



Cooperatives: The Basics

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Our Mission

The Center for Agriculture and Food Systems (CAFS) uses law and policy to build a more sustainable and just food system.



Roadmap

- What is a Cooperative?
- Entity Selection & Tax Designation
- Benefits & Drawbacks to Cooperatives
- Questions

Goals

- De-mystify coops
- Show the diversity of coops
- Familiarity with language around coops

The background of the slide features a photograph of four hands of different skin tones (light, medium, and dark) all giving a thumbs-up gesture. The hands are positioned in a cluster, with the thumb pointing upwards. The image is partially covered by a green diagonal overlay on the left side. A white diagonal line runs from the top left towards the bottom right, and a short yellow line is located near the bottom right corner.

What is a Cooperative

Background

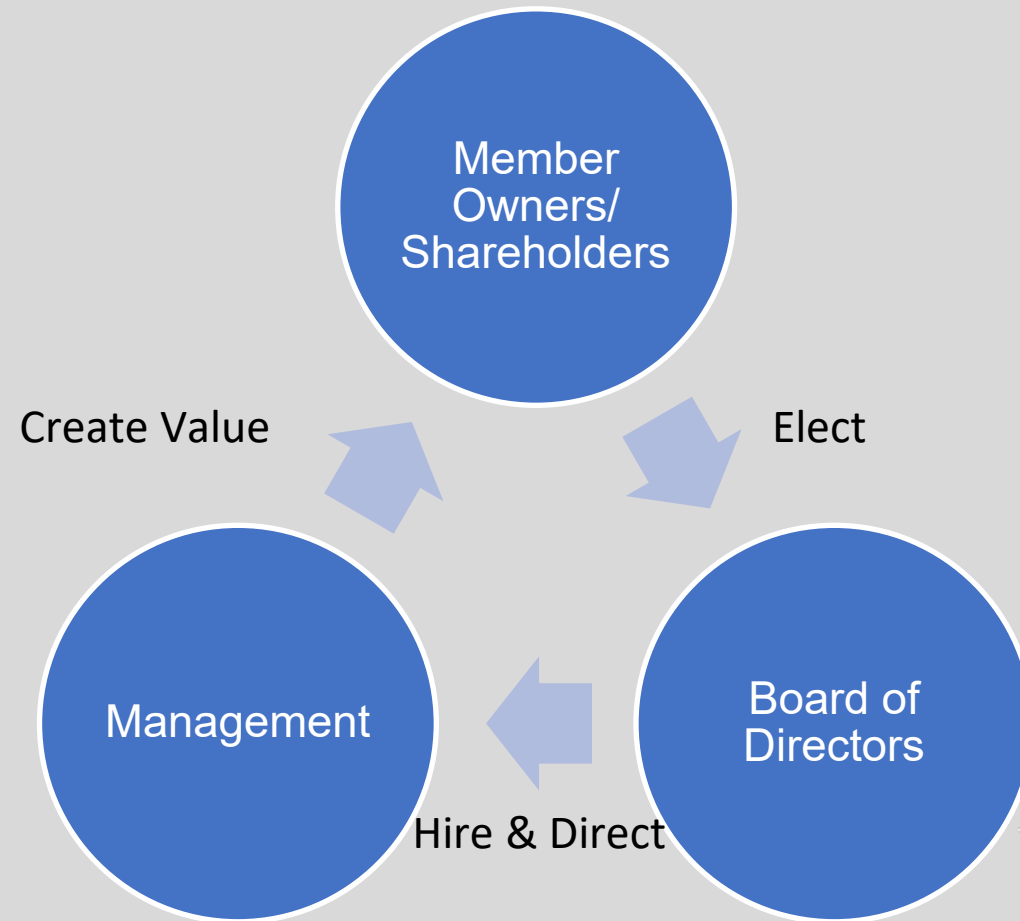
What is a Cooperative?

- For-profit business structure
- Democratic decision-making structure
- Profit (and loss) distribution based on “Patronage”
- People who use the coop control the coop, not capital
 - This doesn’t mean they don’t have investors

Governing Documents

- Articles (filed with state)
- Bylaws (internal)
- Policies (internal, sometimes shared with members, sometimes not)
- Membership Agreements (between member and coop)
- EIN & Tax Filings (filed with IRS)

Stakeholders



International Cooperative Principles



1

Voluntary and Open Membership



2

Democratic Member Control



3

Members' Economic Participation



4

Autonomy and Independence



5

Education, Training, and Information



6

Cooperation Among Cooperatives



7

Concern For Community

Voluntary & Open Membership

- Can charge a membership fee, once or periodically
- Can have membership requirements (i.e. must be a farmer, must use the coop); cannot be discriminatory
- Cannot force membership

Democratic Control

- One member, one vote
- Each member gets one membership (can also be called a share)
- There is no percentage based ownership like an LLC
 - Everyone owns 100%, sorta
- Voting based on patronage/use of the cooperative
- Majority vote, consensus, or some other means of making decisions

Patronage

- Quantifiable metric of use of a cooperative
 - Attributable sales
 - Hours worked
 - Product sold
- Allocated in a patronage dividend
- Dividends can technically be allocated, but not all paid out in the year accrued. Some must be paid each year. This can be helpful for cashflow and is relatively common among ag coops.

Patronage

Company Profits	\$20,000
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Member Owners	Total Hours Contributed	Percentage of Value Add
Cashier 1	1,000	18%
Cashier A	2,000	36%
Manager	2,000	36%
Founder	500	10%

Member Owners	Patronage Dividend
Cashier	\$3,600
Cashier	\$7,200
Manager	\$7,200
Founder	\$2,000

Patronage

Company Profits		\$20,000	
Member Owners	Total Hours Contributed	Weighted Contribution	Weighted Percentage of Value Add
Cashier 1	1,000	2x	14%
Cashier A	2,000	2x	28%
Manager	2,000	4x	55%
Founder	500	1x	3%

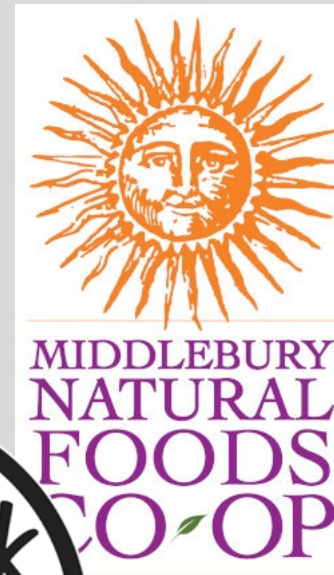
Member Owners	Patronage Dividend
Cashier	\$2,800
Cashier	\$5,600
Manager	\$11,000
Founder	\$600



What is a Cooperative Types of Coops

Consumer Cooperatives

- Coop is owned by people who shop with the coop
- Could be B2B or B2C
- Other names
 - Buying clubs
 - Rural utility cooperatives
 - Credit Unions
 - Housing coops



Producer Cooperatives

- Coop is owned by people who sell to the cooperative
- Also called Marketing Cooperatives



Worker Cooperatives

- Coop is owned by the people who work at the coop



- Not employee ownership trusts or ESOPs

Multi-stakeholder Cooperatives

- Coop is owned by multiple groups, who might have different classes of shares and different benefits
- Increasing popularity
- Some anti-trust/price fixing pitfalls



Entity & Tax

Considerations at Formation

Entity Choice

- Varies by state
- Cooperatives
 - Cooperative Corporation
 - Limited Cooperative Association
- Non-Cooperatives
 - Cannot use the word “cooperative” in name
 - LLC
 - Corporations
 - Partnerships (don't be a partnership)
 - Non-profits

Tax Designation

- Subchapter T (Coop Taxation)
 - Do not have to be formed as a cooperative, but must be operating on a cooperative basis
 - Hybrid pass-through and corporate tax
 - 1099-PATR
- Partnership Tax
 - Pass-through, relatively simple for few partners; difficult for many
 - K-1
- S-Corp Tax
 - Pass-through, savings on payroll tax. 100 max shareholders
 - K-1
- Corporate Tax
 - Double taxation

The background of the slide is a close-up, high-angle shot of a large pile of shredded white paper. The strips of paper are thin and irregular, creating a complex, textured pattern. A diagonal band of solid green color runs from the bottom-left corner towards the top-right, partially obscuring the shredded paper. The text is positioned within this green band.

Benefits & Drawbacks to Cooperatives

Benefits of Cooperatives

- Collective bargaining/pricing
- Worker buy-in and stability
- Democracy and collaboration over exploitation
- The innovation of many
- Very good at efficient distribution of profits
- Folks who might not have access to business ownership, have a new pathway with less risk
- Customer recognition and marketing

Drawbacks to Cooperatives

- Can be slow to make decisions
 - Activist or apathetic stakeholders can hold up the project
- Less familiar to banks and investors
- Stakeholders may treat cooperatives like non-profits, but does not have public interest loan forgiveness benefits
- Require specialized tax and legal advice
- Loss of founder control

Tips & Tricks

- Start simple
- Have the cooperators first (steering committee), then build the entity and business collaboratively
- Coops as excellent choices for later stage firms who need new capital or are looking to exit
- Have an exit plan that compensates founders
- Prepare for director/member apathy and director lack of business acumen

Questions?

What is a Cooperative?
Entity Selection & Tax Designation
Benefits & Drawbacks
Questions

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Resources

- [Start.coop](https://start.coop)
- [Blog - jason wiener | p.c. \(jrwienner.com\)](https://jrwienner.com)
- [Vermont Employee Ownership Center | Employee Ownership: Sharing Wealth, Saving Jobs, Sustaining Communities \(veoc.org\)](https://veoc.org)
- [Sustainable Economies Law Center \(theselc.org\)](https://theselc.org)
- [Project Equity | Discover the power of employee ownership \(project-equity.org\)](https://project-equity.org)
- [Development Tools | Rural Development \(usda.gov\)](https://usda.gov)