Farming together.

How to choose your Co-op Type

There are two types of co-operative under Australian law:

1. Distributing co-operative, and
2. Non-distributing co-operative – which can be either:
    a. with share capital OR
    b. without share capital

1. Distributing co-operatives (for-profit)

Distributing co-ops must have share capital. They are suitable for scaling up as large commercial enterprises. They require members to commit capital (by purchasing shares) and are better able to borrow in capital markets because they can show member capital.

Profits can be reinvested in the co-op or distributed to members by paying dividends or issuing bonus shares. Distributing co-ops are taxed on the same basis as other companies.

Registration of a distributing co-operative requires the preparation of both a constitution (rules) and a disclosure statement (prospectus).

☞ **Guiding tip**

If the co-op needs significant start-up capital and members want to trade with the co-operative and share profits… choose a distributing co-operative.

2. Non-distributing co-operatives (not-for-profit)

All businesses must make a profit to survive. A non-distributing co-operative is a 'not for profit' because it is not allowed to distribute its surplus or profits back to its members. Profits are reinvested in the co-op to improve or expand services.

If a non-distributing co-op is wound up, the assets must go to another organisation with the same or similar purpose. For farmer groups that have pooled resources over time, this helps to ensure that the co-op's assets and infrastructure remain in the hands of farmers and/or their communities.

Not-for-profit entities do not have any special tax exemptions unless they have a charitable purpose or fit a specific tax exemption category. You will need professional advice on whether the co-operative's purpose or activities make it eligible for tax exemption or tax concessions.

a. Non-distributing co-operatives with share capital
b. Non-distributing co-operatives without share capital

See over for details>

2. Non-distributing co-operatives (not-for-profit)

a. Non-distributing co-operatives with share capital

A non-distributing co-op may choose to have share capital or not, depending on its likely capital requirements.

If the co-op needs substantial capital at start-up, e.g. to acquire, build or develop infrastructure, member share capital will be an important way to raise capital and recognise individual member contributions. Importantly, a member who leaves the co-op is entitled to have that share capital repaid. Member share capital also demonstrates the level of member commitment if the co-op seeks to borrow funds.

☞ **Guiding tip**

If the co-op needs significant start-up capital and members are interested in building assets for their industry for the long term… choose a non-distributing co-operative with share capital.

b. Non-distributing co-operatives without share capital

If the co-operative does not have significant start-up capital needs, it is unlikely to need share capital.

If a co-op is formed to carry out services such as research, education or marketing, it may be able to fund these activities by requiring members to pay an annual subscription and by selling specific services or goods to members or other persons.

A non-distributing co-op without shares is the simplest type of co-op to administer.

☞ **Guiding tip**

If start-up capital requirements are modest, and the services to be provided are easily shared (such as research activities or marketing a common brand)… choose a non-distributing co-operative without share capital.

You can learn more about different co-op types by accessing the online video learning resources or the online Co-op at http://www.farmingtogether.com.au under 'Resources'.

This guide is not intended as legal, business or financial advice. It provides a simple overview of the main features of the different co-op types under Australian law. The choice of co-op type should be made with the assistance of professional advice that considers the purpose of the enterprise, along with its finance and capital needs.