

Written Notice of Allocation



The by-laws and articles of incorporation are a worker cooperative's core governing documents. They determine how power, money, and information flow through a firm, addressing things like how an employee becomes a worker-owner (also known as a member-owner) of the cooperative, and how profits are distributed.

The portion of the net income paid out to members is called the patronage dividend and can be paid out in cash or in "paper" to a member's internal capital account. This paper, or non-cash portion of the patronage dividend, is issued using a written notice of allocation, which is essentially a statement that tells the member the amount of the patronage dividend allocated to them but retained in the cooperative, and the current value of their internal capital account. Each co-op electing to be taxed under Subchapter T of the Internal Revenue Code, must issue a written notice of allocation each year. There are two types:

Qualified Notices of Allocation: A qualified written notice of allocation is a written notice of allocation that meets all the conditions of Subchapter T of the Internal Revenue Code. A written notice is usually considered "qualified" when the taxable portion of a patronage dividend is paid out in cash. The co-op does not pay corporate income tax on this portion of its income, and instead the member that receives the dividend pays income tax on the total value of the patronage—both the cash they receive and the amounts allocated to their internal capital account. With qualified notices, co-ops must pay out at least 20% of the patronage dividend in cash to members.

Non-Qualified Notices of Allocation: Co-ops can also issue non-qualified written notices of allocation, which are any written notice of allocation that fail to meet the conditions of Subchapter T of the Internal Revenue Code—typically the 20% cash payment component. In the year co-ops issue non-qualified notices they must pay corporate income tax, but can deduct the expense when the notice is redeemed for cash in a later year.

This publication is not intended to provide advice on the proper application of state, corporate or Federal tax law to worker cooperatives. A qualified attorney or other expert should be consulted for assistance with cooperative by-law formation and tax law.

Qualified Written Notice of Allocation

Fiscal Year [date] to [date]

ISSUED TO: [Name of Member], Member [ABC, Inc.]
 ISSUED BY: [ABC, Inc.]
 ISSUE DATE: [Date of issue]

This written notice of allocation is hereby issued to you for your share of the total patronage dividend resulting from the operations of [ABC, Inc.] (hereinafter, the "Corporation") during the fiscal year from [date] to [date] (hereinafter the [XXXX] fiscal year). The total patronage dividend to Members for the [XXXX] fiscal year is \$[Total Patronage], which comprises [XX%] of the Accounting Net Income earned during the [XXXX] fiscal year.

Your share of the patronage dividend is [\$_____]. [Include both the Cash & Paper Portion].

The amount paid to you today is [\$_____], which comprises [XX%] of your share of the patronage dividend.

The amount credited to your internal capital account is [\$_____], which comprises [XX%] of your share of the patronage dividend. The Corporation will pay this amount to you in cash in redemption of this written notice of allocation on or before [Date of Redemption], except as otherwise determined by the Board of Directors of the Corporation.

This is a *qualified written notice of allocation* as defined in section 1388(c) of the Internal Revenue Code. In accordance with the Internal Revenue Code, you must report as personal taxable income your share of the patronage dividend, including any payments in cash or property plus the amount credited to your internal account.

Your Internal Capital Account Statement as of this date is:

Previous balance.....	\$ _____
+ amount credited for [XXXX] fiscal year.....	\$ _____
- amount of losses debited for [XXXX] fiscal year.....	\$ _____
- amount paid in redemption of prior written notices	\$ _____
= Balance in your account as of [date]	\$ _____

Issued by [ABC, Inc.]:

 [President or Treasurer] DATE

Received by [Name of Member]:

 [President or Treasurer] DATE

Non-Qualified Written Notice of Allocation

Fiscal Year [date] to [date]

ISSUED TO: [Name of Member], Member [ABC, Inc.]
ISSUED BY: [ABC, Inc.]
ISSUE DATE: [Date of issue]

This written notice of allocation is hereby issued to you for your share of the total patronage dividend resulting from the operations of [ABC, Inc.] (hereinafter, the "Corporation") during the fiscal year from [date] to [date] (hereinafter the [XXXX] fiscal year). The total patronage dividend to Members for the [XXXX] fiscal year is \$[Total Patronage], which comprises [XX%] of the Accounting Net Income earned during the [XXXX] fiscal year.

Your share of the patronage dividend is [\$_____]. [Include both the Cash & Paper Portion]. The amount paid to you today is [\$_____], which comprises [XX%] of your share of the patronage dividend.

The amount credited to your internal capital account is [\$_____], which comprises [XX%] of your share of the patronage dividend. The Corporation will pay this amount to you in cash in redemption of this written notice of allocation on or before [Date of Redemption], except as otherwise determined by the Board of Directors of the Corporation.

This is a *non-qualified written notice of allocation* as defined in section 1388(d) of the Internal Revenue Code. In accordance with the Internal Revenue Code, you must report as personal taxable income at a future date any amount of cash or property paid to you subsequently in redemption of this written notice of allocation.

Your Internal Capital Account Statement as of this date is:

Previous balance.....	\$ _____
+ amount credited for [XXXX] fiscal year.....	\$ _____
- amount of losses debited for [XXXX] fiscal year.....	\$ _____
- amount paid in redemption of prior written notices	\$ _____
= Balance in your account as of [date]	\$ _____

Issued by [ABC, Inc.]:

[President or Treasurer] DATE

Received by [Name of Member]:

[President or Treasurer] DATE