

2010 federal budget: highlights for co-operatives and credit unions

Ottawa, March 5, 2010 -- With the exception of a provision for federally-chartered credit unions, there was very little in the 2010 federal budget specifically aimed at the co-operative sector.

The government entitled the budget "Leading the way on jobs and growth", but there were few new measures relating to job creation, economic growth or social programs. The budget, on the other hand, offered a continuation of the stimulus package first announced in 2009 and no new tax changes.

Most new budget provisions were aimed at reducing the high federal deficit and planning to virtually eliminate it over five years. Federal spending will be reduced by \$17.6 million over the next five years, and the government is hoping that market growth will produce increased tax revenues.

The Canadian Co-operative Association (CCA) was disappointed that the budget did not include elements of its proposed Co-operative Investment Strategy: a Co-operative Investment Plan which would provide tax credits for members of producer and worker co-ops who invest in their co-operatives, and a co-operative development fund which would be a repayable loan fund for co-ops seeking financing. These proposals have received strong support from the co-op sector and were also endorsed by the all-party House of Commons Standing Committee on Finance. CCA, together with the Conseil canadien de la coopération et de la mutualité, will continue to urge the government to institute these measures.

Credit unions

The most important new provision of the budget that directly affects the co-op sector is the announcement that the government will introduce legislation to allow credit unions to incorporate federally, described by Credit Union Central of Canada as "an historic announcement for the evolution of the credit union system in Canada." Canadian Central has been actively lobbying for this provision, which would mean that a credit union could, if it so chooses, expand beyond provincial borders under a federal charter. More than 100 years ago, Alphonse Desjardins campaigned for federally-incorporated credit unions.

The budget also makes it clear that federally chartered credit unions would operate under the same income tax rules as provincial credit unions. This includes extended access to the small business tax rate and the deductibility of patronage-like payments of bonus interest and allocations in proportion to borrowing. The budget does not indicate whether GST/HST rules for federal and provincial credit unions will also be consistent, an issue Canadian Central is planning to pursue with the government.

The budget announcement also does not deal with another key issue of concern to Canadian Central: whether federal credit unions will be incorporated under special provisions of the Bank Act, the Cooperative Credit Associations Act or other legislation. Canadian Central and Desjardins have both expressed the view that they would prefer that federal credit unions be incorporated under credit union-specific legislation, rather than the Bank Act.

International development

One issue of significant concern to CCA and other co-operative organizations involved in international development is the government's decision to cut back on planned increases to international development assistance over the next five years. There will be an eight per cent increase in development spending this year - honouring a pledge made by the Liberal government in 2002. After that development assistance spending will be frozen.

The intent is to save \$4.4 billion dollars over the next five years - one quarter of the total savings outlined in the budget. Recent government commitments will place significant pressure on the remaining development budget. For example, Canada has pledged an additional \$135 million to assist Haiti in its reconstruction efforts. Given the

magnitude of the need there it is not inconceivable that more money may be needed. Last July, Canada also pledged \$600 million to a global initiative on agriculture and food security. Of that, \$260 million will go to the World Bank. As well, Canada will champion new spending in support of maternal and child health at the G8 Summit in Muskoka this summer. So far there are no numbers associated with that commitment, although experts are estimating that it will cost Canada between \$200 and \$400 million per year.

The result will certainly mean fewer dollars available for Canadian civil society organizations involved in development assistance around the world, however it is yet to be seen how this will affect CCA's International Development program, which is largely funded by the federal government through CIDA. At the same time, it is possible that co-op sector International Development initiatives may benefit from Canada's commitment in the area of global food security, since CCA has a strong track record on agriculture-related development projects.

Agriculture

There was very little new attention to agriculture in the budget, except for highlighting what the federal government has done to date. Items mentioned were the \$500-million Agricultural Flexibility Fund and the \$50-million Slaughter Improvement Program (which had already been announced as part of the Economic Action Plan) and the new Market Access Secretariat which is promoting access to foreign markets for Canadian agricultural products.

Budget 2010 outlined three measures to assist Canadian cattle producers. These measures will be funded from the existing Agricultural Flexibility Fund and do not involve new money. They include \$10 million added to the Slaughter Improvement Program to support the "introduction of new, cost-effective technologies", \$25 million targeted to cattle processing plants that handle cattle over 30 months of age, and \$40 million over three years to support the development and commercialization of innovative technologies for the removal and use of "specified risk materials". Co-ops are eligible but must be federally inspected plants.

While the Canadian Wheat Board was not specifically mentioned, the government took the opportunity to announce that it remains committed to "working with Canadian grain farmers to promote marketing freedom to address evolving needs of the sector."

Of the \$19 billion slated for new federal stimulus, \$2.2 billion was committed to support Industries and Communities. The budget document says: "This will support adjustment and provide job opportunities in all parts of Canada that have been hit hard by the economic downturn. It provides support for affected sectors, including forestry, agriculture, small business, tourism, shipbuilding and culture".

Healthy food in northern Canada

The budget commits an additional \$45 million over two years, bringing the total to \$60 million, to fund a new version of the Food Mail Program, which improves access to healthy food for residents of Canada's North. The program will alleviate the costs of shipping healthy food by air to northern communities and include activities to encourage nutritious eating.

This will have a positive impact on Arctic Co-operatives Ltd., in providing ACL with better access to fresh produce and other healthy food to be sold in northern communities. ACL has been very active in negotiating with the government on this issue.

All businesses

The following measures are aimed at all businesses and could potentially benefit co-operatives:

- As previously announced, the government is lowering the federal corporate tax rate from 22.12 per cent (including the corporate surtax) in 2007 to 15 per cent in 2012.
- Establishing a new Small and Medium-sized Enterprise Innovation Commercialization Program, where federal departments and agencies will adopt and demonstrate the use of innovative prototype products and technologies developed by small and medium-sized businesses. The government will provide \$40 million over two years to support up to 20 demonstration projects and organize regional trade shows so that companies can showcase their innovative concepts to federal departments.
- Renewing \$49 million in annual funding for Regional Development Agencies (RDAs) to support innovation. Modest funding was allocated to ACOA, WD and CEDQ, but not to the two Ontario RDAs. This funding

could potentially help co-ops seeking assistance in funding the development of new products.

- Cutting red tape for business by establishing a new Red Tape Reduction Commission, involving both Parliamentarians and private sector representatives, to review federal regulations.
- Improving business access to federal programs and information through a new private sector Advisory Committee on Small Business and Entrepreneurship, which will report to the government through the Minister of State (Small Business and Tourism).
- Making Canada a tariff-free zone for industrial manufacturers by eliminating all remaining tariffs on machinery, equipment and goods imported for further manufacturing.
- \$135 million over the next two years to build on the success of the National Research Council's Regional Innovation Clusters, which develop networks of innovative businesses, NRC scientists and communities.

Housing

There were no new budget provisions affecting co-operative housing, above and beyond the stimulus funding that had been previously announced in 2009. A total of \$7.7 billion in funding to modernize infrastructure, support home ownership and improve social housing will be spent this year as part of the Economic Action Plan.

The Co-operative Housing Federation of Canada says it is pleased that the federal government will continue the flow of stimulus funding to Canada's affordable housing providers, including federally-administered housing co-operatives.

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For more information about the federal budget and its impact on the co-op sector, contact John Anderson, Director of Government Affairs and Public Policy, at 613-238-6711, ext. 228 or john.anderson@coopscanada.coop.

The Canadian Co-operative Association is a national association for co-operatives in Canada, representing more than nine million co-operative and credit union members from over 2,000 organizations. CCA members come from many sectors of the economy, including finance, insurance, agri-food and supply, wholesale and retail, housing, health and the service sector. CCA provides leadership to promote, develop, and unite co-operatives and credit unions for the benefit of people in Canada and around the world. Visit our web site at www.coopscanada.coop