New Coops: Accounting & Taxes

Presented by and ©: Bruce Mayer, CPA
Career Development

- Food coop staff then bookkeeper
- MBA in Accounting
- Public Accounting – CPA
- Work with non-profits
- Coops from coast to coast
• Presentation developed specifically for pre-opening food coops
• There are different issues for worker, purchasing, and other kinds of coops
Accountant’s Definition of Coop

- A business owned and democratically controlled by the people who use its services and whose benefits are derived and distributed equitably on the basis of use. (P3)
- Earnings are allocated to members based on the amount of business they do with the cooperative.
Business Characteristics

• A cooperative is not a non-profit or tax exempt organization
  – Profits are required to provide reserves and capital for renovation or expansion.

• But may have to incorporate that way and work around it to be a coop
Accounting

• When to start keeping books
  – Open bank account is beginning

• Software
  – Only for start-up phase
    • Excel
    • Quicken
  – For construction phase and store operation
    • QuickBooks
      – Online
    • MAS 90 - Sage
    • MS Dynamics GP
Accounting

• Reporting
  – Pre-open – cash, amount of equity & number of owners
  – Once the store is open – cash, gross margin, labor
– Cost/Benefit
  • Information costs money
  • But lack of information leads to poor decisions
Accounting

• Start-up Phase
  – What to keep track of:
    • Cash in bank at opening of period
    • Plus cash deposited
    • Less cash spent
    • Equals cash in bank at end of period
Accounting

• Start-up Phase
  – Categories of deposits
    • Income
      – Sales
      – Donations
      – Member fees
    • Equity
      – Member investments
    • Loans
Accounting

- Start-up Phase
  - Categories of spending
    - Salaries
    - Administrative
    - Marketing, advertising
    - Events
    - Repayment of loans or equity
    - Transfers between accounts
Accounting

• For construction phase and operations:
  – CoopMetrics chart of accounts
    • Uniformity, comparability
    • Not specifically for GAAP or tax
  – Start-up costs are not capitalized
    • Legal, consulting
    • Marketing
    • Labor
  – Capitalize only tangible assets
Accounting

• The big difference for a coop: Equity
  – Preferred shares
  – Member shares
  – Retained patronage dividends
  – Retained earnings

• Maintain detailed records for each owner
• Spreadsheet for preferred shares
• Database of owner name, address, investment, retained patronage amount
Accounting

• Internal Controls
  – Safeguard assets
    • Fraud happens!
  – Cash disbursements – money out
  – Cash receipts – money in
  – Bank reconciliations
  – Segregation of duties
    • Bookkeeper is check on system
  – www.grocer.coop/accountingpractices
Taxation

• Payroll
  – Use an outside service
    • Consequences of errors are high
  – Employees vs. contractors
    • Based on control
    • Project manager is very likely an employee
  – Wage & hour rules
  – Follow rules for benefits
    • Health insurance
    • Fringe benefits
  – Issue required 1099s for payments for services of $600 or more
Sales
- Indiana sales tax of 7% plus up to 2% for local taxes
- Groceries exempt
- Register with Department of Revenue when expect taxable sales
- Once open compliance takes work
Taxation

• Property
  – All jurisdictions have some form of tax on property
  – Need to find who to report to
    • Assessor
    • Personal property section
Income

- Federal rules –
  - File 1120-C – Coop return
  - No late penalties if owe no tax
  - Basic rate is 15% (up to $50,000 of profit)

- State rules
  - Indiana has 8% rate based on federal taxable income
• **Income – Key Issues**
  – **When to start filing?**
    • From date of incorporation
    • Often delayed until have bank account
    • May need to file for back years
  – **Year-end** – does not have to be December
  – **Federal initial due date** 2.5 months after year-end
    • Extend an additional 6 months
  – Board is responsible for filing
Taxation

• Income – Key Issues
  – Donations and grants
    • Are taxable income
    • Only exception is from a government for property
  – Is owner money equity or fee?
    • Equity is spelled out in bylaws – not taxable
    • Fee is taxable for income tax and probably sales tax
Patronage Dividends

• Compute earnings after year end
• Return earnings to patrons based on business done with the coop
  – After holding back reserves as needed
  – Paid in cash and equity allocations
• Governed by federal tax law, articles of incorporation, bylaws and state law.
Patronage Dividends

• Recipient of patronage dividend
  – Personal use patronage dividend not taxed at all
  – Retained portion in members name
• www.cdsconsulting.coop/patronagedividend
Thank You!

Bruce Mayer, MBA, CPA
Partner

Wegner CPAs
608-442-1939
Bruce.Mayer@wegnercpas.com

www.wegnercpas.com