

PROBLEMS OF "PROFIT" TAXATION OF COOPERATIVES: theoretical and practical aspects

Paper accepted for presentation at the ICA-2019 Research Conference,
Humboldt Univeristy, Berlin, Germany, August 21-23, 2019.

The issue of taxation is very important for cooperatives in many countries. They often pay profit taxes on a general basis, like any other commercial company. At first glance, this seems to be correct, since all forms of business should work under equal terms. However, such an approach is fair only for the entities which have similar economic nature and the goal of maximizing returns on invested capital. But cooperatives significantly differ from businesses by nature and purpose of their activity. This purpose is not to maximize return on invested capital, but to provide services to the members of coop. Therefore, the difference between the received income and the expenses incurred by cooperatives cannot be interpreted as *profit* in the traditional sense of this word. These earnings are not the purpose of cooperative's activity. They have fundamentally different economic nature. This is confirmed by the fact that existence of a cooperative does not lose its sense even when its revenues do not exceed operating costs during long period of time, while functioning of any business in such circumstances is senseless.

The category *profit* is derived from the category *income*. All cooperatives can be conditionally divided into 2 large groups. The first group is performed by the cooperatives which receive income *from* their members as a result of supplying them with the necessary goods and services. The second group is performed by co-ops which receive income *for* their members as a result of selling goods and services produced by these members. In the first case, the cooperative receives income from its members, who are its owners at the same time. Therefore, according to its nature, this money looks more like targeted financing rather than income. Therefore, taxation is not logical here. In the second case, the cooperative receives income not for itself, but for its members by selling their products. Therefore, it is logical to tax not the cooperative, but the members of the cooperative individually. Thus, co-operatives providing services exclusively to their members should not be taxed. If a cooperative is servicing the customers who are non-members, only this part of cooperative business must be taxed. The proposed theoretical approach has been successfully used in Ukraine. The mentioned arguments allowed credit unions, agricultural servicing and housing cooperatives get the status of non-profit organizations. In their turn, Ukrainian consumer cooperatives have not such a status because they serve the customers who are not members.