P5 Study Programme Unit 5: Finance

Co-op shares compared to private enterprise shares

In 1844 the first of the modern Companies Acts compelled partnerships of > 25 persons to allow free transfer of shares. This threatened the very basis of co-ops because anyone inc. non-members could acquire shares. The Act of 1852 called shares in IPSs “subscriptions” and required holders to dispose of them only by selling them back to the society, or at least obtaining consent of the board to transfer to someone else. [GDH Cole].

Share capital & loan capital: the Act also limited the members' holdings of share capital to £100 (today £100,000) and loan capital to 4 times the amount of share capital.

At the time, limited liability had still not been granted to IPSs and therefore not to co-ops. Was finally granted in 1862, and this made it feasible to establish CWS the following year. Act of 1862 also doubled share capital limit to £200 and removed limit on loan capital. Act of 1867 removed limit of £200 that one co-op could invest in another.

Raising capital

Borrowing from members

Borrowing from banks/finance institutions

De facto control of the co-op

Borrowing from the co-op movement

Rootstock

One of the most successful features is **Rootstock**, another example of “The whole is greater than the sum of the parts”. Member co-ops (and individuals too?) can lend money to Rootstock, which rapidly accumulates funds which are then lent to member co-ops, to expand their housing capacity or to buy out mortgages, thus saving on commercial-level mortgage repayments.

Solidfund

Co-operative banking

What CWS did

Idea: credit unions and co-ops

Taxation

Taxation of a co-operative is done in alignment with its legal form. Eg. Principle 5 is a co-op but its legal form is company, so it pays tax exactly like a company, and its accounts are structured just like a company's accounts.

But a co-op which is registered as a co-op has a slightly different way of working out corporation tax and a corresponding difference in how the accounts are done, which can make the amount of tax significantly different (example below).

The Act of 1852 we looked at above also required IPSs to pay tax on trading profits – this affected the Rochdale Pioneers in their early days. The IPS Act of 1862 exempted co-ops from tax on trading profits. (However, members' personal gains – dividend and/or interest on loans – were liable to personal taxation, although few working class people earned enough overall to be taxed). In 1879 this was looked at again in depth by the government, but remained unchanged for consumer co-ops [GDH Cole p.122]. But in 1880, producers co-ops were found to be liable for profits tax.

In 1920, tax on profit was re-vamped and called “Corporation Profits Tax”, and all co-ops were included as

liable until 1924 when the Labour government repealed that.

Some time after that (can't find when for now!), law changed again and co-ops have been liable for corporation tax ever since... but there's a difference in the way it works, as follows:

“Profit & Loss” account for private companies

*

*

*

profit before tax	100	
taxation	20	
profit after tax	80	
shareholders dividends	40	[shareholder doesn't pay tax on the dividend because already paid their fraction of the company's corporation tax]
retained profit for the year	40	[goes into reserves etc]

“Profit & Loss” account for co-operatives

*

*

*

profit before member payments	100	
member payments	40	[taxable income for the member]
profit before tax	60	
taxation	12	
profit after tax	48	[goes into reserves etc]

“Mixing it” with private enterprise

Private enterprise wholly-owned by a co-op / several co-ops

Joint venture with private enterprise: Co-op Travel, Co-op Bank, Unity Trust Bank

Employing non-members (including contractors)

CWS production units – factories, dairy in Lancashire, bakery

Bolivia mining /utilities co-ops

Co-ops in Cuba – labour legislation