Written Submission for the Pre-Budget Consultations in Advance of the 2024 Federal Budget

By the Canadian Worker Co-operative Federation

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Recommendations:

• Recommendation 1: That the Government of Canada provide tax and other incentives to worker co-operatives in harmony with incentives provided to Employee Ownership Trusts – our focus.

• 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, with a focus on equity-denied groups.

• Recommendation 3: That the Government amend the *Income Tax Act* in order to create tax fairness for worker co-operatives.

• Recommendation 4: That the Government implement the recommendations from the Social Innovation and Social Finance (SI/SF) Strategy, per the submission from the Canadian CED Network (CCEDNet).

How Worker Co-operatives Can Help the Canadian Economy

Canadians are facing an uncertain economic climate, where both income inequality and the price of basic needs continue to increase, notably for equity-denied groups including Indigenous peoples, racialized Canadians, women, and youth. Many businesses are threatened by 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, and **a Worker Co-operative[1] is a democratic form of employee ownership**, built on the internationally agreed-upon co-operative values and principles. Although not generally well-known, worker co-operatives have a proven track record and a superior survival rate compared to other enterprises.[2] 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,
3) significant potential to alleviate income inequality,
4) improved quality of work life due to workers having greater control and more aligned incentives, and increased skills development.[3]

1) Harmonization of Incentives for Worker Co-operatives and Employee Ownership Trusts

The Canadian Worker Co-op Federation ("CWCF") is pleased to see the Government's interest in employee ownership. There is growing acknowledgement of the advantages of employee ownership for succession planning, including Employee Ownership Trusts ("EOTs"). Budget 2023 commits to making changes to allow for EOTs to be created, as a solution for succession planning within small and medium enterprises (SMEs) that face closure if their owners do not sell the business. Generational renewal is a key concern as SMEs are owned by an aging population and communities may experience job losses without a plan for succession to new owners.

EOTs, allowing owners to sell their business to worker-owners, are considered another viable policy option alongside worker co-operatives. It's essential that worker co-ops remain a viable and robust option as SMEs consider converting to a co-operative model, and that Government facilitates the success of that option with a policy environment open to co-ops.

Any 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. Every kind of employee ownership should have access to comparable types of tax incentives and other incentives. That is what fairness would require; simply put, there should be a level playing field. More information is available here.

[1] "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.

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

[3] 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) Building Community Resiliency: A Proposal to Save Businesses

Inflation, accelerating retirements, and other challenges have created grave economic uncertainty and threaten many businesses in Canada. Through the *Building Community Resiliency* program (BCR), CWCF has a vision and a plan to sustain businesses and to maintain/create living-wage employment, aiding the Government in effectively delivering support to enterprises whose owners, investors, and workers are concerned about business survival.

To relieve distressed business owners from the entire burden of owning and operating an enterprise, CWCF would support owners in planning the conversion of their businesses to Worker Co-operatives, while continuing to be participants in the businesses whenever possible. With this program, CWCF would take on the responsibility of delivering support to transitioning enterprises through its established networks, including allied organizations such as national, and provincial co-operative associations.

CWCF's BCR 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*.
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.
c) Provide funds for the promotion of the program.

The BCR 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. Total investment from the Government: up to $91 million. The full proposal can be found here. If partially funded, CWCF is willing to explore launching the BCR as a smaller pilot project, in one region or sector.

Focus on Equity-denied groups

With Indigenous people, racialized communities, women, people with disabilities, those in the LGBTQ2S+ community, rural people, and youth having been heavily impacted in this economic climate, CWCF recommends that the Government's economic recovery approach focus on equity-denied groups and urges the Government to focus on them in all of its economic support programs.

Worker co-operatives help to address inequality, as the ratio of highest- to lowest-paid employees is far lower than in conventional businesses, and create accessible opportunities for business ownership. CWCF is actively running an Investment Readiness Program (IRP)-funded project on Justice, Equity, Diversity, Decolonization, and Inclusion (JEDDI) Business Conversions to Social Purpose Organizations; see this link.

> "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

[4] https://www.ownershipeconomy.org/wp-content/uploads/2017/05/employee_ownership_and_economic_wellbeing_2017.pdf

dramatically higher household wealth, and employee ownership significantly narrowed the gender and racial wealth gap.[5]"

CWCF's *Building Community Resiliency* program would help to address these issues, by prioritizing equity-denied groups.

3) 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 expand the Specified Farming and Fishing Income (SSFI) definition, to apply to other industrial sectors. For more information, please see this link of Co-operatives and Mutuals Canada.

This would ensure that co-operative entrepreneurs and businesses, that operate in sectors other than agriculture and fisheries, are not penalized when claiming the Small Business Deduction (SBD).

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, and is one of the reasons that the Quebec worker co-op sector is so strong and dynamic.

The program supports the capitalization of eligible co-operatives. 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.

A comparable program throughout Canada would 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, 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. Should a co-operative cease to exist (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 as it is indivisible. 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 with indivisible reserves essentially mirror a non-profit society, to the degree that they make their reserve indivisible. CWCF recommends that any surplus or profit which a co-

[5] https://smlr.rutgers.edu/rutgers-kellogg-report

operative puts into an "indivisible reserve" should be exempt from corporate tax, as this reserve is no longer for private benefit but for collective benefit.

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.

d) <u>Restore the Pre-2011 Rules Regarding Self-directed RRSPs in Co-ops</u>

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 simultaneously 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 and has significantly decreased the number of co-ops, including Worker Co-ops, which can use a self-directed RRSP program.

Previously, the criteria for eligible investments was either:

- 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.

CWCF would like to see this RRSP cap 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. This fiscal measure should apply to both RRSPs and TFSAs to broaden the capacity for co-operatives to use these programs.

i. <u>Fully Implement the Recommendations from the Social Innovation and Social Finance (SI/SF) Strategy</u>

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

1. Renew and expand the Investment Readiness Program to serve as a permanent Social Innovation Ecosystem Program, i.e. $324M over 5 years: $170M for social purpose organization investment readiness, $59M for ecosystem building, $22.6M for evidence-development & knowledge-sharing, $22.5M for awareness raising, $50M for best-value procurement, and business succession to co-ops and non-profits.
2. Expand the Social Finance Fund to include a Black-led and Black-serving fund manager. (Conditionally repayable capital allocation of $70M over 10 years, at an estimated net cost of $14M over the same period).
3. Draw on the Social Innovation Advisory Council (SIAC) to provide advice on how federal programs/policies can best support SI/SF ecosystems as well as oversee the co-creation process for subsequent actions to implement the Strategy. (No impact on Budget.)

<u>Conclusion</u>

Mutual support is a key tool 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 and its members from all regions in Canada are ready and able to partner with the Government.