

COMPARING BUSINESS STRUCTURES



The legal structure of a business defines ownership, liability, earnings distribution, and control. The following table compares cooperatives to other types of business structures.

	Cooperative Corporation (Chapter 185)	Unincorporated Cooperative Association (UCA) (Chapter 193)	Corporation (C Corporation or S Corporation)	Limited Liability Company (LLC)	Partnership	Proprietorship	Non-Profit
Who are the owners?	Members (individuals or entities) *	Members (individuals or entities); may include both patron and investor classes	One or more shareholders; (individuals or entities).(An S Corporation is limited to 100 shareholders)	One or more individuals who are members	At least two individuals or entities	Individual proprietor	No ownership
What are membership requirements?	Determined by bylaws. Usually one share/fee per member. Bylaws may include other requirements with other rights attached.	Determined by bylaws.	One share of stock, with rights and privileges attached to it determined by the articles of incorporation, bylaws, shareholder agreement, and applicable law.	At discretion of LLC members	At discretion of partners	At discretion of owner	Membership fee may be required to participate.
Who controls?	Board of Directors elected by patron members.	Board of Directors elected by patrons, and investor members if any	Board of Directors elected by shareholders	LLC members	Partners	Proprietor	Board of Directors
What is the primary purpose of the business?	To meet member needs for goods or services	To meet member needs for goods or services, earn a return on member investment	To earn a return on owner investment	To earn a return on members' investments; to provide employment for members	To provide employment for partners and a return on partners' investment	To provide employment for owner and a return on owner's investment	To provide services or information
How is the business financed?	Sale of stock/shares to members and outside investors; retained profits	Sale of shares to patron and nonpatron members; retained profits	Sale of shares; retained profits	LLC members' investments; retained profits	Partners' investments; retained profits	Proprietor's investment; retained profits	Grants, individual contributions, fees for services
Who receives profits?	Members in proportion to their use, preferred shareholders in proportion to investment	Patron members in proportion to their use; patron and nonpatron members in proportion to their investment	Shareholders in proportion to investment	LLC members in proportion to investment or by agreement	Partners in proportion to investment or by agreement	Proprietor	Retained within the organization
Who pays income taxes on the profit?	Members on qualified profit allocations profit and cash distributions**; co-op pays on nonqualified and unallocated profits	Members pay on individual rate; or elect to be taxed as cooperative corporation	C corp. pays on profits, shareholders pay individual capital gains rate on dividends; S corp. shareholders pay individual rate on profit share and capital gains	LLC members pay individual rate, or can elect to be taxed as a corporation	Partners pay individual rate	Proprietor pays individual rate	Not applicable; tax exempt
What is the owner's legal liability?	Limited to members' investment in the cooperative	Limited to members' investment in the UCA	Limited to shareholder's investment in the corporation	Limited to LLC member's investment in the LLC	Unlimited for general partners, limited to limited partner's investment in the partnership	Unlimited for owner	Limited to assets of the organization

*Preferred stock shareholders may include nonmembers, and may only vote on limited issues such as dissolution. As a group, preferred stock shareholders do not set policy. Only members have full voting rights and can vote for the board of directors.

** Members of personal consumer co-ops do not pay taxes on patronage allocations that follow certain IRS guidelines.

There may be exceptions to what is summarized here. See statutes for further information.

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