BUSINESS COUNCIL OF CO-OPERATIVES AND MUTUALS

Choosing your co-operative type

There are two main types of co-operative under Australian law.

Distributing co-operatives are referred to as a 'for profit' business model because they can distribute surplus or profits to members.

Non-distributing co-operatives are referred to as 'not for profit', because they cannot distribute surplus or profits to members. In this type of co-operative you can choose to have a share capital or no share capital. If you choose to have no share capital, generally members will pay annual subscriptions much like associations or other not for profit organisations.

The following table compares the features of each co-op type

	Distributing	**Non-distributing**
Minimum number of members	5	5
Minimum number of directors	3	3
Registration requirements	Constitution (rules) Disclosure statement Formation meeting	Constitution (rules) Formation meeting Registrar may require a disclosure statement if there is a substantial financial risk to members – eg high share capital requirement
Share capital	Yes	Can choose whether to have share capital or not
Source of operational funds	Share capital, trading income and some may also have a subscription	For a co-operative with share capital, operational funds come from share capital, subscriptions and trading income. For a co-operative with no share capital, operational funds come from subscriptions, trading income and possible grant funding.
Services to members	Yes	Yes
Can distribute profits to members	Yes	No
Can reinvest profits to build co-op or improve member services	Yes – board decision	Yes - mandatory

Share capital can be returned to members	Yes – subject to limits to ensure co-operative's financial viability	For co-operatives with share capital: Yes – subject to limits to ensure co-operative's financial viability N/A for co-operatives without share capital
What happens to the co-operative's assets if co-operative is wound up	Surplus assets shared amongst members	Surplus assets are gifted to another organisation with the same purpose. Share capital, if any, is repaid to members.

Still not sure?

Distributing co-operatives work well if the intended business needs significant capital at the start. Members who can benefit from working together to reduce their individual costs and who want a sense of ownership over their co-operative business will also want to be able to share in the profits from their co-operative. Co-operatives in agriculture, travel services, renewable energy and worker co-operatives use this type of co-operative.

For a co-operative where members want both services and a profit share – **choose a distributing co-operative**

Non-distributing co-operatives work well If the co-operative's purpose is to create a service provider for the benefit of members and any new members as a long term or enduring service**.** A non-distributing co-operative's assets must always be used to pursue the stated purpose.

If your non-distributing co-operative needs substantial capital at start-up, members can share the cost of acquiring and maintaining assets that they need for their own businesses. As they retire or no longer need the co-operative's services, they can sell their shares to new members or the co-operative to repay their share capital. This type of co-operative is used for housing, shared manufacturing or agricultural infrastucture or other facilities.

For co-operatives with these purposes - **choose a non-distributing co-operative with shares.**

If your non-distributing co-operative doesn't need significant capital, or is likely to be funded by grants or member subscriptions, then you may have no need for share capital. This type of co-operative is often used by food co-operatives, child care, marketing, educational and community service or charitable purpose co-operatives.

For co-operatives with these purposes - **choose a non-distributing co-operative with no shares.**

This guide is not intended as legal, business or financial advice. It provides a simple overview of the main features of the different co-op types under Australian law. The choice of co-op type should be made with the assistance of professional advice that considers the purpose of the enterprise, along with its finance and capital needs.