Subject: Measure supporting the development and capitalization of Québec cooperatives

This information bulletin describes the application details of a new measure supporting the development and capitalization of Québec cooperatives, namely the deferral of tax on certain rebates received by members of Québec cooperatives, announced today in a press release by the Deputy Prime Minister and Minister of State for the Economy and Finance, Pauline Marois.

For information concerning this subject, contact the Secteur du droit fiscal et de la fiscalité at (418) 691-2236.

The French and English versions of this bulletin are available on the Web site of the ministère des Finances at: www.finances.gouv.qc.ca

Paper copies are also available, on request, from the Direction des communications, at (418) 691-2233.
Cooperatives are an integral part of the social and economic landscape in every region of Québec. Particularly because of their central place in Québec's agri-food industry, the cooperatives are often the engine of lasting regional development, because of both the jobs and general economic activity they stimulate.

However, if Québec's cooperatives are to survive, they must adapt to the reality of the new millennium and take their place on the global market. The Québec government is aware of the importance of this issue and has undertaken to formulate a cooperatives development policy that will reflect the specific features and situation of Québec's cooperatives, to enable them to achieve their full economic potential.

In this context, a new fiscal measure will be introduced to support Québec's cooperatives in their development projects and to encourage their capitalization. This measure makes use of a financial feature of the cooperative model: the member rebate.

In general, a cooperative can allocate a rebate in many ways, in particular through cash payments, issuing an acknowledgment of debt or issuing a preferred unit of the cooperative. The current tax legislation stipulates that the member receiving such rebate, other than a rebate relating to goods or services whose cost he cannot deduct in calculating his business or property income, must include its amount in calculating his income for the taxation year in which it is received.

To encourage members of Québec cooperatives to participate in the development of their cooperative, the tax legislation will be amended to defer taxation of an eligible rebate received by a member of an eligible cooperative. This tax deferral will be allowed regarding eligible rebates received by members of such a cooperative within the next 10 years. The Québec government, working with the cooperative community, will eventually assess the impact of this measure in relation to its objective and study whether it is useful to renew it.

More specifically, a taxpayer, member of an eligible cooperative, during one of its taxation year, who receives an eligible rebate, in the form of a preferred unit, during a taxation year, will be able to defer the tax on the value of such preferred unit, until its alienation.
Eligible rebate

For the purposes of this measure, an eligible rebate, for a taxation year, means a rebate received as preferred units of an eligible cooperative and whose amount must be included in calculating the income of the member who received such rebate, for the taxation year during which such rebate is received.

Eligible cooperative

An eligible cooperative, for a taxation year, means a cooperative that has received a certificate from the ministère de l'Industrie et du Commerce (MIC), for such taxation year, to the effect that it satisfies all the following conditions:

— it belongs, for such taxation year, to one of the following categories of cooperatives:

  – a labour cooperative;

  – a cooperative at least 90% of whose activities consist of manufacturing, processing or agricultural activities;

  – a cooperative at least 90% of whose activities consist in supplying goods or services that enable the persons who do business with the cooperative to earn business or property income;

  – a cooperative a majority of whose members carry on an agricultural business registered with the ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ) as an agricultural operation, for the purposes of the Regulation respecting the registration of agricultural operations and the reimbursement of real estate taxes and compensations (R.R.Q., c. M-14, r. 2.2.);

  – a federation of cooperatives the majority of whose members are cooperatives as described above or persons who carry on an agricultural business registered with the MAPAQ as an agricultural operation;

  – a confederation of federations of cooperatives a majority of whose federation members are federations as described above;
— its senior management is in Québec and at least half the salaries paid to its employees, during its fiscal year ended before such taxation year, were paid to employees of an establishment located in Québec;

— its capitalization rate, at the end of its fiscal year ended before such taxation year, is no more than 50%.

For the purposes of the latter criterion, the capitalization rate of a cooperative means the proportion represented by the relation between the total equity and total assets, calculated in accordance with generally accepted accounting principles using the audited financial statements of the cooperative.

### Application details

The amount of eligible rebates received by a member will continue to be included in calculating such member’s income, for the taxation year in which such rebates will be received. However, the amount of eligible rebates so received by a member during a taxation year, may be deducted in calculating his taxable income, for such taxation year. For greater clarity, for the purposes of the Taxation Act as a whole, the deferral of taxation of an eligible rebate will not change the tax attributes of the unit of the cooperative regarding which such deferral is allowed.

In order to be able to claim this deduction, for a taxation year, the member of an eligible cooperative must enclose with his tax return, for such taxation year, the form prescribed by the ministère du Revenu (MRQ) indicating the amount of the eligible rebate included in the amount of the total rebates received from a cooperative for such taxation year.

### Administrative rules regarding eligibility certificates

To enable a member to claim the deduction for an eligible rebate, a cooperative must submit an eligibility certificate application annually to the MIC, no later than four months after the end of the taxation year for which it wishes to obtain an eligibility certificate. The application must be accompanied by the documents and information the MIC considers necessary to enable it to decide on compliance with the eligibility criteria mentioned above.

---

1 Currently RL-1 Slip.
In the specific case of a taxation year ended before the date of publication of this Information bulletin, a cooperative may submit an eligibility certificate application to the MIC, relating to this taxation year, no later than four months after the date of publication of this Information bulletin.

In addition, the MIC may consult with the MRQ regarding the proportion of the salaries paid by the cooperative, to employees of an establishment located in Québec. For greater clarity, only the information needed by the MIC to determine the size of the payroll in Québec will be forwarded to the MIC, in order to preserve the otherwise confidential nature of the information obtain by the MRQ in the course of applying a tax law.

The MIC must forward a copy of the cooperative’s annual eligibility certificate, issued by the MIC for a taxation year, to the MRQ.

![Revocation of an eligibility certificate](#)

The MIC may revoke an annual eligibility certificate issued for a cooperative if the facts on which the issuing of the certificate was based, for a given taxation year, prove to be inaccurate. The MIC will then send the MRQ a copy of the cooperative’s cancelled annual eligibility certificate.

A cooperative whose annual eligibility certificate is revoked must pay a special tax to the MRQ equal to 10% of the total amount of eligible rebates paid in relation to the taxation year for which the eligibility certificate initially issued was revoked.

For greater clarity, the amount of the deduction for an eligible rebate that has been allowed a member of a cooperative, in relation to a taxation year with respect to which the annual eligibility certificate of such cooperative has been revoked, will not be changed, by the MRQ, solely because of such revocation.
Inclusion in the calculation of taxable income

Upon the subsequent alienation of a preferred unit of a cooperative with respect to which a deduction for an eligible rebate has been allowed, the member who claimed such deduction must include, in calculating his taxable income for the taxation year in which such unit is alienated, the amount of the deduction for an eligible rebate he claimed in relation to such unit.

For greater clarity, the inclusion in the calculation of a member's taxable income of the amount of the deduction for an eligible rebate previously allowed in relation to a unit of a cooperative will not affect the tax consequences of the alienation of such unit.

Furthermore, to give full effect to the tax deferral of an eligible rebate, a presumption will apply to determine the order in which alienation of the preferred units will be considered for the application of the rules regarding the inclusion in the income. Accordingly, when over time, a member acquires many preferred units of the same cooperative and such units are identical assets, such member shall be deemed to have alienated such units in the order in which they were acquired. Accordingly, a member will be considered to have alienated a preferred unit regarding which a deduction for an eligible rebate has been allowed only once he has alienated all the other preferred units acquired before such unit.

Lastly, when a cooperative redeems a preferred unit, previously issued as an eligible rebate, the cooperative must forward to the MRQ, the prescribed form showing the member's name, from whom preferred unit has been redeemed and the amount paid in this regard. For greater clarity, the presumption described above, stating that the order in which alienation of the preferred units, which are identical assets will be considered, will also apply in order to determine if a specific preferred unit has, whether or not, been issued as an eligible rebate.

Other application detail

In order to fully defer taxation of an eligible rebate, an individual who, for a taxation year, has claimed the deduction for an eligible rebate, may also claim this deduction in calculating his adjusted taxable income, for such year, for the purposes of the alternative minimum tax.
Integrity of the measure

Should the federal tax authorities not act on the invitation of the Québec government to offer the same treatment to members of Canadian cooperatives for the purposes of the federal tax system, special rules applicable in the context where a member who has claimed the deduction for an eligible rebate ceases to be a resident of Québec, or carries on a business in several jurisdictions, will be specified at a later date.

Eligibility period for the deduction for an eligible rebate

The deduction for an eligible rebate will be allowed regarding an eligible rebate received after the date of publication of this information bulletin and no later than December 31, 2012.