

Co-op Comparisons

Legal Characteristics of Co-operative, Private and Not-for-Profit Corporations

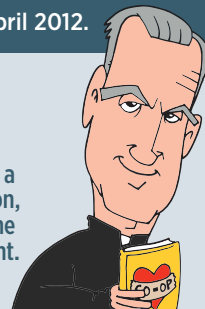
Co-operative Corporation	Business Corporation	Not-for-profit Corporation
Principles		
Limited Liability	Limited Liability	Limited Liability
Primary purpose is to provide goods and/or services to members.	Primary purpose is to maximize shareholders' wealth.	Primary purpose is to further community, social, cultural or environmental objectives.
Control by members.	Control by shareholders.	Control by members.
Surplus, if distributed, primarily to members as patronage dividends, after reasonable return paid on invested capital. No capital gains.	Unlimited return on shareholders' capital through dividends and capital gains.	Business is carried on without the purpose of gain for members. Surplus is retained to further the organization's purposes.
Co-operative's income is taxable (unless not-for-profit); patronage dividends are deductible from co-op's taxable income.	Income is taxable; dividends are paid from after-tax income.	Normally exempt from income tax.
Voting		
Each member has one vote, regardless of the amount invested.	Shareholders' voting rights are based on the number of voting shares held.	Members are generally entitled to one vote, but may have multiple votes or no votes.
Shares		
May, or may not have share capital; every member must hold one membership share to have voting rights. Preference shares may be held by non-members.	No restrictions on the purchase or sale of shares.	No share capital.
Shares are sold by the co-operative and can be transferred only with Board approval.	Shares may be traded if a market exists, subject to any shareholders' agreements to the contrary.	
Securities Regulation		
Sale of shares (and other securities) regulated under the <i>Co-operative Corporations Act</i> ; offering statement is required unless exemption available: less than 35 security holders, less than \$200,000 capital, securities sales to members of less than \$1,000/year.	Sale of shares (and other securities) regulated under the <i>Securities Act</i> . Prospectus required unless exemption available: less than 35 security holders if no offering to the public, sophisticated investors.	Sale of bonds, debentures and other securities generally exempt from regulation.
Distribution of Surplus		
Surplus, if distributed is normally paid to members as patronage dividends, based on their use of the co-op (often as shares, rather than in cash).	Surplus (or profit) is principally distributed as dividends and paid to shareholders based on the number of shares held.	No surplus may be distributed to members.
Dissolution		
Distribute all assets (after payment of debts and liabilities), and the par value of shares to their holders, either equally among all members, among members based on patronage dividends accrued over the preceding five years, or, if not-for-profit, to another co-op or charitable organization.	Common shareholders have the right to receive all assets remaining after payment of all debts, liabilities and other shareholders' entitlements.	Upon dissolution, all remaining assets must be distributed to a charitable organization or other organization whose objects are beneficial to the community. Some "member-benefit" not-for-profits may be permitted to distribute net assets among members.

Developed by Brian Iler, Iler Campbell LLP for the Ontario Co-operative Association. Updated April 2012.



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Moses Coady (1882-1959) was a Canadian co-op champion, educator, priest and leader of the Antigonish Movement.



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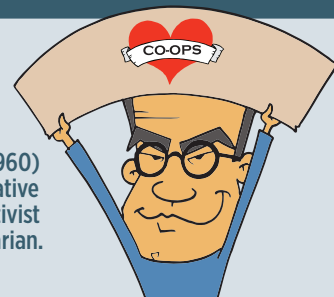
Co-operatives and Private Business Models

Considerations	Co-operative corporation	Business corporation	Partnership	Sole proprietor
Values	Democratic equality, sharing, community focus, needs-based; International Co-operative Principles.	Hierarchical, profit-focused, maximize shareholders' wealth.	Depends on partners' value system.	Personal values of owner.
Application	Applies to any kind of business or need.	Applies to any kind of business.	Usually small businesses and some professionals.	Usually small businesses.
Ownership	Worker – 3 or more employee-members Other – 5 or more members	One or more individuals or corporations.	Two or more individuals or corporations.	Individual.
Decision-making	Democratic – one member one vote.	Based on number of voting shares held.	Informal or as set out in written partnership agreement.	Owner makes the final decisions.
Legal Set-up • Legislation • Cost	Simple to Complex • <i>Co-operative Corporations Act</i> • \$1,000 plus (less than \$500 for incorporation fees)	Simple to Complex • <i>Ontario Business Corporations Act (Ontario Not-for-Profit Corporations Act for NFPs)</i> • \$1,000 plus (less than \$500 for incorporation fees)	Simple to Complex • Business Registration • \$150 plus drafting partnership agreement	Simple • Business Registration • \$150
Profit or Not-for-profit	Both are possible.	Only profit.	Only profit.	Only profit
Capitalization (for profit)	• Member (voting) shares. • Preference (non-voting) shares (various classes). • All shares are par value • Bonds, debentures, loans. More than 35 security holders – must issue offering statement unless meet exemption criteria.	• Shares may be voting or non-voting. • At least one class of shares must participate in distribution of surplus. • Shares do not have par value; allows capital gains. • Bonds, debentures, loans. More than 35 security holders – must issue prospectus.	Usually limited to partners, family, friends and bank loans.	Usually limited to owner, family, friends and bank loans.
Market for Shares	Limited – usually sold back to co-op on termination of membership. Do not significantly appreciate or depreciate in value (i.e. par value).	Limited market for private company shares – sale is usually constrained by shareholders' agreement. Public companies' shares are freely traded on stock exchanges. Appreciate and depreciate in value (capital gains and losses are recognized on sale).	No shares – sale of partnership interest often only to remaining partners.	No shares – assets (including goodwill) may be sold as an ongoing business.
Ease of Start-up	Depends on size, complexity, capital required, teamwork.	Depends on size, complexity, capital required, teamwork.	Requires team work to be simple and quick.	Usually simple and quick.
Return on Investment (if profitable)	After payment of fair return on capital, surplus is distributed in proportion to the business that members transact with the co-op.	Unlimited return on investment, including capital gains on the sale of assets or shares traded on stock exchanges.	Unlimited return.	Unlimited return.
Financial Liability	Limited to investment – members and shareholders have no liability for business debts.	Limited to investment – shareholders have no liability for business debts.	All partners' personal assets; can be limited. Unlimited liability for debts of business.	All personal assets; unlimited liability for debts of business.
Income Tax	Patronage rebates are expensed before calculating corporate taxes. Patronage and share dividends are usually taxed in the hands of members. Patronage dividends from retail co-ops are generally tax exempt.	Dividends are expensed on after-tax corporate income. Dividends are taxed in the hands of shareholders. Capital gains taxes are only applied to 50% of the gain.	Income is taxable at in hands of partners. Provides flow through income tax benefit.	Income is taxable in hands of owner. Provides flow through income tax benefit.
Agility	Democracy takes longer, but can result in better decisions and more commitment.	Depends on size and management style.	Depends on partners' relationship and management style.	Depends on owner's decision-making style.
Local Economy	Money and jobs stay in the local economy.	Money goes to shareholders, jobs to cheapest jurisdiction.	Money and jobs usually stay local.	Money and jobs usually stay local.
Survival Rate	Co-operatives generally have twice the survival rate of other businesses: > 60% after five years > 40% after ten years	• 35% after five years • 20% after ten years	• 35% after five years • 20% after ten years	• 35% after five years • 20% after ten years

Developed by Russ Christianson, Rhythm Communications, for the Ontario Co-operative Association. Updated April 2012.



Toyohiko Kagawa (1880–1960) was a Japanese co-operative champion, educator, activist and humanitarian.



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Agnes Macphail (1890–1954) was an activist, journalist, first woman member of Canadian Parliament and voted Ontario's Greatest Female in 2005.

