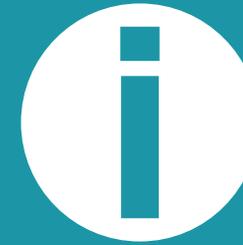


Co-ops are Different from Business Corporations



Introduction

Co-operatives are a unique type of business model that share some commonalities with both business corporations and not-for-profit organizations. However, there are some key differences between the three types of organizations in how they are organized and carry on activities. In the case of co-ops and business corporations, some similarities regarding structure or tax status may be present, but they differ in their organizational setup, how members benefit and how members participate.

Primary Purpose

The primary reason for a co-operative to exist is to provide a service or meet the needs of its members. Co-ops are controlled by their members, who vote on how services are offered or how the needs of members will be met by the co-op.

Business corporations exist in order to maximize return on investment to its shareholders. They can, in theory, offer unlimited return on investment to shareholders. Corporations are shareholder

controlled and are ultimately responsible to their shareholders.

Legislation and Regulation

Co-ops

Co-operatives are subject to legislation called the *Ontario Co-operative Corporations Act*, and its associated regulations. Co-ops must operate according to the standards and rules set out in this Act, and the Financial Services Commission of Ontario, an agency of the Ministry of Finance, administers, co-operatives and the *Co-operative Corporations Act*.

Private Corporations

Business corporations incorporate either under the *Ontario Business Corporations Act* or in some limited cases under the *Corporations Act*, both of which have associated regulations. The legislation and the corporations incorporated under such legislation are regulated by the Companies and Property Security Branch of the Ministry of Government Services.

Tax Status

The tax status of an organization is dictated by the *Income Tax Act* and overseen by the Canada Revenue Agency — **not** the provincial legislation that covers incorporation and operations of co-ops or corporations.

As long as a co-op is not carrying on business as a not-for-profit organization (see the *How co-ops are different from not-for-profit organizations* FACTSheet for more details), the income a co-op earns is subject to income tax, but some dividends distributed to members are deductible from the co-op's taxable income. There are some differences in how taxes are dealt with for preferred and member shares in the agricultural and new generation co-ops.

Business corporation income is also taxable. The dividends that a corporation pays to its shareholders comes out of the income available after taxes have been paid.

- There are over 9,000 co-operatives operating in Canada. The Canadian co-operative movement has over \$330 billion in assets and more than 18 million members.
- A federal study has shown that health care co-ops have lower per-capita health care costs than private practice models.
- Canadian co-operatives employ more than 150,000 employees.
- Canada has the world's largest per-capita credit union membership: about one-third of all Canadians are members of a credit union or *caisse populaire*.

Co-ops are Different from Business Corporations

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FACT SHEET

Earning and Distributing Money

Investments and Securities

Co-operatives can incorporate with share capital or without share capital. Those that incorporate with share capital can offer investments in the form of shares which can be offered to both members (membership shares and preference shares) and outside investors (only preference shares). The sale of shares is dictated by the Co-operative Corporations Act and the shares are not traded on any market.

Business corporations offer shares as well. The sale of shares by a business corporation is dictated by the *Ontario Securities Act*. Most closely held companies are exempt from the requirement to produce a prospectus.

Revenue and Distribution of Surplus

Both co-ops and business corporations generate revenue from their activities. This revenue is used to buy assets and/or pay the expenses of running the organization (including costs like staffing, maintaining an office, or any costs associated with carrying out the activities that will further the organization's mission and mandate). Once all the expenses have been paid, the money remaining is referred to as profit or surplus.

In a co-operative, the surplus can then be distributed to members in the form of a patronage payment. Patronage payments are distributed based on how much business a particular member does with the co-op or how much they use the co-op's services. These payments can take the form of payments in cash or in additional shares or patronage loans, and only occur if the co-op membership chooses to distribute surplus.

In a business corporation, profit is distributed to shareholders as dividends based on the number of shares held or can be held by the corporation as retained earnings. This is the primary use of profit generated by a business corporation.

Governance

One of the key differences between business corporations and co-ops is related to the role of the members/shareholders and how they vote.

Voting

In a co-op, each member in the co-operative has one vote at member and general meetings. No matter how much business a member does with the co-op or how many shares they may hold, they only have one vote. This is one of the cornerstones of co-op governance and it is enshrined

in legislation. In a business corporation, a shareholder's voting rights are tied to the amount of shares that they own – the more shares they own, the more of a say they have in the business and the more their vote counts at a meeting.

Boards and Structure

Both business corporations and co-ops have boards of directors that are elected. In the case of co-ops, the board is elected by the membership and consists of members of the co-operative. With business corporations, the shareholders elect the board of directors, but the directors are not required to be shareholders of the organization.

References

Comparison Chart of Co-ops, Businesses and NFPs –Created for the Ontario Co-operative Association by Brian Iler, Iler Campbell LLP.

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