Ontario Co-operative Association

STR05

FACT SHEET

Co-operatives Are Different from Non-Profits

Introduction

Co-operatives are a unique type of business model that share some commonalities with both private 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 not-for-profit organizations (also called NFP organizations or NFPs), 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

Co-operatives and NFPs are both member-controlled organizations that have missions and mandates other than solely maximizing financial return. However, the primary reason for a co-operative to exist is to provide a service or meet the needs of its members. NFP organizations have a much more broadly defined purpose that involves philanthropic, charitable, educational, scientific, or social objectives, which serve the greater community (not solely the organization's members).

In the case of NFPs with charitable objectives, there are additional regulations and tax and filing requirements related to charitable status that these organizations must maintain. This FACTSheet does not address the particular issues associated with charitable NFPs but a FACTSheet related to co-operatives and charitable status is available from the Ontario Co-operative Association.

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. The Ministry of Government and Consumer Services oversees co-operatives and administers the *Co-operative Corporations Act*.

Not-for-Profits

NFP organizations incorporate as 'corporations without share capital' under legislation called the Ontario *Corporations Act* and its associated regulations. This Act and NFPs 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 *Canada Income Tax Act* and is overseen by the Canada Revenue Agency. It is not dictated by the provincial legislation regarding the incorporation and operation of co-ops or NFPs.

NFP organizations are exempt from tax on earned income. A co-op's in is subject to income tax, however, some dividends (those distributed to members) are deductible from the co-op's taxable income.

Under certain circumstances, it is possible for a co-op to operate carry on business as a NFP from a tax perspective (i.e. under the *Income Tax Act*). In order to qualify as a NFP for tax purposes, a co-op must clearly

- 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 than 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.

state in its Articles of Incorporation that it will not distribute surplus to its members and therefore is operating without benefit to its members — a key criteria for Canada Revenue Agency to consider it exempt from income tax.

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 they are not traded on any market. NFPs incorporate without share capital and therefore cannot offer shares.

Revenue and Distribution of Surplus

Both co-operatives and NFPs can generate revenue from their activities. This revenue is used to purchase assets and/or pay the expenses of running the organization (including operational costs like staffing, maintaining an office, or any costs associated with carrying out activities that will further the organization's mission and mandate). Once all 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 often they use its services. In a NFP organization, surplus cannot be distributed to members. It must be used by the organization on activities that further its goals and objectives.

Governance

Although both co-ops and NFPs are member-controlled, there are some key differences in how this works in practical terms:

Voting

Each member in a co-operative has one vote at member and general meetings, regardless of how much business they give the co-op or how many shares they may hold. This is one of the cornerstones of co-operative governance and it is enshrined in legislation.

Conversely, in an NFP it is usually one vote per member—however, this is much more informal. NFPs also have the ability to provide the option for certain classes of members to have more than one vote each or no votes at all.

Boards and Structure

Both NFPs and co-ops have boards of directors that are elected by the membership. In both cases, directors must be members 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.

FOR MORE INFORMATION, CONTACT

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More resources are available at:
CoopZone Network
coopzone.coop

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This fact sheet was produced by the Ontario Co-operative Association, and made possible through a grant from the Ontario Trillium Foundation (an agency of the Government of Ontario).