

## Additional Information Available from the NCBA and OEOC

The **National Cooperative Business Association** (NCBA) is the lead national membership association representing cooperatives of all types and in all industries. Established in 1916, NCBA's mission is to develop, advance and protect cooperative enterprise. Through comprehensive education, co-op development, communications, public policy, member services, and international development programs, NCBA helps co-ops strengthen their businesses so they can better serve their members. NCBA provides a strong, unified voice on Capitol Hill.

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The **Ohio Employee Ownership Center** (OEOC) is a non-profit, university-based program established in 1987 to provide information and preliminary technical assistance to Ohio employees and business owners interested in exploring employee ownership. The OEOC provides ownership training to employee-owned firms. The OEOC is funded by grants from the Ohio Department of Development, private foundations, dues from firms belonging to *Ohio's Employee-Owned Network*, income from training contracts, and donations.

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*I can sell my business to my employees — and get a tax break, too?*

# Small Business Ownership Succession: The Cooperative Solution

**NCBA**  
National Cooperative Business Association

**OEOC**

Ohio Employee Ownership Center

## Cooperative Advantages...

### IRC §1042 Capital Gains Rollover

Business owners who sell at least 30% of the stock in their C-Corporation to an employee owned cooperative or qualified ESOP, as defined in Internal Revenue Code §1042, can roll-over the proceeds from the sale into qualified replacement securities and defer indefinitely the payment of any capital gains tax.

### Simpler, Less Expensive, & More Direct

Unlike ESOPs, employee owned cooperatives are not governed by complex retirement plan laws. While some outside technical advice is recommended, cooperatives do not require annual stock appraisals, periodic legal revisions to stay current with changing ESOP laws, a third party administrator, nor an ESOP trustee. Employees participate in ownership directly and do not need to wait until retirement to enjoy the financial benefits, since net margin is distributed to them annually.

## Two Ownership Succession Options

### Sell Company to a Cooperative

Employees form a cooperative.

The employee owned cooperative leases their labor to the company.

The employee owned cooperative purchases stock from the owner in stages, with a minimum of 30% purchased in the initial stage.

### Convert Company into a Co-op

Company is converted into an employee-owned cooperative.

The employee owned cooperative redeems the owner's stock in stages, with a minimum of 30% initial redemption.

Since the cooperative gains a controlling interest, there is no minority interest discount on the sale price.

Until a majority of the stock is redeemed, the cooperative can provide the owner with special voting rights and veto powers.

## What Is an Employee Owned Cooperative?

For the purpose of ownership succession, an employee owned cooperative needs to meet the following description:

- ◆ A cooperative is a business formed primarily to benefit its patrons. Consumer coops benefit patrons by pooling their buying power. Producer coops benefit their patrons by pooling their marketing power.
- ◆ Employees are the patrons of an employee-owned cooperative. They enjoy the benefits of self governance and a share of any net margin (profit) that results from their business.
- ◆ Employee patrons share net margin proportional to the hours of work they provide.
- ◆ Non-employees, like the selling owner, can still participate as a member of the cooperative.
- ◆ At least half of the Board of Directors must be elected by the members on the basis of one-person, one-vote.
- ◆ Like S-Corporations, there is no double taxation on the net margin, which is allocated to the patrons. The patrons must show their portion as taxable personal income

For a more complete description of traditional cooperatives and cooperative values:

<http://www.ncba.coop/abcoop.cfm>

**NCBA and OEOC greatly appreciate the financial support provided by the George and Gladys Dunlap Cooperative Leadership Program of the Nationwide Foundation**

**READ MORE! <http://dept.kent.edu/oec/OEOCLibrary/CoopAccount.htm>**