

Business Transition Models

*Discover which model fits your personal,
financial and community needs.*



UNIVERSITY of NEBRASKA
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THIS GUIDE provides business owners, potential buyers, and interested community members brief descriptions of options available when changing business ownership. In this guide, we focus on ownership transition ranging from private sale to forming a cooperative with a large group of owners from the community. The ultimate set of options and choices made by the existing owner(s) will vary by costs, time, and legal considerations. Use this guide as a source of information when working with an attorney and accountant. It is not intended to provide legal advice for how business transitions are legally executed.

Acknowledgments

Nebraska Cooperative Development Center

The Nebraska Cooperative Development Center (NCDC) supports the cooperative business model and its potential to increase the quality of life and economic vitality of rural Nebraska. Cooperative businesses are comprised of independent people voluntarily uniting to meet their common economic, social, and cultural needs through a jointly owned and democratically controlled enterprise. Cooperatives are differentiated by unique governing principles and practices.

NCDC assists groups and communities exploring the cooperative model or operating a business following cooperative practices. NCDC will guide groups through the cooperative formation process, from visioning to implementation. Services include facilitation, technical assistance, education, resources and referrals. NCDC has been Nebraska's source for cooperative-based business development since 1999.

University of Nebraska–Lincoln Project Team

Team Writers:

Lead Writer: Jason Tuller - jason.tuller@unl.edu
 Cindy Houlden - choulden2@unl.edu
 Shawn Kaskie - shawn.kaskie@unl.edu
 Greg McKee - BYU-Idaho, mckeeg@byui.edu
 Charlotte Narjes - cnarjes1@unl.edu
 John Westra - john.westra@unl.edu

Writer/Editor: Marilyn Schlake - mschlake1@unl.edu

Design: Mary Thompson - marytomdesign@gmail.com

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Introduction

Ownership transition is a key step in facilitating continued business operations. In many cases, these businesses, such as a local grocery store, are vital to the economic structure and vitality of the community. They provide needed retail services for residents and area customers. As a result, many lifestyle businesses may operate successfully for many years. Unfortunately, failure to plan for ownership transition may often result in owners simply closing their doors. These essential services are then lost to the community.

Successful ownership transition is a planned process. By sharing news of a potential sale (publicly or privately), potential buyers and community leadership have the opportunity and time to assist and seek options for retaining vital businesses. Some multi-person ownership options featured in this guide include cooperatives, employee stock ownership programs (ESOPs), and employee-owned trusts (EOTs).

This guide was developed from a 2020 study of Nebraska's independent rural grocery stores. The different transition options reflect the experiences of and lessons learned from the business owners when they transitioned ownership of their businesses to groups of owners. The steps and findings are applicable to a variety of locally-owned small businesses.

Community Support

Community leadership can assist owners in this transition process. When done successfully, community leaders work with owners toward a goal of ensuring business continuity and creating an atmosphere of trust and support for current and future business owners. Among these steps are:

Work with state and local Economic Development field staff to learn from business retention and expansion or wellness visitations to determine potential transitions.

Seek support from local Chambers of Commerce, Extension Educators, Small Business Development Center Advisors, and other business professionals to educate and provide resources on business transition options.



Organize a local business council, comprised of existing business owners, community leaders and business service advisors who offer confidential advice and access to resources.

Support local businesses through marketing. Seek ways to help businesses expand their market reach for existing products and offerings.

Enhance collaboration between local and regional businesses that provide complementary products and services.

Encourage local purchases and overall community support to help keep businesses viable and attractive to potential buyers.

Seek grants and low cost financial resources to help businesses update facilities and equipment that reduces overhead costs and enhances community attraction.

This guide describes retail grocery business ownership transition experiences in Nebraska. These strategies can also be applied to any type of business transition. Each strategy describes transition steps, considerations to make within each step, and the positives and negatives of the option. This is not a comprehensive list, as variations within options may be possible due to each party's goals in the transition process.

Preparing for Transition

Planning for business transition is a process. It can take more than 10 years or it can be accomplished in weeks. In this guide, you will find many types of business transition strategies, some requiring more time than others. Most strategies take significant preparation prior to placing the business on the market. One objective is to ensure that the owner receives the best value for the business. Another is to emotionally prepare the owner to let the business go.

Ideally, when an owner starts a business, they should also plan for the sale or closure of the business. Realistically, that does not often happen. The decision to sell the business is the first step in the transition process. The owner must decide when and why they want to transition the business. Is health a reason and the sale needs to be completed quickly? Or, is a family succession planned for when children are ready to take over the business? If the 'when' is in the next ten years, the owner has time to plan and prepare items explained later in this section.

Personal Preparation. The reason 'why' an owner is selling the business is key. What are the personal goals of the owner?

- Are proceeds from the sale for personal use: retirement, debt reduction, medical expenses, etc.?
- Is a post-transition financial strategy in place to reduce potential tax liabilities?
- Is there potential for a family legacy through business succession to family members or through a large cash inheritance from the sale proceeds?
- Is there an opportunity for transitioning the business to continue to benefit the community and long-standing customers?

There are many reasons and goals that drive a decision to sell a business. The 'why' can change over time and require adjustments to the transition strategy and timeline. Many business owners almost consider their business as a child, they have spent many hours, blood, sweat, and tears on their business and it is difficult to let go. The owner must be emotionally ready to leave the business and their customers at the time of transition. This may be why many owners fail to prepare for the transition until there is limited time to implement the strategies outlined here.

Asset Preparation. Besides personal preparation, owners should also prepare the physical assets of the business. For instance, has the owner maintained the equipment and is the equipment up to date? When

preparing the business for sale, the owner needs to think like a business buyer. Is the building sound? Does the roof leak? Are the floors worn? Ask, what would need to be fixed or replaced in the first year. Make improvements before selling the business to increase value. Do the same for the equipment. Consider using cash flow to make needed repairs or purchase new equipment before the transition. It is easier for a buyer to obtain a loan for a business that needs few repairs and has newer equipment than it is for a business that requires a significant portion of the loan covering these items.

Financial Preparation. When considering selling the business, owners should work with financial advisors early in the process to prepare financial statements. What is the financial position of the business? Are there outstanding liabilities? Can cash be used to make the needed asset improvements? A sufficient cash flow becomes more valuable when it is time to sell the business. If the business has limited cash flow to make improvements, the transition will be more difficult to negotiate and may take more time to complete.

Profit is also extremely important in valuing a business. During operations, many accountants and business owners work together to legally minimize the amount of taxes paid each year. However, when working to increase business valuation, the owner and accountant work to increase business profits. At a minimum, banks are required to value a business based on the previous three years of business income tax returns. During the valuation assessment, a banker starts with the net profits and adds back seller discretionary earnings such as owner's salary, non-operating income and expenses, depreciation, interest, and other items that are not central to the business operations. This provides a more accurate picture of the business' true earnings and its value.

Finally, some business owners may have a valuation of the business that is less than the current owner's liabilities. It is a difficult situation requiring the current owner to have a discussion with their lender about options available to them. A lower valuation does not necessarily mean the business cannot be profitable. It may mean that the current debt structure does not work. If a new owner comes with a different debt structure, the business could be viable once again.

In each of the following transition strategies, it is assumed the owner has prepared for the subsequent transition and is ready to proceed with a strategy that best works for the owner and the potential buyer(s).

Transition through Private Sale

This simple diagram shows some of the decisions that need to be made when an owner decides to sell the business. Review the Preparing for Transition guide on page 4. Determine if the time is right for the transition, both personally and financially. Are there potential buyers already interested or should a broker be contracted to promote the business opportunity? How much is the business realistically worth? Determining the value of the business may require outside expertise. An owner may choose to contact a business valuation analyst, business broker, or realtor to set a baseline value. The owner can then list the business for sale and secure a buyer to complete the transition.

The process may be as simple as turning the keys over to the new owners, once all the paperwork and payment is made. This can be as short as a few months, or it could transpire over five years or more to complete. At the minimum, the owner should plan for at least three months for a buyer(s) to create a business plan and secure funding.



KEY CONSIDERATIONS

- If business valuation is too low, increase profitability over several years.
- If applicable, explore purchasing options with business partners family or employees (p. 6-7, 13).
- Consider competitors looking to expand their market reach or businesses interested in increasing their product offerings (p. 12).

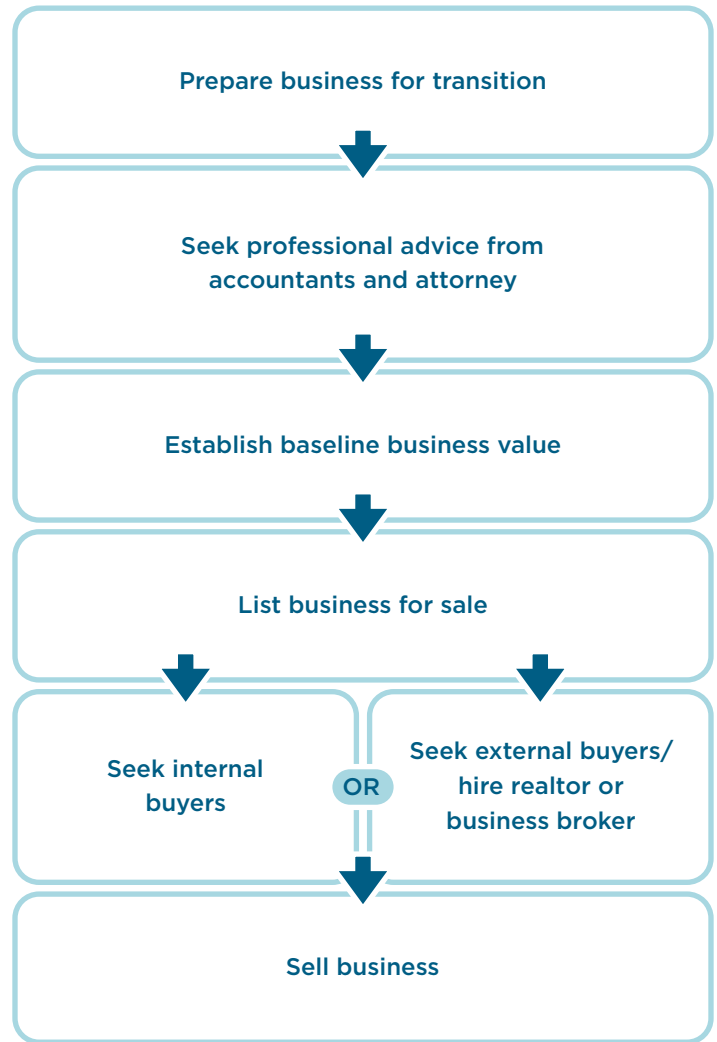
PROS

- + May receive high value for business.
- + Business could be sold quickly.
- + Community retains the service.
- + Community continues to build wealth.
- + Community retains jobs.

CONS

- ✗ Could lose employees or customers while the business is for sale.
- ✗ Realtor/broker fees can be expensive.
- ✗ May require several years to enhance business profitability.
- ✗ Can take a significant amount of time to find a buyer.
- ✗ May need to remodel and upgrade equipment to be sellable.

TIMELINE: 0-5 YEARS



There are exceptions and scenarios not listed here. Working with your attorney during this process is highly recommended.

Transition to Family/Employee

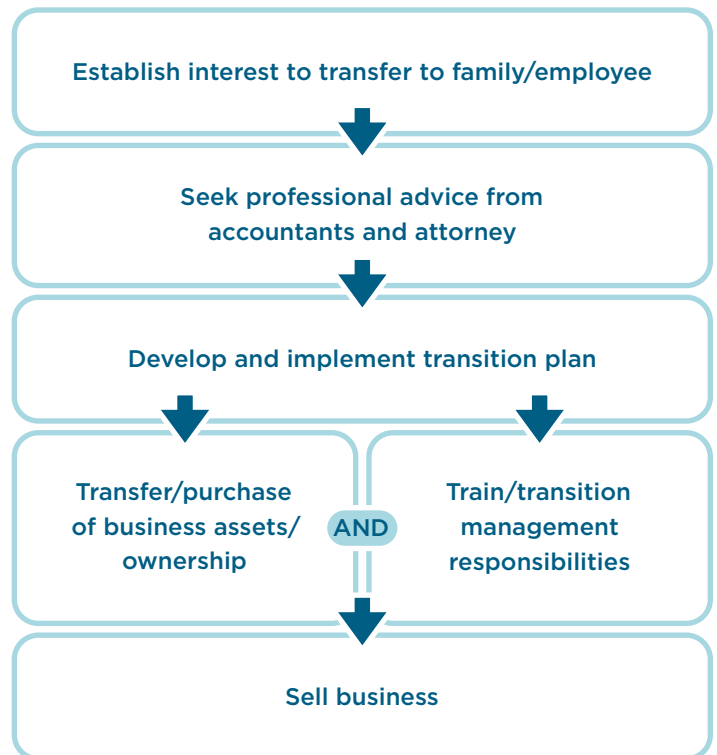
A very important personal and family goal may be leaving the business to the next generation within the family, or a trusted employee. A successful transition can allow the business to grow with renewed energy, provide employment for the next generation, and maintain a trusted and viable business within the community.

The transition to a family member or employee may occur over an extended period through ownership gifting, transferring of shares, or by selling the business outright when the next generation is ready. For example, a senior owner can give or sell a non-controlling portion of the business to a family member or employee. Each year, the senior owner then sells or provides a percentage of that business to the family member or employee as part of their compensation package. The transaction may be legally organized under a Limited Liability Partnership. This scenario helps the next owners grow equity and secure a loan for the entire business in the future. During this time, the senior owner also works with the family member or employee to increase profitability in the store based on tax returns. This process can take five or more years.

Seller financing is another option for transferring the business. In this scenario, the senior owner serves the same role as a banker. The family member or employee pays for a portion of the business up-front and the senior owner provides a loan for the remaining portion that is paid back over an agreed upon time. The terms of the loan are determined by the parties, with consultation from legal advisors. Alternatively, the senior owner can sell a controlling portion of the business to the family member or employee, the senior owner retains a portion of the business

with the new owner making payments to the senior owner for the remaining portion. If a bank loan was secured for the initial down payment, the bank would typically take first position on the property and equipment and the senior owner would be in second position in case of default. This scenario strengthens the bank's risk position and makes the loan more agreeable to the lender.

TIMELINE: 1-10 YEARS



There are exceptions and scenarios not listed here. Working with your attorney during this process is highly recommended.



Transition to Family/Employee *Continued...*



KEY CONSIDERATIONS

- Determine if this strategy allows for the retirement needs of the senior owner.
- Determine the financial goals of the incoming owners and if the business can be profitable and viable in the future.
- Plan for management transition. Determine ownership roles, timeline for increasing responsibilities, and how and when the senior owner will retire. Allow family members and employees to train and develop the necessary skills.
- If other family members need to be considered, determine how the assets will be divided while maintaining the stability of the business.
- Plan for the unexpected and manage risk for both generations.

PROS

- + If transitioned to a family member, the family pride and legacy continues.
- + Continued employment for family or employees.
- + Senior owner can stay semi-active in the business while gradually transferring operations and ownership to next generation.
- + Transition can happen quickly if the business is sold out right.
- + Gradual transfer of ownership allows time for next generation to learn the business.
- + Community retains the service.
- + Established customers relationships are maintained with the new owners.

CONS

- ✗ Owner may not receive the highest value possible for the business.
- ✗ Must have family member(s) or employee(s) who are interested and ready to take over the business.
- ✗ Potential personal conflicts may occur over timeline, responsibilities, and financial goals.
- ✗ Family members or employees are unable to qualify for financial assistance.
- ✗ Gifting or transfer of shares requires additional time to implement.
- ✗ Non-employee family members may be dissatisfied with their 'piece of the pie.'

Transition to Co-operative

When a business transitions into a cooperative, personal assets are transferred, and financial discussions may occur between the existing owner and a team of community representatives. The personal goals of the existing owner can easily overlap with the goals of the potential cooperative memberships' goals. The owner's asset preparation step involves anticipating how a business buyer, composed of local community members, will think. What needs have the potential cooperative members identified? Does existing equipment and other physical assets meet those needs? The financial preparation step may involve interacting with groups that have not previously considered owning and operating a business.

The owner has options about how to participate in the newly formed cooperative. They may choose to participate as a member – a shareholder in the cooperative. The previous owner will have the same rights and responsibilities as any other shareholder. The owner will need to revise their role perception to be the same as other owners' within the community. Alternatively, the owner can sell the business outright to the cooperative, like a private sale. In this situation, the owner has no further ownership stake in the business.

The existing owner needs to anticipate how they might work with the community to facilitate a successful transition. Community members will organize the cooperative in three overall phases – exploration, assessing

feasibility/planning, and implementation. The exploration stage includes gathering support among community members for purchasing the business. Successful steering teams, comprised of community members, complete the planning phase by developing a business vision, analyzing the feasibility of the vision, and assessing community willingness to make collective business decisions.

The current owner can play a critical role in the exploration and planning phases. The existing owner interacts with the steering team in two ways. First, the owner provides detailed information on the current business's financial costs and income streams. Second, as the negotiator, the owner provides information about the value of the existing business—the assets, product lines, services, and profit margins. The steering team will use this information to evaluate the feasibility of their proposed business concept. If the financial feasibility study shows that different financial structures, including using low-cost volunteer workers, do not make the project financially feasible, the team will decide to end the project.

Once the cooperative is incorporated, the steering team conducts a capital drive, which may include both equity and debt financing to realize the capital needed to purchase and operate the business. If the capital drive is successful, the steering team, now replaced by a formal Board of Directors, then signs a purchase contract, and buys the business. If the drive is unsuccessful, the steering team will decide to end the project.



KEY CONSIDERATIONS

- As a key stakeholder, the community benefits from the business. It provides employment, community amenities, and important goods and services. The owner's goal is to help assure the community of its ability to retain these benefits through the new cooperative.
- The owner will want to be timely in communicating with the community. This will help the community members to be well informed and base their decisions on facts. Community members need three to six months to explore the idea of forming a cooperative business.
- Community members will need to explore specific concerns related to the feasibility of the business. Be direct and provide details in collaboration with a representative steering team exploring the cooperative concept.
- Negotiating the value of the business can be difficult. The community will negotiate based on their perception of how the business contributes to their community. Avoid justifying a business sale solely in terms of the owner's net worth.
- A significant number of people will need to financially commit to support the cooperative. Allow adequate time for the community members to assemble financial capital.
- Throughout the process, stay positive and patient. Communicate confidently and clearly about how the cooperative model can help the community realize the goal of sustaining an existing business. Communication will help the community confidently embrace a new relationship with the business.

Transition to Co-operative *Continued...*

Overall, the owner should prepare facts and reports when needed and help the steering team understand the information. With accurate facts in hand, it is more likely the steering team can build sufficient financing, assemble membership, and build community support. Furthermore, the owner can help clarify income opportunities so the business will continue to provide community benefits, such as employment, community access to goods and services, and community amenities, that align with the goals of the new cooperative and those of the existing owner.

There are many decisions to be made when building a cooperative and it can be a complicated process. The Nebraska Cooperative Development Center has resources and specialists to help guide communications between the existing owner and community members during the transition process. Tools for testing the feasibility of financing options, such as product pricing, operational costs, income generation are available at ncdc.unl.edu.



PROS

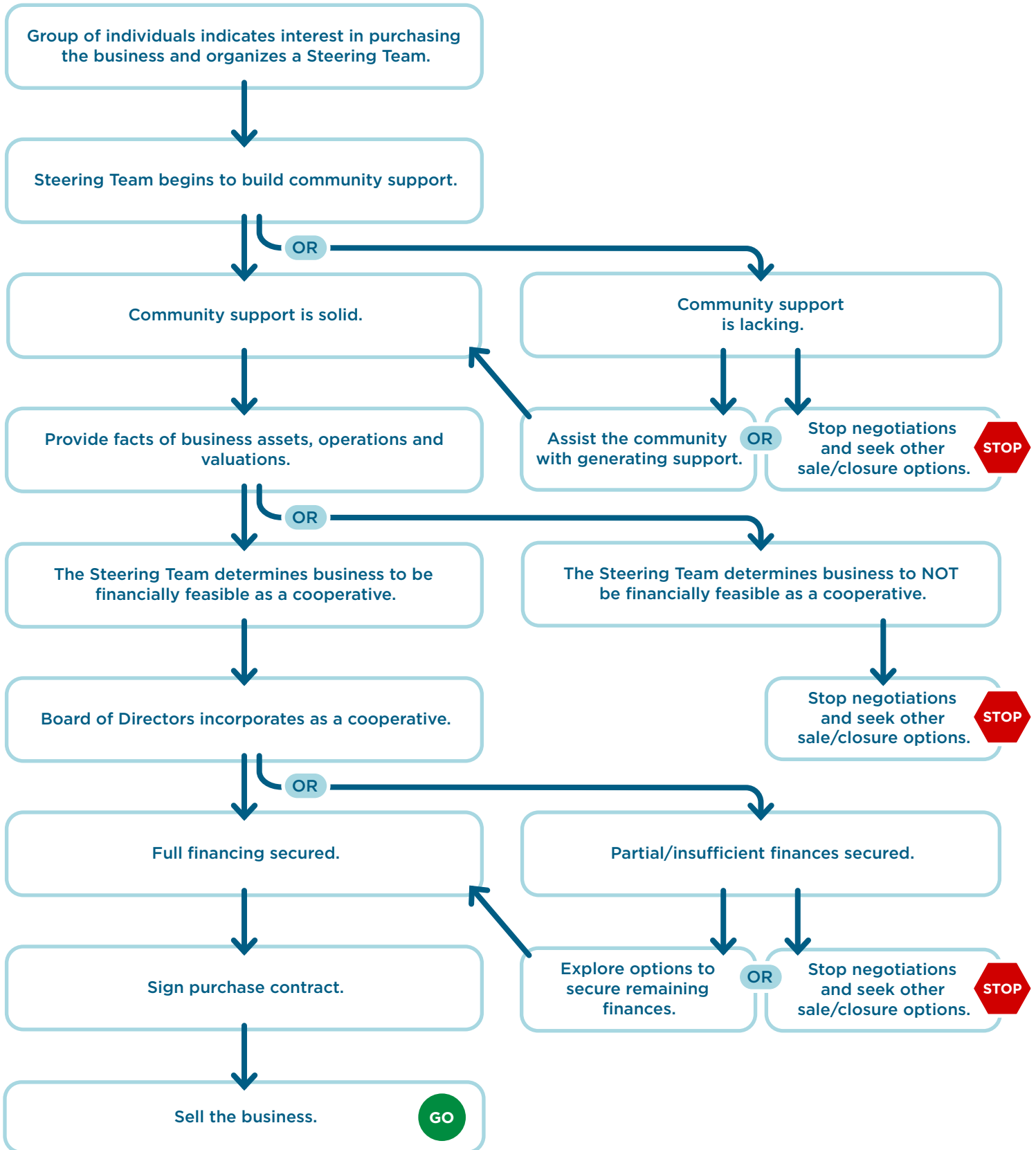
- + The risk is distributed across the community, rather than a single proprietor or small investor group.
- + Community members have a sense of ownership in developing/retaining a critical asset in the community.
- + Cooperative principles of shared ownership and shared governance lead to a business vision the community can embrace.
- + Shared governance can be more responsive to community preferences, resulting in a broader business scope and increasing cooperative membership value.
- + Community retains vital services and employment.
- + Collaboration and consensus building can result in greater community support and business sustainability.

CONS

- ✗ Financial capital is generated and based on individual means and their anticipated patronage levels. As a result, community members will have different ownership stakes in the cooperative. When combined with democratic cooperative governance, this may lead to conflicts.
- ✗ Failure by the steering team to involve the community during the transition may result in a lack of community support and customers.
- ✗ Cooperative formation may require extended time to develop and explore a business concept and assess its feasibility.
- ✗ The steering team may require extra time to assemble the financial capital needed for the business purchase.
- ✗ Although the strength of a cooperative is decentralized decision making, this may result in time consuming consensus building amongst cooperative members.

Transition to Co-operative *Continued...*

TIMELINE: 1 OR MORE YEARS



There are exceptions and scenarios not listed here. Working with your attorney during this process is highly recommended.

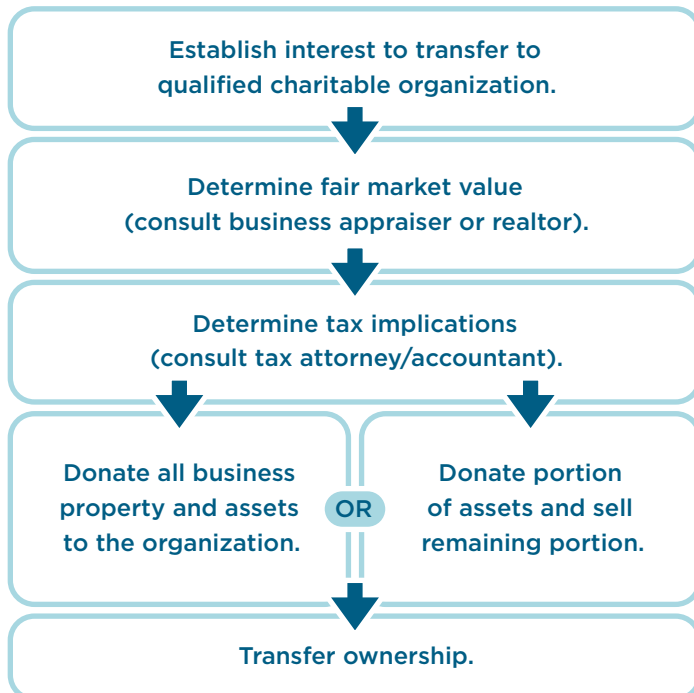
Transition to a Charitable Organization

Although not common, an existing nonprofit or qualified charitable organization understands the value of continuing an essential business within a community and is interested in buying a business. The owner has the option to donate some or all of the business to the organization and receive a tax benefit. The charitable organization then purchases the remaining portion of the business from the owner. If the owner chooses to not participate in the sale through donation, the sale is just like a private sale. The owner sets the price and accepts an offer.

On the buyer's side, the board develops a business plan, with financial projections, or conducts a feasibility study. If the business is financially unfeasible, they could end the purchase or find donations to fund the purchase and continuation of business operations. If the business is deemed feasible, the charitable organization secures financing either internally or through a third party and completes the purchase.

A qualified charitable business is exempt from taxes and does not financially benefit its shareholders. However, to stay in business, all businesses must make enough profit to cover expenses. Unlike a for-profit business, a charitable organization must retain earnings and use these earnings for their own expenses, operations and programs.

TIMELINE: 0-1 YEARS



There are exceptions and scenarios not listed here. Working with your attorney during this process is highly recommended.



KEY CONSIDERATIONS

- Qualified charitable organizations must meet certain requirements for tax exempt status under the Internal Revenue Code Section 501(c)(3).
- Donations to a 501(c)(6), such as a chamber of commerce, are not deductible as a charitable donation on the owner's federal income taxes. Consult a tax professional to ensure donation to the charitable organization qualifies for tax benefits.
- Determining the Fair Market Value of the business and including documentation may be required for the owner to claim a tax deductions of the donated property and assets, see [IRS.gov/Pub561](https://www.irs.gov/pub561).

PROS

- + Owner can receive a tax benefit from the donated portion of the business. Consult a professional tax advisor for personal tax implications.
- + Owner may choose to donate and/or still be involved in the business.
- + Community retains vital services and community jobs.

CONS

- ✗ The charitable organization may not have the expertise to successfully manage the business.
- ✗ The organization may have difficulty building support and financing, requiring additional time for transition.

Transition to Another Business

Business acquisition is a common practice that allows companies to expand their markets, product lines, or assets through the purchase of another on-going business. This type of transition occurs when an existing business, usually an LLC or corporation, offers to purchase a business. This business may also be an existing competitor to the owner. The owner may have the option to participate as a shareholder and continue to be involved in the store or choose to sell the business outright to the other entity, which is similar to a private sale.

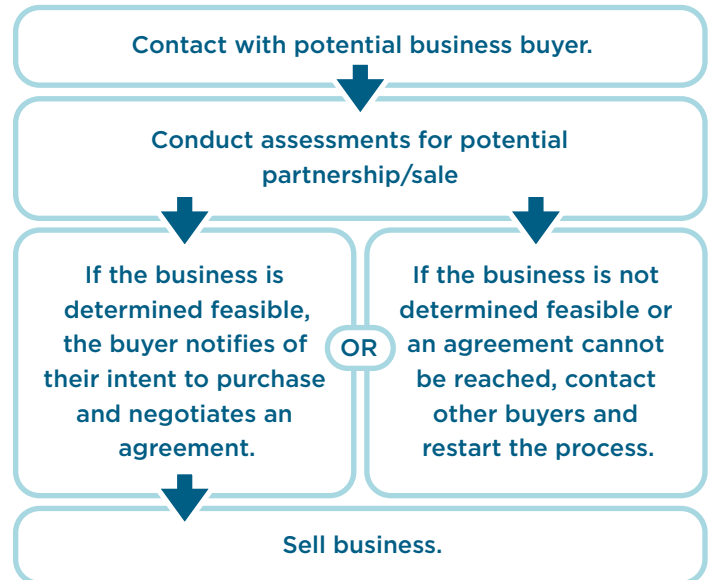
If the buying entity does not yet exist, steps will then be needed to gather partners and create the LLC or corporation. Like other business transitions, the buyer would create a business plan with their projections and if it is financially unfeasible they would then end the transaction. If it is financially feasible, they would secure financing either internally or through a bank and proceed to define the management structure, operations, and staffing. Lastly, the entity would purchase the business.



KEY CONSIDERATIONS

- Assessing buyer interests and goals will help determine if a potential partnership or transition will be successful. The buyer will also assess the owner's business interests and goals toward a smooth transition.
- The buyer may issue an "Indication of Interest," and/or a "Letter of Intent" to purchase the business. This is a legal document that can provide the buyer exclusive negotiation rights and prevent the owner from working with other potential buyers. However, it does not prevent the owner or buyer from exiting the transaction.
- The buyer may request full disclosure of the owner's business financials. Issuing a non-disclosure agreement may provide comfort to the owner that information will not be shared with others outside of the transaction.
- If the owner chooses to continue in the business, the owner needs to be prepared to be part of the leadership team, not the company leader.
- Enlist the management team to continue operations during the assessment and transition process.

TIMELINE: 0-1 YEARS



There are exceptions and scenarios not listed here. Working with your attorney during this process is highly recommended.

PROS

- + Fewer individuals may be involved in the transition process.
- + May receive higher value for the business.
- + Community retains services and jobs.
- + Community continues to build wealth.
- + Potential for new investments into the business.

CONS

- ✗ Could lose employees or customers while the business is for sale, or during transition.
- ✗ Can incur more attorney fees during the assessment/transition process.
- ✗ Negotiations may break down and owner needs to find new buyer.

Transition to Employee Ownership

A potential ready source of buyers can be those the owner knows best, their employees. Employees may be motivated toward purchase to retain their jobs, step into management, and gain financial wealth as new owners of the business. Some well-known stores have already accomplished this transition. In 1960, Hy-Vee initiated their Employee Ownership Trust (EOT) which provided shares to employees. In 2022, Neighborhood Fresh, a four location grocery store located in Indiana sold the business to an Employee Stock Ownership Plan (ESOP).

Employee Ownership Trust (EOT)

An Employee Ownership Trust (EOT) is an option for business owners to share the ownership of their business with staff. Multiple stakeholders can have access to, control of, and benefits from a business's assets when business owners grant a portion, or all, of the firm's assets to a trust. In general, trusts hold property on behalf of beneficiaries for a designated purpose. In this case, the owner may require the trusts' assets be used to promote employee well-being. Two relevant types of trusts are an Intentionally Defective Grantor Trust (IDGT) and a Grantor Retained Annuity Trust (GRAT). Growth in the trusts' assets benefit employees and grantors. For both types of trusts, business owners grant the business' assets to the trust at market value. Asset growth results in capital gains accruing to the EOT. Ideally, income from the trust's assets also grows, increasing net income distributions available to employees.



Intentionally Defective Grantor Trusts (IDGT) is an irrevocable trust set up by the grantor that allows assets to appreciate without begin subject to capital gains or transfer taxes when the assets are sold. However, the grantor pays income taxes on the trust's income, but not the appreciation, which is a lesser rate.

Grantor Retained Annuity Trust (GRAT) is created by the grantor through transfer of assets into an irrevocable trust and retaining the right to an annuity interest for a fixed term of years. Retained assets can then be transferred to the beneficiary(ies).



Employee Stock Option Plan (ESOP)

An Employee Stock Option Plan (ESOP) is a qualified contribution employee benefit plan where employees have an ownership stake in the business through company stock. The ownership of the company is placed in a trust created for the benefit of the employees. The trust receives a loan to purchase all or part of the business and uses the business profits to pay back the loan. Employees can obtain ownership through the purchase of company shares or given stock by the company. ESOPs provide an option as a retirement plan, allowing employees to invest directly in the company for which they work. Employees realize potential gains when they retire, after 59 1/2 years of age.

Worker Cooperative

A Worker Cooperative is comprised of independent workers who together participate in the profits, oversight, and often management of the business. The worker-members own the business and participate in the financial success of the business through their labor contributions. A few states allow the incorporation of worker cooperatives, while other states require the incorporation as a C-corporation, S-corporation or LLC, with the purpose of operating as a worker cooperative. Worker cooperatives within the service, retail, and health industries have been the most successful.

Transition to employee ownership can be a complicated process, requiring consideration of tax consequences for the owner. Working with a qualified attorney, tax professional, or business advisor is highly recommended.

Information on employee-owned business transfers is also available through the Nebraska Cooperative Development Center at ncdc.unl.edu.

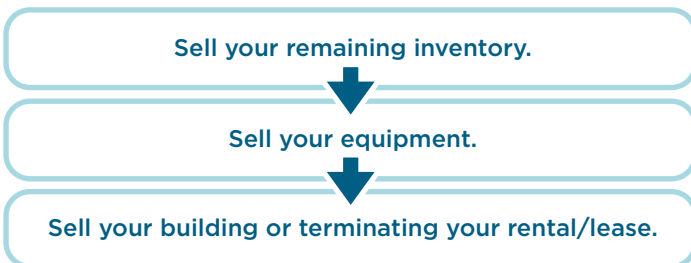
Transition through Liquidation

Closing the Business

Once a business starts there will be at least one more transition in the life of the business. The owner will decide at some point to transition the business through a sale or closure. The simplest business transition that anyone will ever go through is to just close their business. Simple to do, but difficult psychologically. The owner sells the remaining inventory, the equipment, and then takes care of the building. The owner either terminates the rental or lease agreement for the building or sells the building if it is owned by the business. Finally, the owner closes all legal accounts.

If the owner locks the door and walks away, this transition can take less than a minute. This transition type is the one in which the owner gets the least amount of return for the business. This is the fastest business transition type; other business transition options may require years.

TIMELINE: 0-1 YEARS



There are exceptions and scenarios not listed here. Working with your attorney during this process is highly recommended.



PROS

- + Fastest exit strategy
- + Simplest path to financial return (if any)

CONS

- ✗ Building empty, may not be sellable
- ✗ Receive the smallest value for the business
- ✗ Community loses this service
- ✗ No longer building community wealth
- ✗ Community loses jobs and tax revenue
- ✗ Lease/rental penalty

Business Entity Comparison Chart

Characteristics & Entities	Sole Proprietorship	General Partnership	Limited Partnership	C Corporation	S Corporation	LLC	Cooperative	Limited Cooperative Association
Formation Documents	None	General Partnership Agreement; Local filings if partnership holds real estate	Limited Partnership Certificate; Limited Partnership Agreement	Articles of Incorporation; Bylaws; Organizational Board Resolutions; Stock Certificates; Stock Ledger	Articles of Incorporation; Bylaws; Organizational Board Resolutions; Stock Certificates; Stock Ledger; IRS "S-Corp" Election	Certificate of Organization; Operating Agreement	Articles of Incorporation; Bylaws; Organizational Board Resolutions; Stock Certificates; Stock Ledger* "exceptions for Nonstock Cooperatives or other circumstances"	Certificate of Organization; Bylaws; Organizational Board Resolutions
Ownership	One owner	Unlimited number of general partners allowed	Unlimited number of general or limited partners allowed	Unlimited number of shareholders allowed; No limit on stock classes	Up to 100 shareholders allowed; Only one basic class of stock	Unlimited number of "members" allowed	Unlimited number of shareholders or members allowed	Unlimited number of patron members and investor members allowed
Capital Contributions	Sole proprietor contributes whatever capital needed	General partners typically contribute money or services to partnership and receive an interest in profits and losses	The general and limited partners typically contribute money or services to the limited partnership and receive an interest in the profits and losses	Shareholders typically purchase stock in the corporation; Stock may be either common or preferred	Shareholders typically purchase stock in the corporation, but only one class of stock is allowed	The members typically contribute money or services to the LLC, and receive an interest in profits and losses	Members typically purchase one share of voting stock (one member-one vote); Cooperative may issue preferred stock; margins of the cooperative may be used to fund ongoing operations	Patron members typically purchase one voting membership (one member-one vote); LCA may issue Investor Memberships; margins of the LCA may be used to fund ongoing operations
Management	Sole proprietor manages the business	General partners have equal management rights unless otherwise agreed	General partner manages the business, subject to any limitations of the Limited Partnership Agreement	Board of Directors has overall management responsibility; Officers have day-to-day responsibility	Board of Directors has overall management responsibility; Officers have day-to-day responsibility	The Operating Agreement sets forth how the business is to be managed; a manager can be designated	Board of Directors has overall management responsibility; Manager/Officers have day-to-day responsibility	Board of Directors has overall management responsibility; Manager/Officers have day-to-day responsibility
Personal Liability of Owners	Unlimited personal liability for the business	General partners have unlimited personal liability for business	Unlimited personal liability of the General partners for the obligations of the business; Limited partners usually have no personal liability	Generally, no personal liability of the shareholders for the obligations of the corporation	Generally, no personal liability of the shareholders for the obligations of the corporation	Generally, no personal liability of the members of the LLC	Generally, no personal liability of the shareholders or members for the obligation of the cooperative	Generally, no personal liability of the patron members or investor members for the obligations of the LCA
Tax Treatment	Non-entity for tax purposes; sole proprietor bears all profits and losses; individual tax rate applies	Non-entity for tax purposes; profits and losses are passed through to the general and limited partners	Non-entity for tax purposes as profits and losses are passed through the general and limited partners	Distinct entity for tax purposes; Earnings taxed at corporate level; Shareholders may owe further tax distributions ("Double-taxation")	Entity generally not taxed as the profits are passed through to the shareholders ("Pass-through Taxation")	Entity not taxed (unless chosen to be taxed), as the profits and losses are passed through to the members	Generally, patronage-sourced income is eligible for single-tax treatment; non-patronage-sourced income is subject to tax at the cooperative level when earned and at the recipient level when paid out to the patrons	LCA may choose to be taxed as either a cooperative corporation (Sub T) or a limited liability partnership (Sub K) ("Pass-through Taxation")

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Nebraska Cooperative Development Center

Department of Agricultural Economics

58 Filley Hall, Lincoln 68583-0922

402.472.1724

ncdc.unl.edu

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