members or customers, of purchasing supplies, equipment or household necessaries for or to be sold to its members or customers or of performing services for its members or customers, if*
>
> *(a) the statute by or under which it was incorporated, its charter, articles of association or by-laws or its contracts with its members or its members and customers held out the prospect that payments would be made to them in proportion to patronage;*
>
> *(b) none of its members (except other co-operative corporations) have more than one vote in the conduct of the affairs of the corporation;*
>
> *(c) at least 90% of its members are individuals, other co-operative corporations, or corporations or partnerships that carry on the business of farming; and*
>
> *(d) at least 90% of its shares, if any, are held by members described in paragraph (c) or by trusts governed by registered retirement savings plans, registered retirement income funds, TFSAs or registered education savings plans, the annuitants, holders or subscribers under which are members described in that paragraph*

Meeting the requirements of this definition effectively limits the number of members and amount of capital that co-operatives are able to raise from institutional and organizational partners, thereby cutting off important potential partnerships and opportunities to leverage funding. This regulation creates an administrative burden on co-operatives that must effectively constantly monitor the composition of their membership and capital to ensure compliance. Additionally this is not a well-understood part of the tax or co-operative law, and there are relatively few legal experts working in this area, greatly increasing the risk of errors due to inadequate information and oversight.

Limits on Shares Held by an Individual or Related Party

Changes to federal tax rules in December 2011 have an impact on RRSP eligibility for co-operatives, making it such that no person or related parties may hold more than 10% of a class of shares in a co-operative and have these be held in an RRSP. Should someone own more than 10% of a class of shares they may be subject to significant penalty taxes.

This change has added significantly to the administration and monitoring responsibilities of co-operatives, who must now police any redemptions to ensure the sale of shares by one party does not have the effect of making it such that another party ends up holding more than 10% of a class of shares. This change has had a particularly negative effect on smaller co-operatives and co-operatives with highly differentiated share structures and has made the overall governance and management process complicated and burdensome.

JURISDICTIONAL SCAN: COMMUNITY FINANCE STRATEGIES IN CANADA

Currently, four Canadian provinces (Nova Scotia, Prince Edward Island, New Brunswick, Manitoba) have established Community Economic Development Investment Fund (CEDIF) programs or enabling legislation[2]. A pilot project in Alberta is also testing the potential of community investment co-operatives (called Opportunity Development Co-operatives) in rural communities throughout the province. These programs are all designed to support equity investment from local residents in local companies to achieve job creation, business development, community diversification and economic development goals.

Collectively these programs have raised hundreds of millions of dollars from local investors and in some cases have had a profound impact on redirecting outward-bound investment and RRSP flows toward local projects. Across the country, investors are seeing financial and social returns on their investments in these funds and vehicles.

As of 2014 all the below described provincial programs allow local investment in pooled funds and all five offer a significant tax credit to investors. However, to date, only one (the province of Nova Scotia) has worked with their and the Nova Scotia Securities Commission have simplified securities filing and reporting process for CEDIFs and issued a blanket order to reduce the burden of complex requirements. Only Nova Scotia has sought approval from the CRA to have investments in a CEDIF pre-approved as RRSP eligible investments.

[2] The author wishes to credit Reimer and Bernas' (August 2013) report, Mobilizing Community Capital for Co-op Development in Manitoba for some of the information contained in this section. Additional information has been gathered from the relevant provincial government websites and personal communications.

Table: Provincial CEDIF Programs at a Glance

	Nova Scotia	PEI[3]	New Brunswick	New Brunswick	Manitoba
Date created	1993/1999	2011	2003	2014	2004
Number in operation	47	0	396	N/A	12
Capital raised	$56.7 M	0	77.6 M	N/A	2.25 M
Number of investors		0	2,103		
Open to co-operatives	Yes	Yes	No	Yes	Yes
Investment in EBCS	Yes	Yes	Yes	Yes	Yes
Investment iN Pools	Yes	Yes	No	Yes	Yes
Tax credit	Yes (35%, 20% 10%)	Yes (35%)	Yes (30% individuals only)	Yes (30% individuals and 15% corporations and trusts)	Yes (30%)
Simplified Securities Process	Yes	No	No Offering Document required	Unknown	No
Pre-qualified for RRSP	Yes	No	No	No	No

[3] Current to July 2013

Nova Scotia

The Nova Scotia Community Economic Development Investment Fund was the first of its kind in Canada and is the program after which most current efforts are modeled. The origins of the program began with the creation of the Nova Scotia Equity Tax Credit in 1993. The success of the Equity Tax Credit led the Province to develop an enhancement to the program, the Community Economic Development Investment Fund (CEDIF) program. CEDIFs are structured as share-issuing co-operatives or companies that sell shares to the public and use the capital raised to re-invest in eligible local business. Investments in CEDIFs are pre-approved holdings for inclusion in a self-directed RRSP.

Investors are eligible for an initial 35% tax credit for investing for 5 years; if they keep their investment in the CEDIF for an additional 5-year period they receive an additional 20% tax credit, and another 10% if renewed for a third 5-year period. This helps encourage not only initial investment in CEDIFs but encourages investors to keep their money in the CEDIF for longer periods of time, essentially making it more patient and more friendly for local projects.

Most significantly, the CEDIF regulations that have been adopted set out a "special relationship" for the CEDIFs and securities regulations.

CEDIFs are required to complete a simplified form of an Offering Memorandum, rather than a complete Offering Document. The form of this is spelled out in the regulations. This is meant to reduce the legal, financial and knowledge barriers that many community initiatives currently face in seeking to raise community capital.

The second critical support provided to CEDIFs through this "special relationship" is that CEDIFs are exempted from most of the Continuous Disclosure requirements under NI 51-102. This includes an exemption from the 2011 regulatory change requiring Offering Memorandum filers to comply with Canadian Generally Accepted Accounting Principles for Public Enterprises[4].

Third, it is impossible to underestimate the important role that the Nova Scotia Department of Rural and Economic Development has played in supporting the growth of the CEDIF program, including through its network of Business Service Centres.

[4] See: NSSC Blanket Order No. 51-504 and http://www.novascotia.ca/just/regulations/regs/secced.htm#TOC1_3

KEY ADVANTAGES
• Up to 60% Investor tax credit availability • Pre-qualified RRSP eligible investment • Investment possible directly in eligible businesses or in capital pools • Simplified securities process • Simplified audit requirement

Prince Edward Island

The Prince Edward Island (PEI) Community Economic Development Business (CEDB) program is modeled on the Nova Scotia Program and was launched in 2011. Community Economic Development Businesses are structured as share-issuing co-operatives or companies that sell shares to the public and use the capital raised to re-invest in eligible local business.

KEY ADVANTAGES	**KEY DISADVANTAGES**
• 35% Investor tax credit available • Investment possible directly in eligible businesses or in capital pools	• No simplified securities process • No simplified audit requirement • Not a pre-qualified RRSP eligible investment

New Brunswick

New Brunswick has offered a Small Business Investor Tax Credit for equity investments in local businesses since 2003.

In February 2014, the provincial government expanded the program to include CEDIFs, creating the opportunity for local communities to create pools of capital for investing in local business. The change also extends tax credit eligibility to corporations and trusts and opens the program up to co-operatives. The details of implementation of these changes have not yet been announced.

KEY ADVANTAGES	KEY DISADVANTAGES
• 30% Investor tax credit available (15% available to corporations and trusts) • Corporate tax credit available • Investment possible directly in eligible businesses or in capital pools	• No simplified securities process • No simplified audit requirement • Not a pre-qualified RRSP eligible investment

Manitoba

In Manitoba, the Community Enterprise Development (CED) Tax Credit was created in 2004 to encourage Manitobans to invest in enterprises in their communities while providing community-based enterprises with access to equity capital.

Eligible Business or Funds must complete an application to the Ministry of Agriculture, Food, and Rural Development and then are required to complete and issue an Offering Memorandum prior to raising capital.

KEY ADVANTAGES	KEY DISADVANTAGES
• 30% Investor tax credit available • Corporate tax credit available • Investment possible directly in eligible businesses or in capital pools	• No simplified securities process • No simplified audit requirement • Extensive list of ineligible activities • Not a pre-qualified RRSP eligible investment

Alberta

The Alberta Community and Co-operative Association (ACCA) is currently running an extensive pilot program called “Unleashing Local Capital” with funding and support from the Alberta Government’s Rural Alberta Development Fund. The project builds on the successful examples of the Sangudo Opportunity Development Co-operative and other rural examples from Alberta. Since launching the pilot in 2012, 5 new Opportunity Development Co-ops have been created to keep local investments in rural communities for job creation, business development and expansion, and increase local control of economic resources. Support, seed funding, template documents, and access to a professional network has been provided to pilot co-operatives through the ACCA.

This project is focused exclusively on co-operatives as a model to pool funds for local investment. The Alberta model is similar to the model currently being developed by the Community Social Planning Council with a few notable exceptions:

- To date the Alberta Opportunity Development Co-ops have relied on an exemption in Alberta securities regulations that allows the co-op to raise up to $10,000 per investor from up to 99 investors. This exemption does not have the same audit requirements as does use of the Offering Memorandum.
- All of the Alberta examples are designed for rural settings; none have been piloted in an urban context.

KEY ADVANTAGES	KEY DISADVANTAGES
• Investment possible directly in businesses or in co-operatives serving as capital pools • RRSP-eligible investment • Templates, seed funding and support available • Purposely designed to minimize securities compliance required (under audit thresholds)	• No tax credit • No provincial program of support • Limits to amount of capital raised

Other Models: Community Bonds

In recent years non-profit organizations have used securities exempt debt securities, most often referred to as "community bonds" to raise capital on a project by project basis. The most well-known example of the use of this tool is the capital raising efforts of the Centre for Social Innovation in Toronto. When used to raise capital for real-estate backed projects, community bond offerings may be RRSP eligible investments.

KEY ADVANTAGES	KEY DISADVANTAGES
• Securities exemption for non-profits helps keep costs low (no audit requirement and no filings) • Real estate-backed Community Bonds are RRSP eligible investments • Investment is backed by property	• A new bond is required for each property: community bonds cannot be pooled across projects • Only available as an option for real estate-backed projects.

ENABLING POLICY CHANGES

A Community Investment Strategy for BC

There is opportunity now for the BC Government to create a Community Investment Program to enable BC residents to contribute to the health and prosperity of their communities while contributing to job creation, business development and affordable housing development goals.

Simplify the Securities Environment

The current securities regime creates significant barriers to enabling community investing by limiting the ability of non-accredited investors to invest locally in community-driven efforts that are not likely to meet the Full Prospectus requirements. The cost of compliance with securities regulations is also a significant barrier to community investment initiatives.

We argue that a more appropriate approach to securities oversight is needed for community investment funds, as these funds are generally smaller scale, locally-based and rooted in community networks that act as checks and balances to concerns around investment fraud. Co-ops in particular have a high degree of member and investor ownership and oversight in the governance and decisions of the organizations; this degree of involvement makes co-operatives less susceptible to investment fraud. In fact, in Canada, there are no documented instances of securities fraud by co-operatives on record. In the USA, recognizing the high degree of member oversight in the governance of co-ops, Minnesota and Wisconsin have exempted co-ops from securities oversight altogether.

In our cross-country scan, Nova Scotia emerges as the pioneer of community investing through a provincial program that overcomes many of the securities and regulatory barriers faced by such initiatives in BC. The Nova Scotia approach has focused on: working with the provincial securities commission to simplify the offering process; exempting CEDIFs from costly audit requirements associated with issuing securities; pre-qualifying investments in CEDIFs as RRSP eligible investments; and creating a generous tax credit for investors in CEDIFs. This approach has paid dividends, returning tens of millions of local dollars for reinvestment in Nova Scotia businesses and creating thousands of jobs and opportunities in the process.

> **The Province of British Columbia should work with community partners and stakeholders to recognize Community Investment Funds in regulation and simplify the securities process and oversight that these funds must comply with; this should include waiving the GAAP for public entities audit requirement.**

Use a Tax Credit to Encourage Investment

Five Canadian provinces have tax credits for people who invest in local community investment funds or similar type capital pools (NS, NB, PEI, MB, Que). The strongest credit is in Nova Scotia where investors are eligible for an initial 35% tax credit for investing for 5 years; if they hold their investment in the CEDIF for an additional 5-year period they receive an additional 20% tax credit, and another 10% if renewed for a third 5-year period. This encourages not only initial investment in CEDIFs but encourages investors to keep their money in the CEDIF for longer periods of time, essentially making it more patient and more friendly for local projects. An analysis undertaken by the provincial government of Nova Scotia demonstrated that this tax credit was revenue neutral in two years from implementation. In the last 15 years, the CEDIF program in Nova Scotia has captured more than $43M in investment in local projects from more than 4000 individuals throughout the province.

In British Columbia, the Venture Capital Program (VCP) provides a 30% tax credit towards individual investments in a number of targeted sectors and for community diversification in rural and remote areas outside of the lower Mainland. However, the VCP program presents the same challenges with respect to securities compliance for community investment initiatives, as outlined in the previous section and additionally requires CVCCs to raise $25,000 in investments prior to launch.

> **The Province of British Columbia should create a personal tax credit for investments in Community Investment Funds; this tax credit should roll over to encourage investors to make long term commitments to Community Investment Funds. The VCP program should also be reformed to align with the Community Investment Fund program.**

Leveraging the Co-operative Advantage

In order for investment shares in a co-operative to be eligible for inclusion in one's self-directed RRSP, the Co-operative must be considered a Specified Co-operative Corporation as defined in the Income Tax Act. This definition limits the composition of the membership of the co-operative and its capital structure to individuals, other co-operative associations and farming businesses, excluding non-co-operative corporate forms such as foundations, trusts, banks, and many businesses investors. Besides being out of date (reflecting a vision of the co-operative sector dominated by farming co-operatives), this definition limits the ability of Community Investment Co-operatives to leverage capital from the full range of investors in a community at a time when cross-sectoral investment is critical in so many of our communities.

> **The Province of British Columbia should designate a representative to work with federal partners to update Regulation 4901 Sec 136 (2) of the Income Tax Act to reflect the modern realities and sophistication of co-operatives in raising capital from partners while retaining the RRSP-eligible status investment co-operatives currently enjoy.**

Securities regulations in BC allow for a specific exemption from the Full Prospectus requirement that allows co-operatives to raise up to $750,000 without completing securities filings. However, this exemption has serious limits as it is only available to co-operatives with no more than 150 members, each investing not more than $5000. Secondly, in order to fit within the exemption, the shares must be issued to purchasers who have been members of the co-op either for a full year (if the co-op has existed for more than a year) or since its inception (if it has not existed for a full year). Taken together, these conditions place significant limitations on the utility of the exemption for co-operatives interested in raising community capital.

> **The Province of British Columbia should work with the BC Securities Commission to review and increase the exempt capital amount for co-operatives, and remove the requirement that to qualify all purchasers of investment shares must be members since inception or for at least twelve months.**

Recognize Investment in Local Capital Pools as RRSP-Eligible Investments:

Our consultation with local stakeholders and analysis of the success of the Nova Scotia program highlights the importance of RRSP eligibility to creating incentives for community investment. RRSP savings represent a huge untapped source of capital that could and should be re-invested in our communities. Residents of Vancouver Island invested over $570 Million in RRSPs in 2013 alone[5]. In setting up the CEDIF program in Nova Scotia the provincial government worked with federal counterparts to ensure that investments in CEDIFs are pre-qualified as RRSP eligible investments. Estimates from representatives in the Nova Scotia Department of Economic and Rural Development and Tourism half of the $43 million invested in Nova Scotia CIFs are held in RRSPs.

> **The Province of British Columbia should designate a representative to work with federal partners to have investments in Community Investment Funds recognized as pre-qualified RRSP-eligible investments.**

Federal Regulation Changes

Thee 2011 federal budget expanded to RRSPs the concept of "prohibited investment" which was previously applied only to Tax-Free Savings Accounts (TFSA)[6]. This amendment, which was adopted in December 2011 by Bill C-13, has an impact on the use of RRSPs in co-operatives. In our understanding, the regulatory change introduced in 2011 that limit the amount of capital one may hold in any given class of shares was introduced in response to an infinitesimally small number of instances of RRSP 'double dipping' (not specific to co-operatives) and yet has had a widespread impact, potentially rendering the investment shares of thousands of co-operative investors "prohibited investments". The impact of these changes being felt disproportionately by the very type of smaller scale, community-led investing initiatives that are of increasing importance to leverage capital into our communities, as co-operatives find themselves needing to limit the terms and conditions to the sale of investment shares to ensure that investors maintain compliance with the regulation.

> **The Province of British Columbia should designate a representative to work with federal partners to reconsider the 2011 changes to Income Tax regulations that prohibit the holding of more than 10% of a class of shares of a co-operative in an RRSP.**

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[5] Statistics Canada. Table 111-0039 Registered Retirement Savings Plan (RRSP) contributions, by contributor characteristics, annual.

[6] http://canadianworker.coop/resources/guides/rrsp-changes-guide-april-2012?utm_source=May+2012+CWCF+Newsletter&utm_campaign=May+Newsletter&utm_medium=email

MOVING FORWARD

The purpose of this paper is to inform public policy debate on strengthening community investment for social and economic development in BC. The Community Social Planning Council has briefed members of the BC Partners for Social Impact (a coalition of social innovation interests co-chaired by civil society and provincial government representatives), and other community and social finance stakeholders on the Community Investment Fund model being implemented for Vancouver Island. We have also briefed the Honourable Don McRae, BC Minister for Social Development and Social Innovation, on this work, and requested an inter-ministerial meeting with those government agencies with a regulatory interest in the issues we have identified and are in the process of briefing Mayors in the Capital Region on the next steps for the Fund, and reaching out to other communities on Vancouver Island. We will continue to work with other interested stakeholders to improve the enabling environment for community investment and social finance, and welcome the support and further comment and discussion on these proposals.

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