Submission for the Pre-Budget Consultations 2025 Federal Budget

From the Canadian Worker Co-operative Federation (CWCF)

Solidarity Works / La Solidarité nous réussit

Recommendations:

I. That the Government of Canada implement the tax incentives announced for worker co-operatives in harmony with incentives provided to Employee Ownership Trusts.

II. 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.

III. That the Government amend the *Income Tax Act* to create tax fairness for worker co-operatives.

IV. That the Government implement the recommendations from CCEDNet to build and strengthen the Social and Solidarity Economy.

Worker Co-operatives Can Help Canadians Build a Solidarity Economy

Canadians are facing a challenging economic climate, with a high cost of living, increasing unemployment, and growing income inequality, notably for equity-denied groups. Many businesses are threatened by the Silver Tsunami of business owner retirements, inflation, and the weakened economy since the pandemic. "Business insolvencies in Canada jumped the most in 36 years of records in 2023. … Bankruptcies were up 75.6 % year over year."[1] The negative impacts of climate change are becoming increasingly clear. People-centric and planet-centric solutions are required to address the complex needs facing us today.

A co-operative is a democratic form of enterprise based on mutual self-help, and a worker co-operative[2] is a democratic form of employee ownership built on the international co-operative values and principles. Worker co-operatives have a proven track record and a superior survival rate compared to other enterprises.[3] Over 100 studies across many countries indicate that employee ownership is linked to:

1) increases in firm performance and 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.[4]

The UN has declared 2025 an International Year of Co-operatives, one of whose objectives is to encourage governments to create an enabling environment for co-operatives. We look forward to collaborating with Government to help create this environment.

I. Harmonization of Incentives for Worker Co-ops and Employee Ownership Trusts

The Canadian Worker Co-operative Federation ("CWCF") is pleased to see the Government's recognition of the advantages of employee ownership for succession planning. Budget 2024 commits to providing a $10 million capital gains tax exemption on sales of business shares to Employee Ownership Trusts ("EOTs") and worker co-operatives, along with other measures. Employee ownership is 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.

Legislation has been introduced to provide these measures to EOTs, but not yet for worker co-ops. It's essential that worker co-ops remain a viable and robust option as SMEs consider converting to an employee-ownership model, and that Government facilitates the success of that option with a policy environment open to co-ops.

Simply put, there should be a level playing field for different types of employee ownership. We greatly appreciate the commitment to including worker co-operatives and look forward to enabling legislation shortly.

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[1] Financial Post article, February 5, 2024.
[2] "Worker co-operatives" include, for CWCF: co-operatives which are 100% worker-owned, multi-stakeholder co-ops ("*coopératives de solidarité*" in Quebec) with substantial worker control, and worker-shareholder co-ops.
[3] https://www.co-oplaw.org/special-topics/worker-cooperatives-performance-and-success-factors/
[4] Study by Douglas Kruse, Rutgers University, 2016, https://wol.iza.org/uploads/articles/311/pdfs/does-employee-ownership-improve-performance.pdf

II. Building Community Resiliency: A Proposal to Save Threatened Businesses

Many businesses are threatened in Canada, in significant part due to the "Silver Tsunami" of retirements. Through the *Building Community Resiliency* Program (the "Program"), 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, workers, and communities are concerned about business survival.

To assist business owners who wish to sell their businesses, CWCF would support owners in planning the conversion of their businesses to worker co-operatives. 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.

The proposal includes three components, the first two of which are our current priorities:

a) Invest in 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.
b) Provide funds for Program promotion.
c) Invest in a dedicated capital fund (CWCF's existing *Tenacity Works Fund*) for the conversion of other forms of enterprise to worker co-operatives, as well as development and expansion of worker co-operatives generally.

The Program would assist SMEs to survive and thrive. The strengths of worker ownership would become part of the DNA of SME's which transition to worker co-operatives. Sectors which are especially in need of support and transformation, including home care / elder care, hospitality and tourism, would be prioritized, as would businesses led by and serving equity-denied groups.

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 for the first two components would require on average $4.2 million/ year over five years. The third component, capital would require a Government investment of approximately $14 million / year over five years The Program would require that participating businesses provide matching funding. Regarding capital, our Fund has been able to obtain an average of 4:1 matching. Note that CWCF is willing to launch this Program as a smaller pilot project.

Focus on Equity-denied groups

Indigenous people, racialized communities, women, people with disabilities, those in the LGBTQ2S+ community, rural people, and youth have been heavily impacted in this economic climate. CWCF recommends that the Government focus on equity-denied groups in all 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 they create accessible opportunities for business ownership.

> "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.[5] Another study showed that lower-income workers … in worker-owned firms had

[5] 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.[6]"

CWCF's *Building Community Resiliency* Program would help to address these issues, by prioritizing equity-denied groups. It would build on CWCF's successful Investment Readiness Program (IRP)-funded project, Justice, Equity, Diversity, Decolonization, and Inclusion (JEDDI) Business Conversions to Social Purpose Organizations, completed in March, 2024; see this link.

III. Income Tax Reform to Help Worker Co-ops Succeed

Worker co-operatives do not benefit from capital gains tax exemptions. To help level the playing field with business corporations, CWCF seeks the following reforms, to help ensure fair taxation 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 ("CMC").

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 five years.

A comparable program throughout Canada would support and grow the worker co-op sector. See this CMC link for more.

c) Fair Tax Treatment for Worker Co-ops with 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. The indivisible reserve can be created either because it is required by legislation (Quebec or Newfoundland – for all co-ops), or because the co-op chooses 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 (profit) which a co-operative puts into an

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

"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. More information is available from CMC here.

d) Improve Co-operatives' Ability to Raise Capital using Registered Plans

One of CWCF's services is administering registered plans in co-operatives, CED Funds, and non-profit organizations. There are currently 63 members using our program, with nearly $70 million under administration in local communities.

A great deal of capital is held in registered plans, and easier access to that capital for co-operatives would be immensely helpful. We seek legislative changes to make it easier for co-op investments to qualify for registered plans, as outlined in detail in this submission to Finance Canada.

1. Co-operatives need to be able to reach out to their non-member supporters for the capital they need. Currently the definition of a "Specified Co-operative" in the *Income Tax Act* requires that 90% of shares be held by members. We recommend removing or reducing this requirement.

2. Shares are considered a prohibited investment for an RRSP/ TFSA if the annuitant (together with connected persons and RRSPs/TFSAs) holds 10% or more of the issued shares of any class. Some worker co-operatives have fewer than ten members. We recommend that the prohibited investment rule not apply to worker co-operatives.

3. A "designated shareholder" is defined to include a person owning not less than 10% of the issued share of any class of the corporation, or if >10%, the shares cost <$25,000. Since the number of employee-shareholders in a worker co-operative can be less than 10, this could prohibit their ability to invest in the co-operative through a registered plan and place each member in jeopardy of becoming a designated shareholder. We recommend that the designated shareholder provision be clearly stated to not apply to members of worker co-operatives.

IV. Implement the Recommendations from CCEDNet

CWCF supports the CCEDNet recommendations, that the Government:

a. Launch a Social and Solidarity Economy Ecosystem Program.

b. Following the lead of jurisdictions around the world and in Quebec advancing an SSE agenda, implement framework legislation with specific mechanisms and measures to strengthen the Social Innovation and Social Finance ecosystem in Canada.

c. Integrate a Social and Solidarity Economy approach into the Government of Canada's housing policies.

Conclusion

Mutual support is a key tool in times of crisis. The economic crises of today can be addressed in part by formal co-operation; the worker co-operative model should be one tool in the Government's toolkit.

We envision a co-operative economy whose goal is to serve the needs of the people who build it. In partnership with Government, CWCF and its allies can help to create this co-operative economy.