Does your business or a business you know meet the following criteria?

- Is currently profitable
- Has fewer than 25 employees
- Has employees who have made a long-term commitment to the business
- Is a place where the relationship between owners and employees is strong
- ***If so, your business may be a great candidate for the tax deferral and other advantages of sale to an employee-owned cooperative!***

For more information

NCF may be able to assist you in a cooperative sale to your employees by providing legal, technical assistance, and other services. To find out more please contact:

The Northcountry Cooperative Foundation
219 Main Street SE, Suite 500
Minneapolis, MN 55414
612-331-9103 phone
612-331-9145 fax
www.ncdf.coop

The Northcountry Cooperative Foundation is an affiliate of Northcountry Cooperative Development Fund, a community development financial institution serving small and developing cooperatives since 1978. NCF's purpose is to assist communities develop community-owned and democratically governed enterprises.

Northcountry Cooperative Development Fund

NCF supports the establishment and expansion of these enterprises, encourages innovation, and facilitates their success by providing training, research, education, development assistance, and specially designed research projects.

Northcountry Cooperative Foundation

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

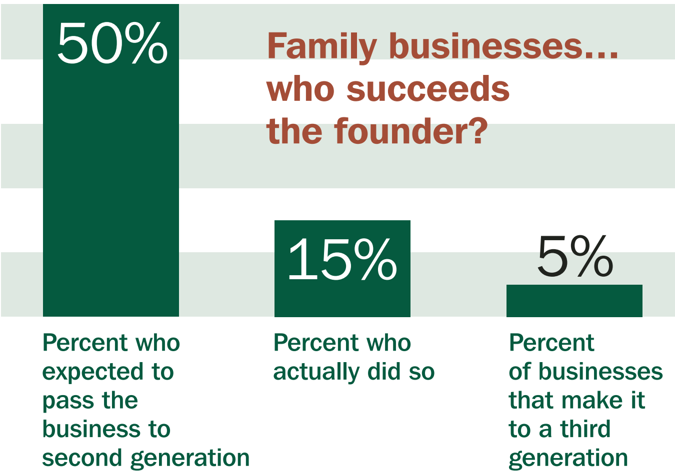
Northcountry Cooperative Foundation
219 Main Street SE, Suite 500
Minneapolis, MN 55414

Small Business Ownership Succession

The Cooperative Solution

An Initiative of the
Northcountry Cooperative Foundation and
Northcountry Cooperative Development Fund

The Small Business Administration recently reported the following about family business ownership succession:



Additionally, **55 percent** of family business owners with CEOs age 61 or over had not picked a successor.

Cooperatives: A Creative Solution to Business Succession...with a Tax Break

A sale to employees can provide an owner with significant tax breaks.

Because of the *IRC §1042 Capital Gains Rollover,* business owners who sell at least 30% of the stock in their C-Corporation to an employee-owned cooperative can roll over the proceeds from the sale into qualified replacement securities and defer payment of any capital gains tax indefinitely.

What is an Employee-owned Cooperative?

- A cooperative is a business formed primarily to benefit its patrons. Consumer co-ops benefit patrons by pooling buying power. Producer cooperatives benefit patrons by pooling marketing power.
- Employees are the patrons of an employee- or worker-owned cooperative. They enjoy the benefits of self governance as well as a share of any net margin (profit) produced by their business.
- An employee co-op is governed by a Board of Directors elected by members of the cooperative who are all employees of the business. The board may choose to appoint some members, but to qualify for the tax advantage, at least half of the Board of Directors must be elected by the members on the basis of each member having one vote.
- The Board of Directors may hire managers to run the daily operations of the business, or they may set up a system by which the Board maintains those responsibilities.
- Patronage dividends are allocated on the basis of each member's labor input into the co-op. Like an S-corporation, patronage dividends are taxable on the individual level, but not the company level.
- Because employee co-ops are inexpensive to set up and maintain, they are highly cost-effective for ownership succession in small businesses.

Benefits of Cooperative Conversion

- The business continues to be owned and operated by members of the local community, providing needed goods and services
- Jobs remain in the community. A cooperative can succeed with as few as five employees.
- The cooperative structure is flexible: it can work for businesses in nearly all sectors of the economy including manufacturing, service or retail companies.

Simpler, Less Expensive and More Direct

Unlike Employee Stock Ownership Plans (ESOPs), employee owned cooperative 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, or an ESOP trustee. Employees participate in ownership directly and do not need to wait until retirement to enjoy the financial benefits, since net margin (profit) is distributed annually.

How Does a Conversion to an Employee-Owned Cooperative Work?

- The company is converted into an employee cooperative;
- The cooperative can borrow money from a bank or other lender to purchase the stock of a retiring owner;
- The employee cooperative redeems the owner's stock in stages, with a minimum of 30% initial redemption to qualify for tax advantages;
- Until a majority of stock is sold to employees, the cooperative can provide the owner with special voting rights and veto power;
- A former owner may stay an active member of the cooperative even after the sale, if the parties wish.

NCF would like to thank the USDA for supporting this employee cooperative initiative.