

# Written Submission for the Pre-Budget Consultations in Advance of the 2023-24 Federal Budget

By the Canadian Worker Co-operative Federation

Solidarity Works / La Solidarité nous réussit

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**Recommendations:**

- Recommendation 1: That the Government of Canada provide tax and other incentives to worker co-operatives in harmony with any incentives provided to Employee Ownership Trusts.
- Recommendation 2: That the Government support CWCF's *Building Community Resiliency* program to maintain and create jobs and businesses, primarily through conversions to worker co-operatives.
- Recommendation 3: That the Government's economic programs focus on equity-seeking groups.
- Recommendation 4: That the Government amend the *Income Tax Act* in order to create tax fairness for worker co-operatives.
- Recommendation 5: That the Government implement the recommendations from the Social Innovation and Social Finance (SI/SF) Strategy, as detailed in the pre-budget submission from the Canadian CED Network (CCEDNet).

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

Many Canadians are suffering in the current economic climate, as we struggle to recover from Covid-19, face significantly rising prices for basic needs, and as income inequality continues to grow. Equity-deserving groups including Indigenous peoples, racialized Canadians, women, and youth face greater challenges and especially deserve support. Many businesses are threatened, through labour shortages, supply chain issues, and inflation. The negative impacts of climate change are becoming increasingly clear. More than ever, people-centric and planet-centric solutions are required to address the complex needs facing us today.

Co-operatives are a democratic form of enterprise based on mutual self-help. A worker co-operative<sup>1</sup> is a democratic form of employee ownership. Although not generally well-known, worker co-operatives have a proven track record and a superior survival rate compared to other enterprises.<sup>2</sup> They are built on the [internationally agreed-upon co-operative values and principles](#). 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.<sup>3</sup>

### **1) Harmonization of Incentives for Worker Co-operatives and Other Forms of Employee Ownership**

The Canadian Worker Co-op Federation (“CWCF”) is very pleased to see the Government of Canada’s interest in employee ownership. As evidenced by the 2021 budget ([Page 123](#)), there is growing acknowledgement of the advantages of employee ownership as a succession planning tool, including Employee Stock Ownership Plans (“ESOPs”) and Employee Ownership Trusts (“EOTs”).

There are various types of employee ownership structures and when the employees become owners, they should have the choice of the legal structure under which they wish to operate. As a result, **the various incentives and taxation considerations for the seller, the enterprise, and the employees should receive equal or comparable treatment** in the various forms of employee ownership, including in worker co-operatives. For more information, see [this link](#).

### **2) Building Community Resiliency: A Proposal to Save Businesses**

COVID-19, inflation, and other challenges have created grave economic uncertainty in Canada, with many businesses threatened. CWCF has a vision and a plan to save threatened businesses and to maintain/ create living-wage employment. 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

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<sup>1</sup> “Worker Co-operatives” include: co-operatives which are 100% employee-owned, plus multi-stakeholder co-ops (“*coopératives de solidarité*” in Quebec) with substantial worker control, and worker-shareholder co-ops.

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

<sup>3</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>

be tested if partially funded and operated initially as a pilot project, and CWCF is willing to explore a smaller, pilot approach. The Program could be rolled out on a pilot basis in one region or sector.

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-operatives. 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 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 to worker co-operatives, and for other supports to worker co-operatives. (\$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. 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, would be prioritized.

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](#).

### **3) Focus on Equity-seeking groups**

CWCF recommends that the Government's economic recovery approach focus on equity-seeking groups. This is not only the right thing to do, but is urgently needed due to the evidence that Indigenous people, racialized communities, women, and youth have been heavily impacted in the current economic climate.

Worker co-operatives help to address inequality because the ratio of highest- to lowest-paid is far lower than in conventional businesses. They support 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.<sup>4</sup> 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.<sup>5</sup>"

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<sup>4</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>5</sup> <https://smlr.rutgers.edu/rutgers-kellogg-report>

Our *Building Community Resiliency* program would help to address these issues. We will focus attention on racialized communities, in rural communities, and among women and youth.

We urge the Government to focus on equity-seeking groups in all of its economic support programs.

#### **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, to help ensure fair taxation and regulation for Worker Co-operatives.

##### **a) Ensure co-op entrepreneurs are eligible for the Small Business Deduction without penalty.**

CWCF is advocating that the Government of Canada ensure that entrepreneurs and businesses are not penalized when claiming the Small Business Deduction (SBD) simply because they are members of a co-operative operating in sectors other than agriculture and fisheries.

This can be accomplished by expanding the Specified Farming and Fishing Income (SSFI) definition, to apply other industrial sectors. For more information, please see [this link](#) of Co-operatives and Mutuals Canada.

##### **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 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.

**5) Fully Implement the Recommendations from the Social Innovation and Social Finance (SI/SF) Strategy**

CWCF supports the CCEDNet position that the Government of Canada fully implement the recommendations from the Social Innovation and Social Finance (SI/SF) Strategy including:

1. Establish the Social Innovation (SI) Advisory Council
2. Launch the Social Finance Fund (SFF)
3. Co-create a Social Innovation Ecosystem Program including:
  - a. Expanding and renewing the Investment Readiness Program
  - b. Accelerating implementation of the *[Directive on the Management of Procurement](#)*
  - c. Making targeted federal investments to co-op and non-profit models for business succession
4. Establish a Social Innovation Evidence Development and Knowledge-Sharing Initiative
5. Coordinate a national SI/SF Awareness Campaign

**Conclusion**

In conclusion, people naturally turn to each other for mutual support in times of crisis. The economic crises of today can be addressed in part by formal co-operation among workers and communities.

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 of Canada, to help build back better.