



zoom | thurs, mar 11 | 12:00PM PT



TEACH-IN: HOW MONEY FLOWS

presented by: Ricardo Nuñez (Dir. of Economic Democracy)
and Gregory Jackson (Staff Attorney) and
Kieron Slaughter (City of Berkeley's Office of Economic
Development's Chief Community Development Officer)

HOSTED BY



Today's Webinar Flow

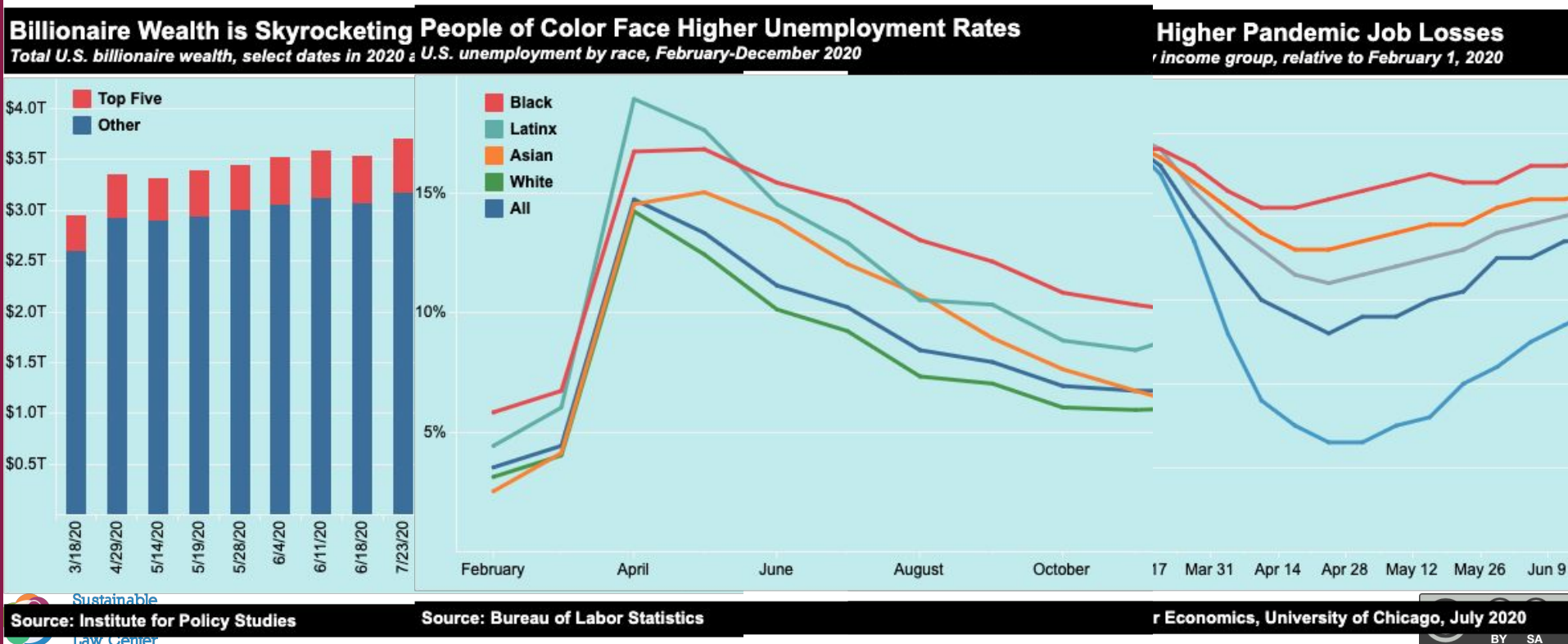
A little about SELC

An intro into the powerful ways that money flows through a worker cooperative!

An overview of Berkeley's Revolving Loan Fund

A conversation with you!

Cooperative Capital & the Law?



A little about the Sustainable Economies Law Center

Economies:

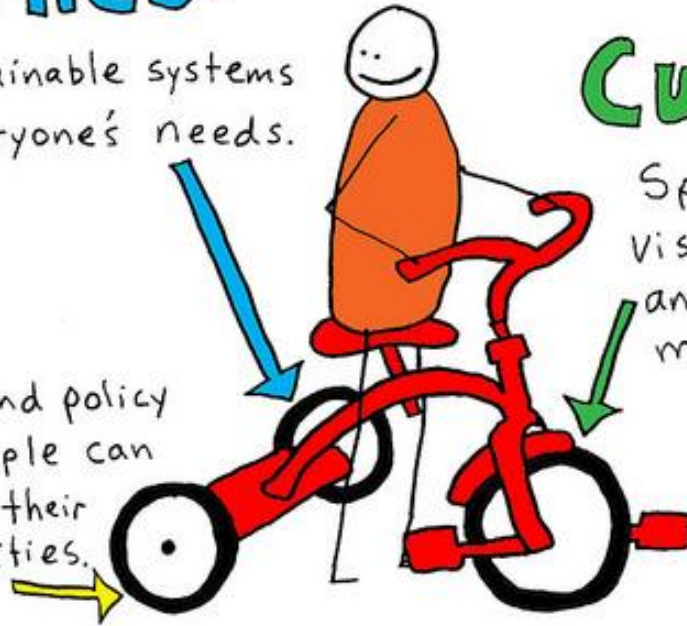
Creating sustainable systems to meet everyone's needs.

Law:

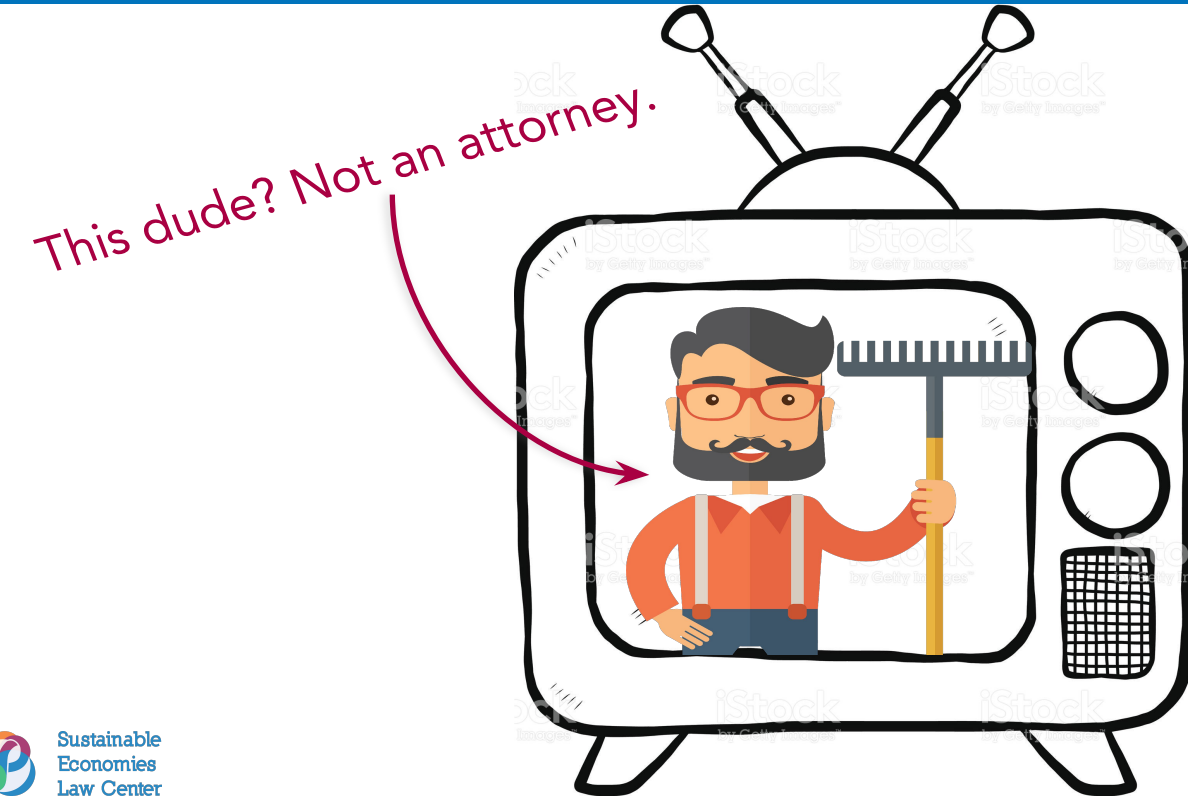
Making law and policy tools that people can use to shape their own communities.

Culture:

Spreading a visionary narrative and building movements.



DISCLAIMER



This webinar will be recorded!

SMILE

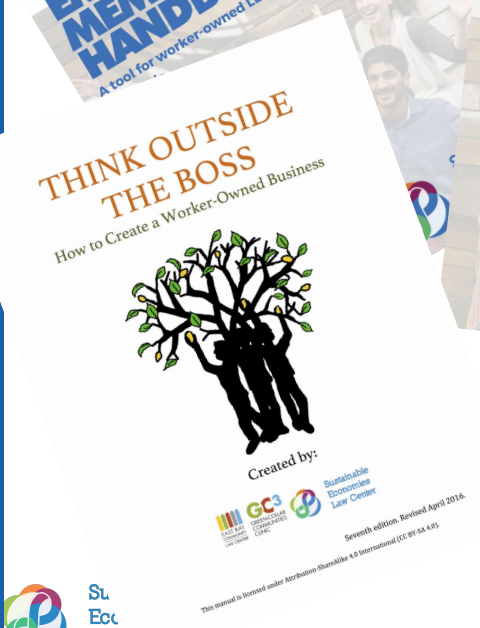
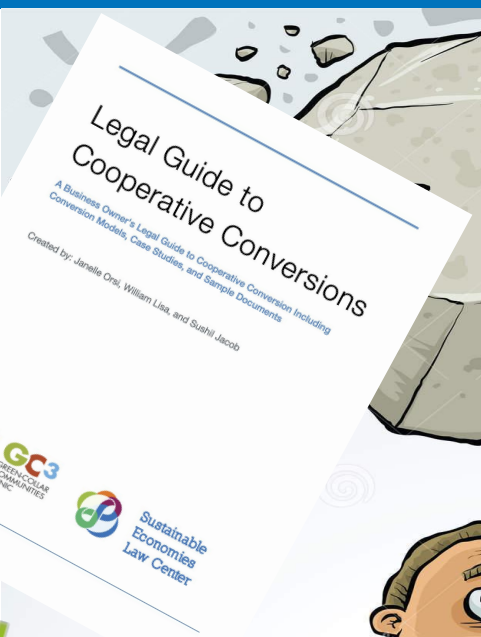


**YOU'RE ON
CAMERA**

A short introduction

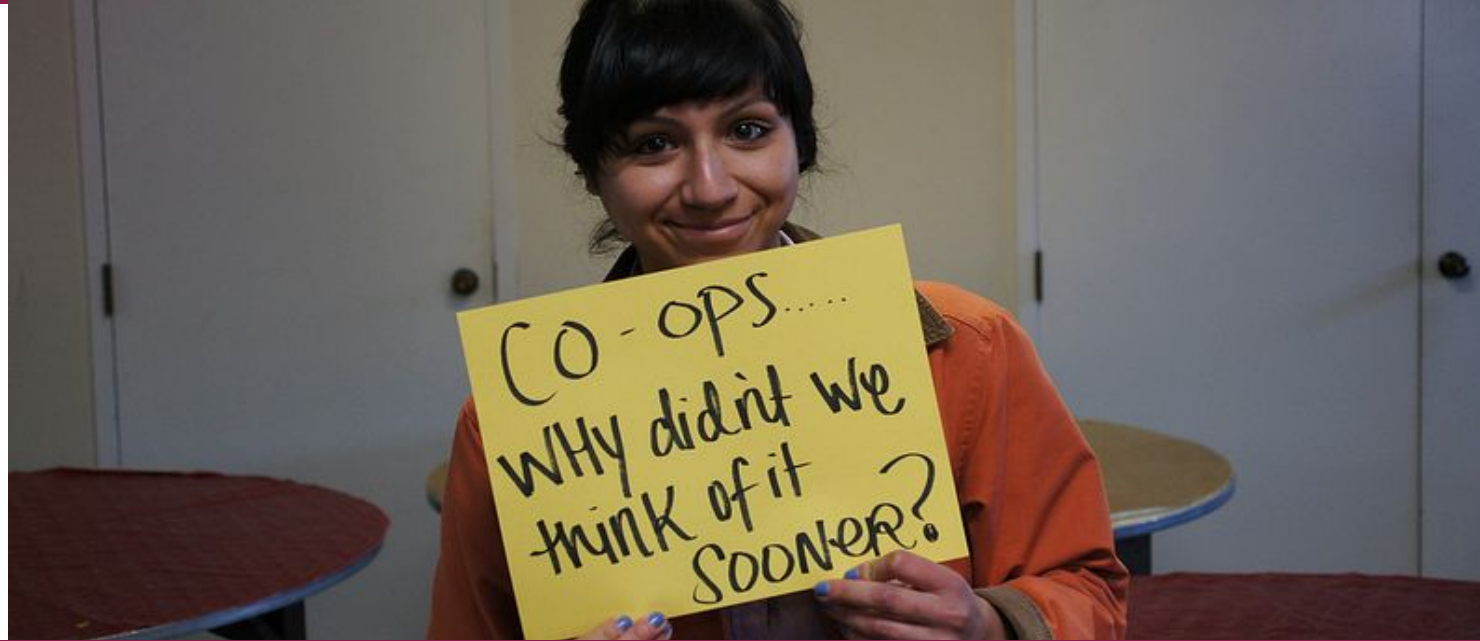
- How does money flow through a cooperative business?
- What are some of the tax and accounting issues in a cooperative?
- Where can you find more resources?

Don't Worry! We got you.



Created by:
Sustainable
Economies
Law Center
Seventh edition, Revised April 2016.
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HOW MONEY MOVES THROUGH A
COOPERATIVE:
IT'S PRETTY AMAZING

Cooperatives can be many things!

(That is supposed to be an elephant)



Some benefits of forming a CA Cooperative Corporation

This is a California
Cooperative Corporation,
and the law has some
rules about how we
operate. Take a look
at the code sometime.
You'll Feel empowered!



“Operating on a cooperative basis”

1. **Subordination of capital**
2. **democratic control by the worker-members; and**
3. allocation of surplus to the worker-members **in proportion to their active participation in the cooperative.**

Profits? Surplus? Patronage?

Profits: The net income after expenses during a fiscal year attributable to non-Member labor.

Surplus: The net income after expenses that is attributable to member labor.

Patronage Dividend: A distribution that a cooperative pays to its members (*sort of like an annual bonus*).

Cooperative Ownership Structures

- **Wages:** paid throughout the year to members (as workers)

- **Member Capital Accounts**
Member equity (initial buy-in)
Retained patronage

BUY IN

RETAINED PATRONAGE

- **Patronage = Ownership Dividend**
 - Annual *surplus* is distributed to members (*as owners*)
 - Patronage distribution
 - part paid in cash
 - part retained in member capital accounts



Initial
investment
("Buy-In")
\$10,000

Initial
investment
("Buy-In")
\$10,000

Initial
investment
("Buy-In")
\$10,000

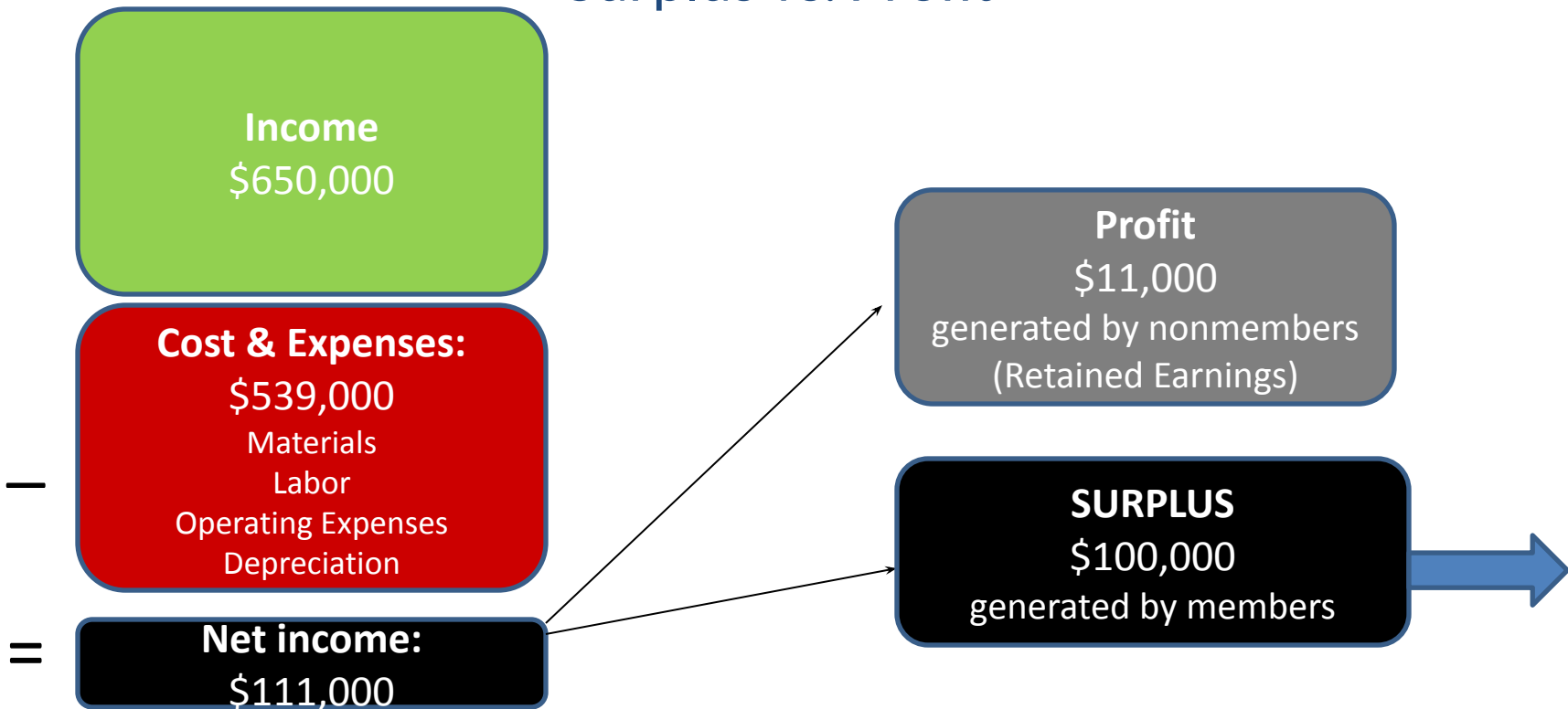
Initial
investment
("Buy-In")
\$10,000

Initial
investment
("Buy-In")
\$10,000



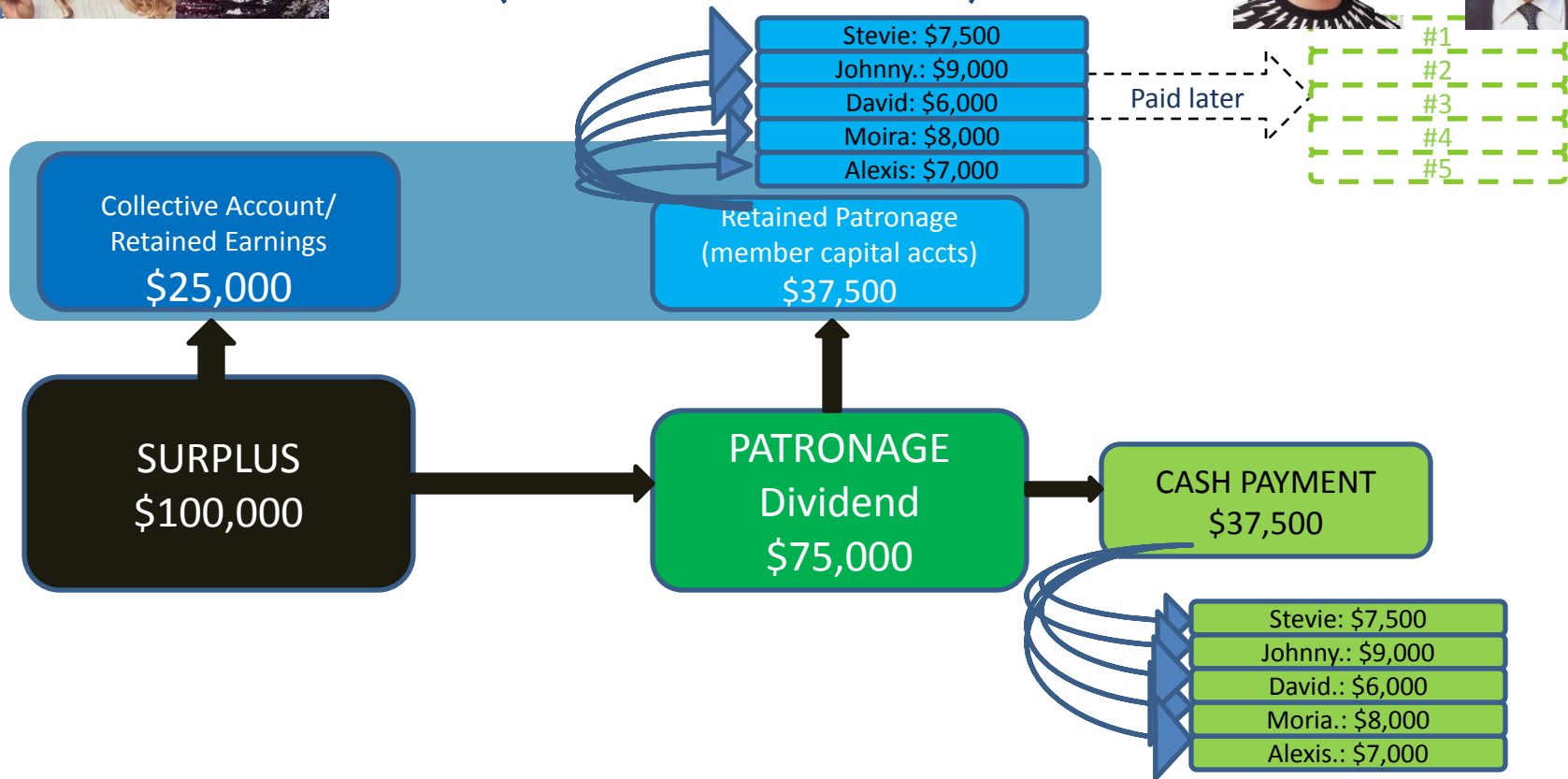


Determining Surplus vs. Profit





Distributing Patronage (Cash vs. Retained)



ALEXIS' MEMBER CAPITAL ACCOUNT AFTER DISTRIBUTION



		YEAR 2 RETAINED PATRONAGE \$4,000	YEAR 3 RETAINED PATRONAGE \$1,000	YEAR 4 RETAINED PATRONAGE \$7,000
	YEAR 1 RETAINED PATRONAGE \$6,000	YEAR 1 RETAINED PATRONAGE \$6,000	YEAR 2 RETAINED PATRONAGE \$4,000	YEAR 3 RETAINED PATRONAGE \$1,000
Initial investment ("Buy-In") \$10,000	Initial investment ("Buy-In") \$10,000	Initial investment ("Buy-In") \$10,000	Initial investment ("Buy-In") \$10,000	Initial investment ("Buy-In") \$10,000

Cooperative Cash Management and Stability

- Avoids double taxation

Patronage is not subject to corporate income tax
(even retained patronage)

- Means of retaining cash in the cooperative

Doesn't discourage longer term planning

- Can be savings mechanism for members

Implications for Cooperative Decision-Making

Raise Wages?



WORKER



OWNER



MANAGER

FOR THE BREAK OF YOUR LIFE!

Breakin'

Push it to pop it!
Rock it to lock it!
Break it to make it!

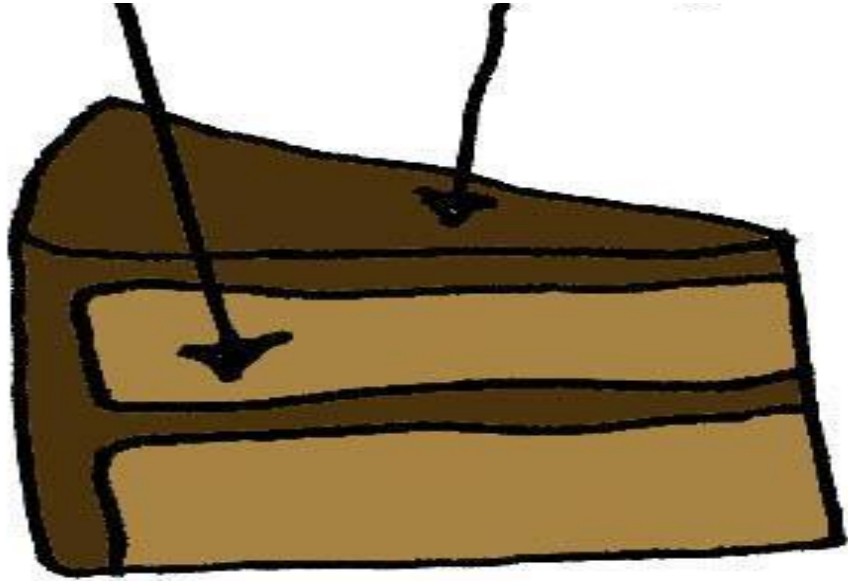
Featuring the hottest
break dancers in America:
Shabba Doo,
Boogaloo Shrimp,
and the amazing 8-year-old
sensation Coco!

THE CANNON GROUP INC. Presents A GOLAN-GLOBUS Production "BREAKIN'" Starring LUCINDA DICKEY "SHABBA DOO"
"BOOGALOO SHRIMP" BEN LOKEY PHINEAS NEWBORN III and CHRISTOPHER McDONALD Director of Photography HANANIA BAER
Music by JAMES NEWTON HOWARD and Choreographed by JAMIE ROGERS Executive Producers MENAHEM GOLAN and YORAM GLOBUS
Story by CHARLES PARKER & ALLEN DeBEVOISE Screenplay by CHARLES PARKER & ALLEN DeBEVOISE and GERALD SCAIFE
Produced by ALLEN DeBEVOISE and DAVID ZITO Directed by JOEL SILBERG
PARENTAL ADVISORY EXPLICIT LYRICS
NS 840073

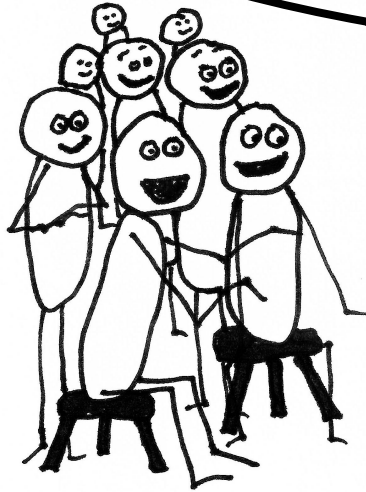
5 Min Break

Micro-Training: Tax Under Subchapters S, T, C, and K Taught by cake:

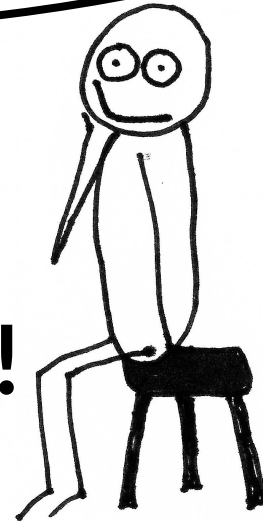
Disclaimer: Cake is not an expert on all the nuanced details of tax. For that, help yourself to a generous serving of thick tax book.



We were leaning toward forming a **cooperative**. But then someone said we should do **B Corp**, then another person said we should consider **C Corp**, but we kinda wanna keep it simple and do an **LLC**."



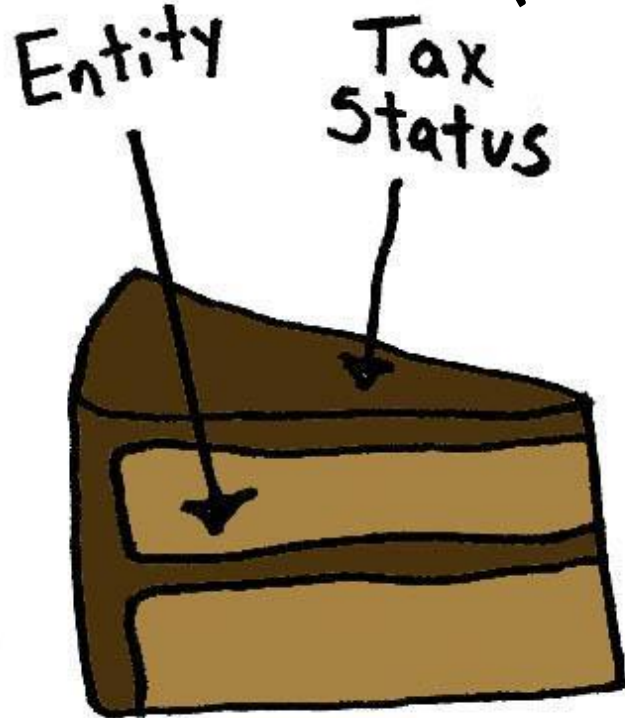
Like a
smashed up
piece of cake!



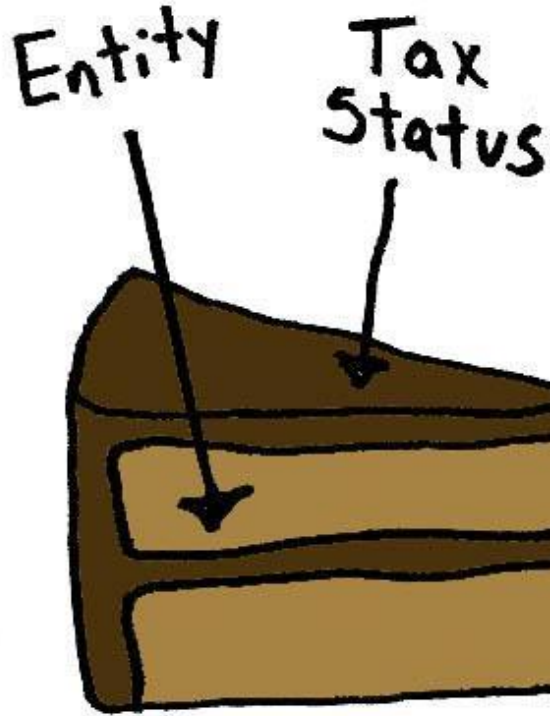
So they turned to cake:

(State level)

(Federal level)



Corporation
or LLC
or ...

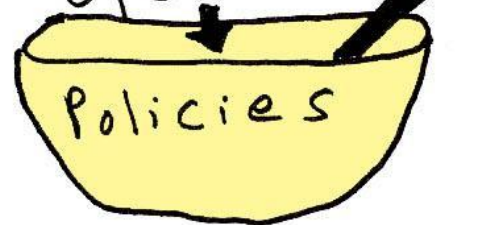


or C-corp,
or T-Corp
or ...

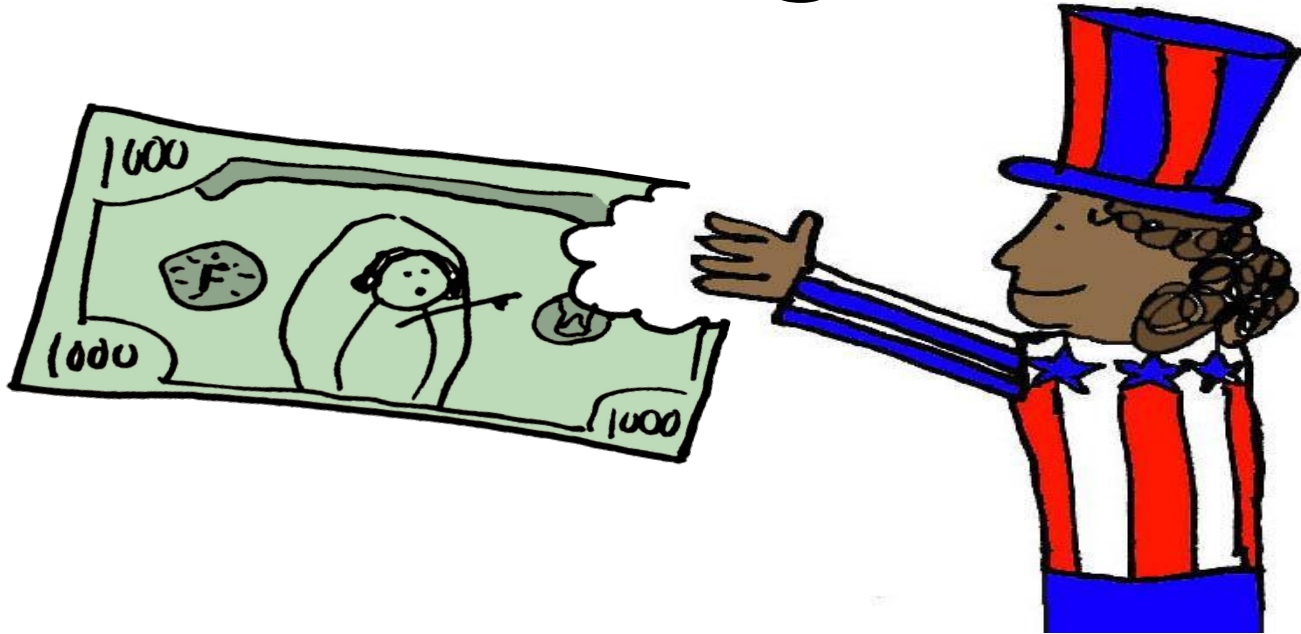
Certified
B corp



Financial,
Governance,
&
Operational



The ABCs (or CKSTs) of tax categories



Chapter 1 of Tax Code: “Normal” Taxes

- Subchapter A—Determination of Tax Liability (§§ 1 – 59B)
- Subchapter B—Computation of Taxable Income (§§ 61 – 291)
- Subchapter C—Corporate Distributions and Adjustments (§§ 301 – 391)
- Subchapter D—Deferred Compensation, Etc. (§§ 401 – 436)
- Subchapter E—Accounting Periods and Methods of Accounting (§§ 441 – 483)
- Subchapter F—Exempt Organizations (§§ 501 – 530)
- Subchapter G—Corporations Used to Avoid Income Tax on Shareholders (§§ 531 – 565)
- Subchapter H—Banking Institutions (§§ 581 – 601)
- Subchapter I—Natural Resources (§§ 611 – 638)
- Subchapter J—Estates, Trusts, Beneficiaries, and Decedents (§§ 641 – 692)
- Subchapter K—Partners and Partnerships (§§ 701 – 771)
- Subchapter L—Insurance Companies (§§ 801 – 848)
- Subchapter M—Regulated Investment Co. and Real Estate Inv. Trusts (§§ 851 – 860H)

...cont

- Subchapter N—Tax Based on Income From Within or Without the US (§§ 861 – 1000)
- Subchapter O—Gain or Loss on Disposition of Property (§§ 1001 – 1111)
- Subchapter P—Capital Gains and Losses (§§ 1201 – 1298)
- Subchapter Q—Readjustment of Tax Btn Years and Special Limitations (§§ 1301 – 1351)
- Subchapter R—Election To Determine Corporate Tax on Certain International Shipping Activities Using Per Ton Rate (§§ 1352 – 1359)
- Subchapter S—Tax Treatment of S Corporations and Shareholders (§§ 1361 – 1379)
- Subchapter T—Cooperatives and Their Patrons (§§ 1381 – 1388)
- Subchapter U—Designation and Treatment of Empowerment Zones, Enterprise Communities, and Rur Dev. Investment Areas (§§ 1391 – 1397F)
- Subchapter V—Title 11 Cases (§§ 1398 – 1399)
- Subchapter Z—Opportunity Zones (§§ 1400Z-1 – 1400Z-2)

Mix-and-Match

Kinds of cake:

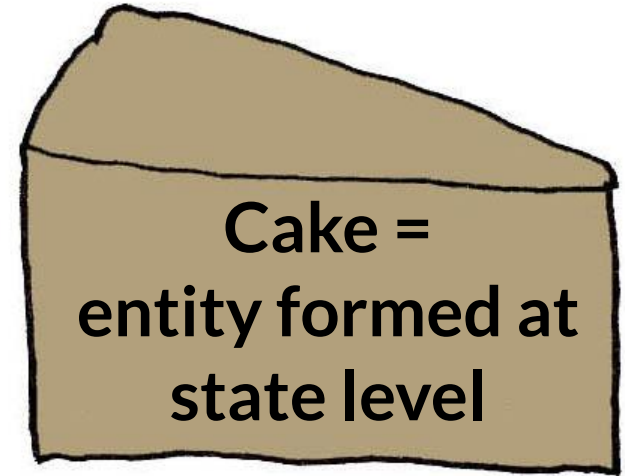
Sole-proprietor

One-member LLC

Partnership

LLC

Corporations of all kinds (nonprofits,
coops, stock, benefit, social purpose,
etc)



Mix-and-Match

Cake:

Sole-proprietor

One-member LLC

Partnership

LLC

Corporations of
all kinds

Icing:

**Individual tax
rules apply**

(Schedule C)

Subchapter K

(Partnership or pass-through
tax)

Subchapter C

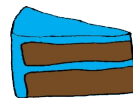
(Double taxation)

Subchapter S

(Pass-through)

Subchapter T

(Cooperatives)



Mix-and-Match

Cake:

Sole-proprietor

or

One-member LLC

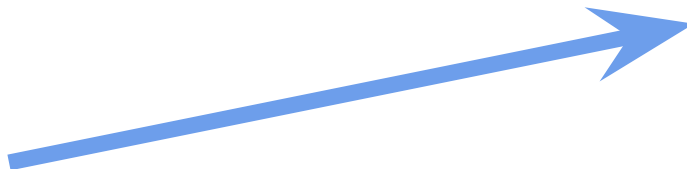
Partnership

or

LLC

Corporations of
all kinds

Defaults to:



Icing:

**Individual tax
rules apply**

(Schedule C)

Subchapter K

(Partnership or pass-through
tax)

Subchapter C

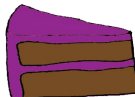
(Double taxation)

Subchapter S

(Pass-through)

Subchapter T

(Cooperatives)



Mix-and-Match

Cake:

Sole-proprietor

or

One-member LLC

Partnership

or

LLC

Corporations of
all kinds

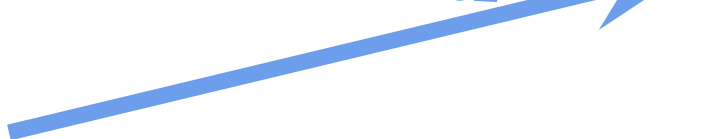
May elect:



Form 8832



Form 8832



Icing:

**Individual tax
rules apply**

(Schedule C)

Subchapter K

(Partnership or pass-through
tax)

Subchapter C

(Double taxation)

Subchapter S

(Pass-through)

Subchapter T

(Cooperatives)



Mix-and-Match

Cake:

Sole-proprietor

or

One-member LLC

Partnership

or

LLC

Corporations of all

kinds

May elect:

Icing:

**Individual tax
rules apply**

(Schedule C)

Subchapter K

(Partnership or pass-through tax)

Subchapter C

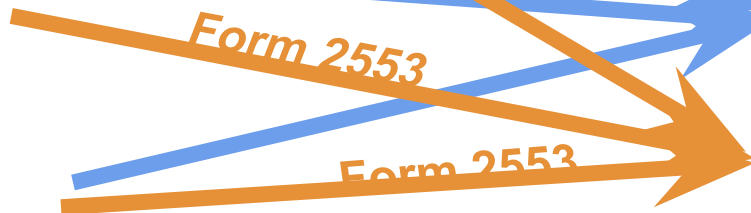
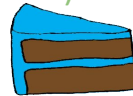
(Double taxation)

Subchapter S

(Pass-through)

Subchapter T

(Cooperatives)



Mix-and-Match

Cake:

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Corporations of all
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**Individual tax
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Subchapter K

(Partnership or pass-through tax)

Subchapter C

(Double taxation)

Subchapter S

(Pass-through)

Subchapter T

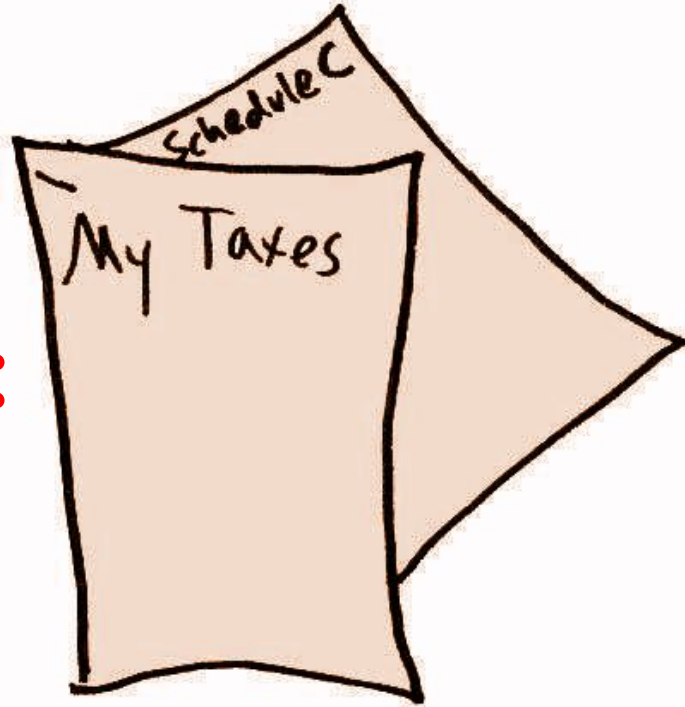
(Cooperatives)



Forms 8832
+1120-C

Just file taxes on
form 1120-C

**Sole
proprietors:**



**And it's all self-employment income.
(i.e. pay ~15% FICA)**

**All other entities:
File a separate tax return.**



How to tell the IRS what icing (tax status) you want:

- Take your default icing (tax status) based on the entity you choose, or
- Choose a different icing by filing a form and checking a box:
 - **When:** File within the first 75 days of the tax year to which it will apply. Treas Reg §301.7701-3(c)(1)(iii).
 - **How often:** Generally can't change the classification for 5 years (with some exceptions, like at least 50 percent change of ownership). Treas Reg §301.7701-3(c)(1)(iv).
 - **In the case of Subchapter T:** No form needed if you are already a corporation. Just file the special tax return for cooperative

Subchapter K

(Pass-through; taxed like a partnership)



Subchapter K

- **Benefit:** Entity doesn't pay tax. No double tax.
- **Benefit:** You might avoid becoming an employee of your own company.
- **Benefit:** Losses can be passed to owners and offset other income.
- **Disadvantage:** Accountants say it's WAY more complex than corporate tax, because **you have to allocate EVERYTHING** (profits, losses, all the stuff on the balance sheet).
- **Disadvantage?** Members pay tax on income kept in the company. No unallocated account.
- **Disadvantage?** It's self-employment income (i.e. pay ~15% FICA)

Tax Form 1065

Informational
return, of sorts:
Allocates profits and
losses to owners.

Schedule K-1

Every partner/member gets a Schedule K-1, which informs income and losses they report on their individual taxes.

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

2018

For calendar year 2018, or tax year

beginning 01 / 01 / 2018 ending 12 / 31 / 2018

Partner's Share of Income, Deductions, Credits, etc.

See back of form and separate instructions.

Part I Information About the Partnership

A	Partnership's employer identification number ##-####
B	Partnership's name, address, city, state, and ZIP code Nuestra Cooperativa, LLC 123456 Franklin Street Oakland, CA 94612
C	IRS Center where partnership filed return Ogden
D	<input type="checkbox"/> Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E	Partner's identifying number ###-##-####
F	Partner's name, address, city, state, and ZIP code Name Address Address
G	<input checked="" type="checkbox"/> General partner or LLC member-manager <input type="checkbox"/> Limited partner or other LLC member
H	<input checked="" type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner
I1	What type of entity is this partner? Individual
I2	If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here <input type="checkbox"/>
J	Partner's share of profit, loss, and capital (see instructions): Beginning Ending Profit ##### % ##### % Loss ##### % ##### % Capital ##### % ##### %

K Partner's share of liabilities:

Beginning		Ending	
Nonrecourse	\$		\$
Qualified nonrecourse financing	\$		\$
Recourse	\$		\$

L Partner's capital account analysis:

Beginning capital account	\$	
Capital contributed during the year	\$	1,000
Current year increase (decrease)	\$	1,000
Withdrawals & distributions	\$ ()	
Ending capital account	\$	2,000

<input checked="" type="checkbox"/> Tax basis	<input type="checkbox"/> GAAP	<input type="checkbox"/> Section 704(b) book
<input type="checkbox"/> Other (explain)		

M Did the partner contribute property with a built-in gain or loss?

<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If "Yes," attach statement (see instructions)	

☒ Final K-1 ☐ Amended K-1

651118

OMB No. 1545-0123

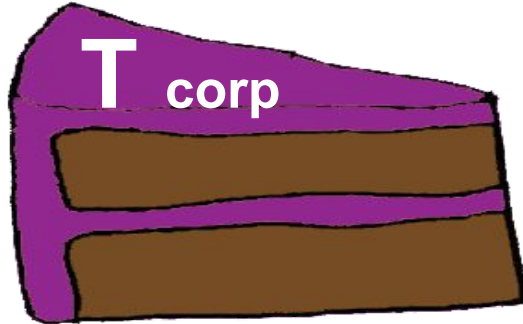
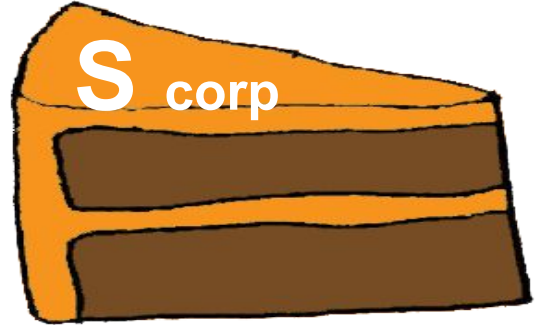
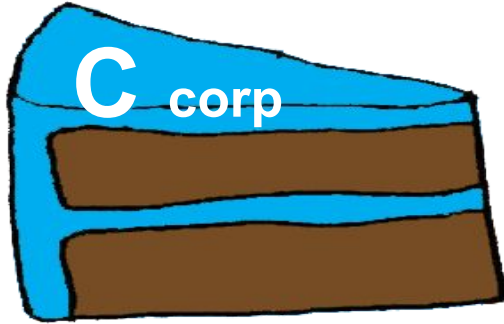
Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	2,000	15	Credits
2	Net rental real estate income (loss)			
3	Other net rental income (loss)		16	Foreign transactions
4	Guaranteed payments	16,000		
5	Interest income			
6a	Ordinary dividends			
6b	Qualified dividends			
6c	Dividend equivalents			
7	Royalties			
8	Net short-term capital gain (loss)		17	Alternative minimum tax (AMT) items
9a	Net long-term capital gain (loss)			
9b	Collectibles (28%) gain (loss)			
9c	Unrecaptured section 1250 gain		18	Tax-exempt income and nondeductible expenses
10	Net section 1231 gain (loss)			
11	Other income (loss)			
			19	Distributions
12	Section 179 deduction			
13	Other deductions		20	Other information
14	Self-employment earnings (loss)	18,000		

*See attached statement for additional information.

For IRS Use Only

A few things happen when you choose a corporate tax category...

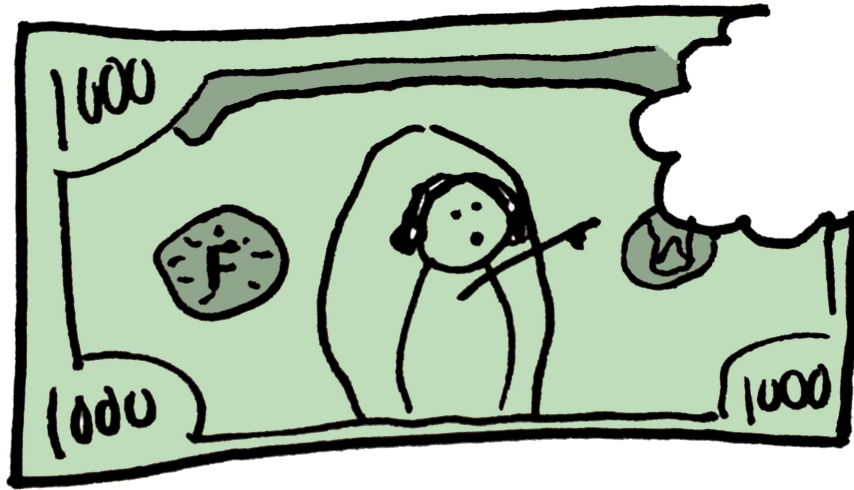


**A corporate tax status (C, S, or T)
could make you an employee of
your own company.**



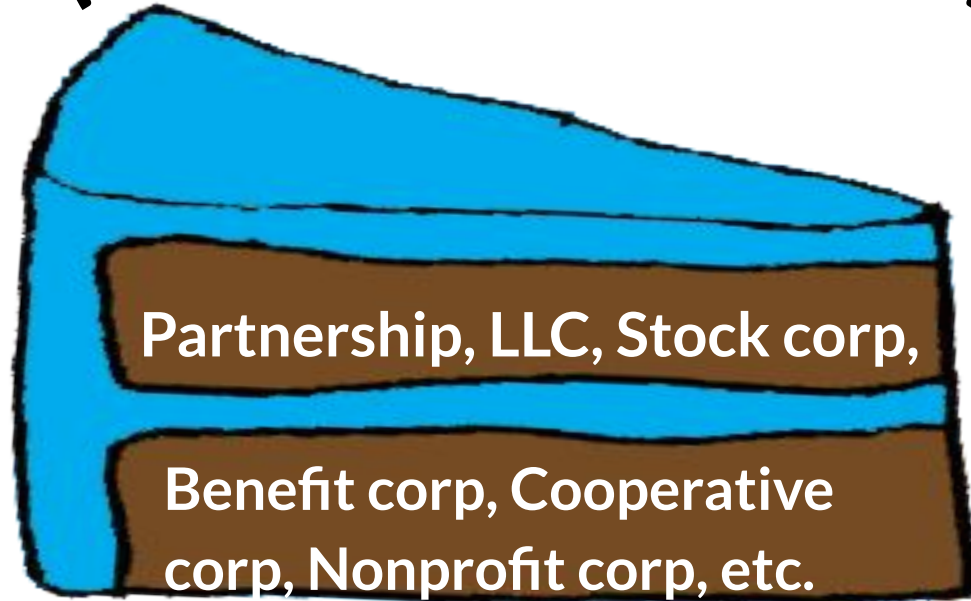
Your
T Corporation INC.

Losses are difficult to pass through to shareholders on an annual basis, unless you choose pass-through S or K taxation. With C and T, shareholders claim any loss later, when they sell their shares.




Subchapter C

(Double taxation)



Subchapter C

- **Disadvantage(??):** Double tax
- **Benefit:** Entity pays tax at **21%**
- Salaries are a deductible expense
- Shareholders pay tax on dividends at indiv rate
- **Benefit:** Choose your own tax year
- **Benefit:** Flexible tax planning (you control when to make dividends)
- **Benefit:** Lower tax rate on income you keep in the corporation, esp. if shareholders make \$84,200 or more per year.
- **Disadvantage?** Must use accrual accounting (with some exceptions).



**Tax Form
1120**
Corporation
remits taxes

Individual income tax rates

37% for incomes over \$510,300 (\$612,350 for married couples filing jointly)

35% for incomes over \$204,100 (\$408,200 for married couples filing jointly)

32% for incomes over \$160,725 (\$321,450 for married couples filing jointly)

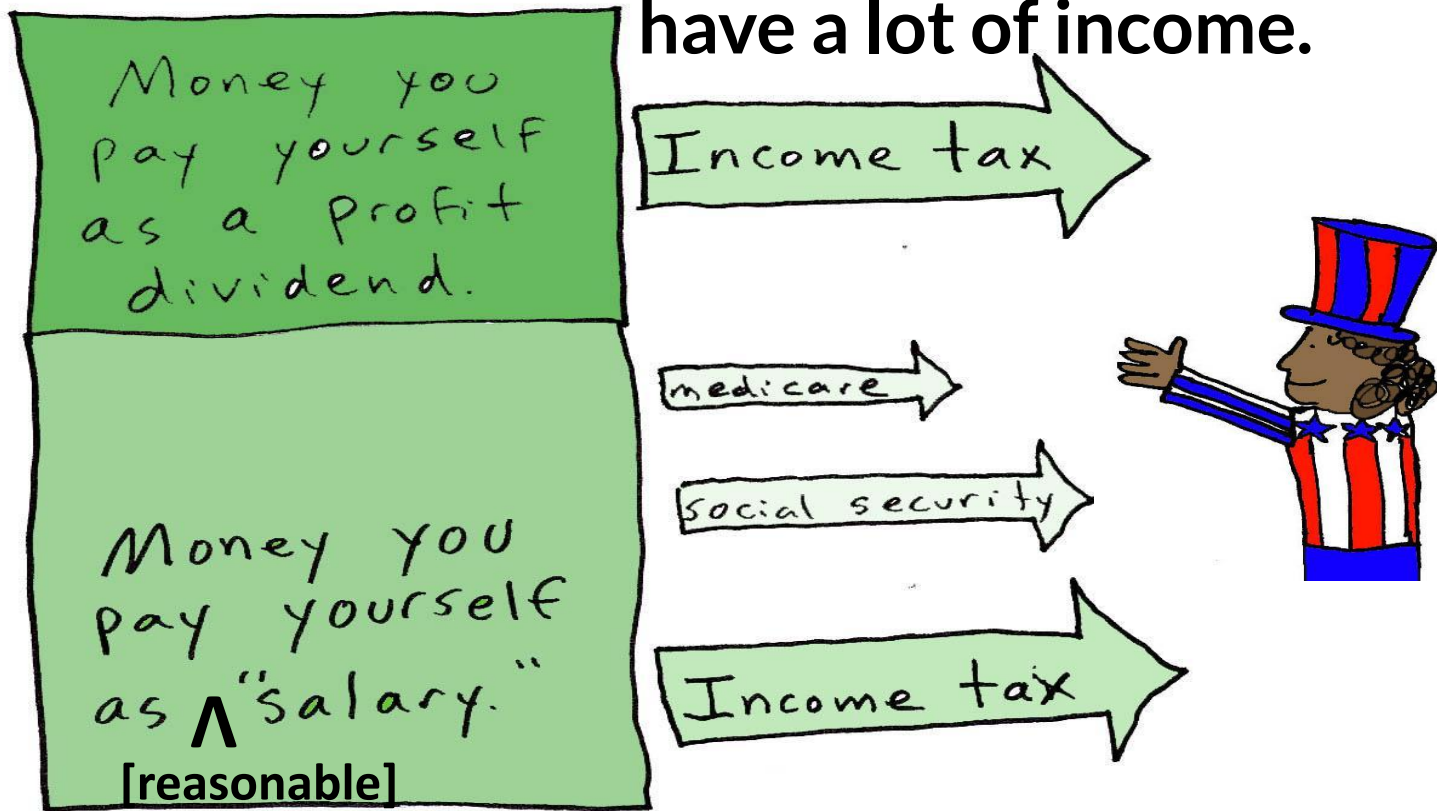
24% for incomes over \$84,200 (\$168,400 for married couples filing jointly)

22% for incomes over \$39,475 (\$78,950 for married couples filing jointly)

12% for incomes over \$9,700 (\$19,400 for married couples filing jointly)

10% for incomes \$9,700 and under (\$19,400 for married couples filing jointly)

A corporate tax status could get you out of paying that ~15% FICA on *part* of your income...if you have a lot of income.



Shareholders may get 1099-DIV

☐ VOID ☐ CORRECTED

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1a Total ordinary dividends		OMB No. 1545-0110		Dividends and Distributions		
		\$		2019				
		1b Qualified dividends						
		\$		Form 1099-DIV		Copy 1 For State Tax Department		
		2a Total capital gain distr.		2b Unrecap. Sec. 1250 gain				
PAYER'S TIN		RECIPIENT'S TIN		2c Section 1202 gain			2d Collectibles (28%) gain	
				\$			\$	
RECIPIENT'S name		3 Nondividend distributions		4 Federal income tax withheld				
		\$		\$				
Street address (including apt. no.)		5 Section 199A dividends		6 Investment expenses				
		\$		\$				
City or town, state or province, country, and ZIP or foreign postal code		7 Foreign tax paid		8 Foreign country or U.S. possession				
		\$						
		9 Cash liquidation distributions		10 Noncash liquidation distributions				
		\$		\$				
		11 Exempt-interest dividends		12 Specified private activity bond interest dividends				
		\$		\$				
Account number (see instructions)		13 State		14 State identification no.		15 State tax withheld		
						\$		
						\$		

Form 1099-DIV

www.irs.gov/Form1099DIV

Department of the Treasury - Internal Revenue Service

Subchapter S

(Pass-through for corporations)



Subchapter S

- **Requirements:**
 - **100 or fewer** shareholders
 - Shareholders must be **humans** (with exceptions - estate, trust, tax exempt nonprofit)
 - **No nonresident alien** as shareholder
 - **Only one class of stock.** May have different voting rights, but no special allocations of profits and losses. **Must be based on your proportion of shares.**
 - **Use calendar year** for fiscal year
- **Disadvantages:** The above requirements!
- **Disadvantages:** Similar to Subchapter K, though some of the allocations rules are even more rigid than Sub K
- **Benefit:** No double tax
- **Benefit:** Compared to Subchapter K, not all income is subject to FICA

Tax Form 1120-S

Entity generally
doesn't pay tax

Schedule K-1
(Form 1120S)

For calendar year 2018, or tax year

beginning	/	/
-----------	---	---

ending	/	/
--------	---	---

Shareholder's Share of Income, Deductions, Credits, etc. ▶ See back of form and separate instructions

► See back of form and separate instructions.

Part I Information About the Corporation

A Corporation's employer identification number

B Corporation's name, address, city, state, and ZIP code

C IRS Center where corporation filed return

Part II Information About the Shareholder

D Shareholder's identifying number

E Shareholder's name, address, city, state, and ZIP code

F	Shareholder's percentage of stock ownership for tax year		%
----------	--	--	---

Final K-1

☐ Amended K-1

OMB No. 1545-0123

Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)
---	---------------------------------

2	Net rental real estate income (loss)
---	--------------------------------------

3	Other net rental income (loss)
---	--------------------------------

4	Interest income
---	-----------------

5a	Ordinary dividends
----	--------------------

5b	Qualified dividends
----	---------------------

6	Royalties
---	-----------

7	Net short-term capital gain (loss)
---	------------------------------------

8a	Net long-term capital gain (loss)	
----	-----------------------------------	--

8b	Collectibles (28%) gain (loss)
----	--------------------------------

8c	Unrecaptured section 1250 gain
----	--------------------------------

9	Net section 1231 gain (loss)
---	------------------------------

10	Other income (loss)
-----------	---------------------

13	Credits
----	---------

14	Foreign transactions
----	----------------------

15	Alternative minimum tax (AMT) items
----	-------------------------------------

Subchapter T

(Cooperative tax)

Mix and match: 1) Entity level, 2) Double tax, and 3) Pass-through. Best of all worlds?



Subchapter T

- **Requirements:** Must operate “on a cooperative basis,” meaning:
 - **Democratic:** One vote per member
 - **Equitable:** Profits distributed on based on value or quantity of services (not based on equity share)
- **Benefit:** No double tax for income allocated on the basis of patronage.
- **Benefit: Mix and match! Entity-level tax** for un-allocated earnings, **double-tax** for income allocated on non-patronage basis, **pass-through tax** for allocations based on patronage.
- **Benefit maybe:** Patr. divs. are either not taxed (certain consumer coops) or may not be subject to FICA (worker coops), though that last point is disputed.
- **Disadvantage:** Accounting gets complex if you have diverse income sources, member and non-member income, etc.



**Tax Form
1120-C**

Members may get 1099-PATR

☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1 Patronage dividends \$	OMB No. 1545-0118 2019 Form 1099-PATR
		2 Nonpatronage distributions \$	
		3 Per-unit retain allocations \$	
PAYER'S TIN	RECIPIENT'S TIN	4 Federal income tax withheld \$	
RECIPIENT'S name Street address (including apt. no.) City or town, state or province, country, and ZIP or foreign postal code Account number (see instructions)		5 Redemption of nonqualified notices and retain allocations \$	6 Domestic production activities deduction \$
		7 Qualified payments \$	8 Investment credit \$
		9 Work opportunity credit \$	10 Patron's AMT adjustment \$
		11 Other credits and deductions \$	

**Taxable
Distributions
Received From
Cooperatives**

**Copy B
For Recipient**

This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Form **1099-PATR**

(keep for your records)

www.irs.gov/Form1099PATR Department of the Treasury - Internal Revenue Service

State Tax Considerations

In California:

- LLCs that haven't elected corporate tax status pay a gross receipts tax
 - \$0 to \$249,999 = \$0
 - \$250,000 to \$499,999 = \$900
 - \$500,000 to \$999,999 = \$2,500
 - \$1,000,000 to \$4,999,999 = \$6,000
 - \$5,000,000+ = \$11,790
- LLCs and corporations pay \$800 minimum tax, but it's waived in the first year for corporations

It often comes down to:

People don't want to be employees of
their own company (choose Sub K):

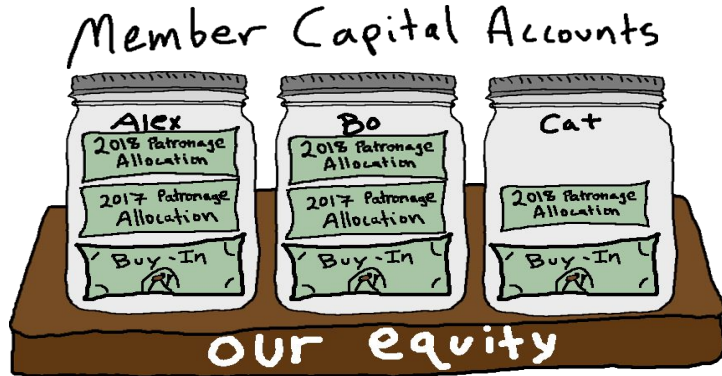


Your
I
Corporation nc.

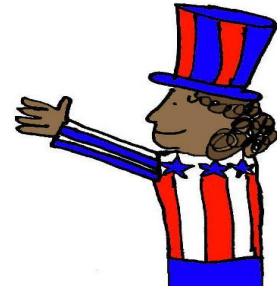
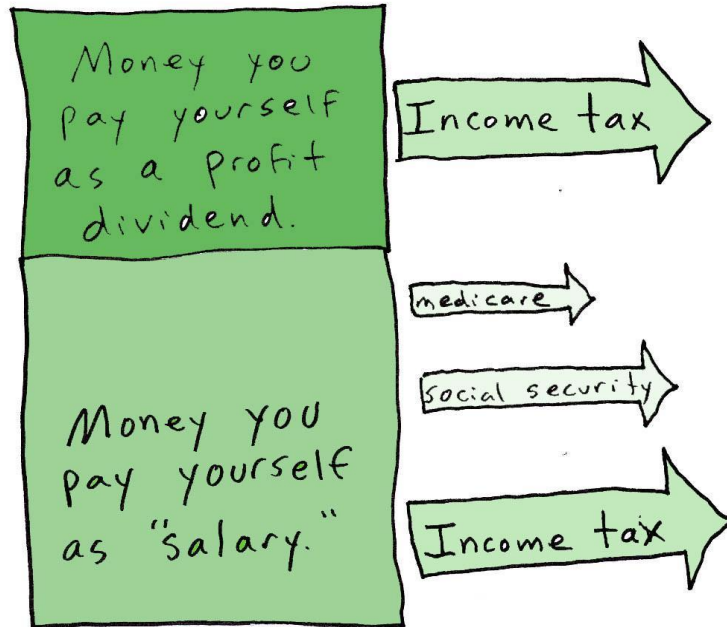
Or it often comes down to:
Wanting unallocated accounts
(choose Sub **C** or **T**).

Pass-through tax:

Entity-level tax:



Or it often comes down to:
Lower tax rate on those dividends!
(Choose **C**, **S**, or maybe **T**)



Or it often comes down to:
Have our cake and eat it, too!
Subchapter T! Yay cooperatives!
Our Cake



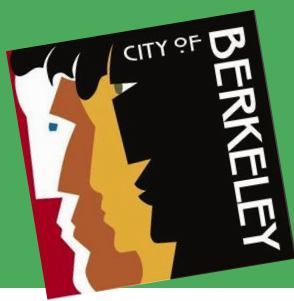
Kieron Slaughter

Chief Community Development Officer

City of Berkeley's Office of Economic Development



How can Berkeley businesses access the **Berkeley Revolving Loan Fund**, particularly in light of the coop-friendly amendments that went into effect in 2020 and the influx of CARES-funded no/low-interest loans?



Resources

- City of Berkeley!
- Co-opLaw.org
 - *Think Outside the Boss manual*
- Resilient Communities Legal Cafe
- Project Equity
- Democracy at Work Institute
- California Cooperative Development Center
- US Federation of Worker Cooperatives



project
{EQUITY}

Break Out Rooms!



Kieron Slaughter,
*Chief Community
Development Officer*
City of Berkeley



Miyaka Cochrane
*Business Engagement and
Partnership Manager*
Project Equity



Laura Smoot,
Coop Bookkeeper & Accountant
Rye Financial

The End

