

For-Profit and Not-for-Profit Co-operatives



Introduction

The concept of not-for-profit vs. for-profit is often challenging for groups and organizations when they are considering a corporate structure for their group. Not-for-profit status can be confusing because it has a particular connotation regarding to income tax, which requires filing information with different government departments or agencies than those that apply to for-profit business and the operations of a for-profit business.

With co-ops, not-for-profit status is less closely tied to corporate form than for typical not-for-profit corporations, which has practical impacts for groups to consider.

Not-for-Profit Does Not Mean At-Cost

In a not-for-profit organization, regardless of its corporate structure (co-op or corporation), the generation of profit is not the primary motivation. There are broader goals that make up the primary purpose of the organization.

Not-for-profit **does not mean** that the organization operates at-cost or at a break-even level. It also does not mean that the organization is prohibited from producing revenue through its activities or from generating a surplus. All the term not-for-profit is meant to indicate is that the organization does not operate with the primary purpose of generating profit.

Corporate Structure and Paying Taxes

The corporate structure of an organization is generally defined by specific legislation that dictates how a particular type of organization can be created and operated. In Ontario, co-operatives are subject to the *Co-operative Corporations Act* and not-for-profit corporations are subject to the *Corporations Act*. These pieces of legislation indicate what is required for a particular organization to be considered a properly incorporated and functioning co-op or not-for-profit corporation.

However, these pieces of legislation do not dictate or regulate the tax status of an organization. The tax status of a co-op or

corporation is subject to a piece of federal legislation called the *Income Tax Act*, which is overseen by the Canada Revenue Agency. The determination of tax status is subject to a set of criteria that the Canada Revenue Agency applies to any 'club, association or society' (which can include corporations) that wishes to qualify as a not-for-profit organization.

Practical Issues of Not-for-Profit

To some extent, the concept of not-for-profit is a philosophical one — however there are practical consequences that apply to organizations as a result of choosing to operate as a not-for-profit.

The decision to operate as a not-for-profit is one that will have to be made before the group incorporates and begins operating. In the case of co-ops, there are certain statements that will have to be included in your Articles of Incorporation. You will have to indicate in the 'special provisions' section that the co-op is carrying on business without the purpose of gain for its members and that any profit or surplus that the co-op earns will be used for the purposes

- 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*.

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of promoting its objects. This will indicate to the Canada Revenue Agency that the co-op meets the criteria to be considered not-for-profit and is therefore income tax exempt.

Co-ops Can Be For-Profit or Not-for-Profit

In the case of co-ops, the *Co-operative Corporations Act* applies to all co-ops (with only slight differences required in the incorporation documents to designate not-for-profit status). This means that a co-op can operate as either a not-for-profit or a for-profit and still be considered a co-op under the *Co-operative Corporations Act*.

In the case of not-for-profit corporations, they must actually incorporate as corporations under the *Corporations Act*. If they wish to operate as a for-profit corporation, they will do so by incorporating under the *Business Corporations Act*.

Why Would a Co-op Want to Operate as a Not-for-Profit?

One of the biggest advantages for all not-for-profit organizations (including co-ops) is that they are exempt from paying income tax. However, there are other reasons that a co-op may choose to operate as a not-for-profit. Some types of co-ops must operate as a not-for-profit to gain access

to government funding. This is the case for both daycare co-ops and not-for-profit housing co-ops. Some co-ops in other sectors may also choose to operate as a not-for-profit to gain access to funding which is only available to charities and NFPs.

More recently, different co-ops have formed with specific community or social goals that are broader than simply meeting the needs of its members. Many of these co-ops operate as NFPs to emphasize their dedication to wider community goals.

A disadvantage for a co-op operating as a not-for-profit is that the co-op is prohibited from distributing any surplus that it generates to its members. This can be a serious disadvantage in attracting members. Co-ops must consider if the benefits of being income tax exempt outweigh the drawbacks of being unable to distribute surplus to members.

References

Information Bulletin IT-496R Non-Profit Organizations (Canada Revenue Agency):
cra-arc.gc.ca/E/pub/tp/it496r/it496r-e.html

FOR MORE INFORMATION, CONTACT

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More resources are available at:
CoopZone Network
coopzone.coop

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