



October 25, 2021

Co-operatives and Employee Ownership

The [Canadian Worker Co-operative Federation](#) (CWCF), [Co-operatives and Mutuals Canada](#) (CMC), and others in the co-operative movement are pleased to see the Government of Canada's interest in employee ownership. As evidenced by the 2021 budget ([Page 123](#)) and in the media, such as the Globe and Mail's 23 September 2021 article on Employee Ownership Trusts ("EOTs") [[Policy reform to allow employee ownership gains traction](#), by Economics Reporter Matt Lundy], there is growing public policy interest in employee ownership as a succession planning tool. In relation to the growing interest in worker ownership, notably Employee Stock Ownership Plans ("ESOPs") and EOTs, we wish to provide crucial and complementary information on the worker co-operative model.¹ The intent is to inform the discussions and ensure that succession through employee-owned worker co-operatives receives equal treatment, including tax incentives.

There are various types of employee ownership structures and when the employees become owners, they should have the choice of the legal structure under which they wish to operate. As a result, **the various incentives and taxation considerations for the seller, the enterprise, and the employees should receive equal treatment** in the various forms of employee ownership.

A study in May 2020 by Project Equity² called *The Case for Employee Ownership* summarizes the evidence that broad-based employee ownership, in both Employee Stock Ownership Plans (ESOPs) and worker co-operatives, is a great value proposition for businesses, workers and communities.³

¹ "Worker co-operative" includes co-operatives owned by employees and also multi-stakeholder co-operatives with substantial worker control/ called in Québec les coopératives de solidarité à prédominance travailleurs, and worker-shareholder co-operatives ("coopératives de travailleurs actionnaires" or CTA.)

² Project Equity is a leading non-profit organization in the US which demonstrates and replicates strategies that increase worker ownership.

³ [Summary](#); [Full Study](#).

Project Equity compares ESOPs, EOT's, and worker-owned co-operatives in the US context⁴:

	Employee Stock Ownership Plans (ESOPs)	Employee Ownership Trusts (EOTs)	Worker-owned cooperatives
Suitable company size	Large 20-40+ employees	Any size	Any size
Tax benefits	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>	No	<input checked="" type="checkbox"/>
Set up and ongoing costs	High but offset by tax benefits	Lower	Lowest
Flexibility of model	<input checked="" type="checkbox"/> Within ESOP parameters	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> Highly flexible	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> Within coop parameters
Employees buy their shares	No	No	<input checked="" type="checkbox"/>
Employee role in strategic decision-making	Optional	Optional	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> Democratic governance
Percentage of company owned by employees	Any percent	Any percent	100%*
Profit-sharing built in	No	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Designed to stay employee-owned and avoid acquisition	No	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>



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⁴ <https://project-equity.org/learn-about-employee-ownership-options/> This chart is shared with the permission of Project Equity.

The co-op sector responses to the Employee Ownership Trust proposals are as follows.

- 1) EOT Proposal: Establishing an “off-the-shelf” employee ownership trust in the federal Income Tax Act, with specific rules and guidelines.

Co-op sector response: Worker co-operatives already have a defined governance structure in federal co-operative legislation, as well as in most provincial and territorial legislation. As such, there's no need for a clearer structure and operating environment for worker co-operatives.

- 2) EOT Proposal: Applying targeted federal tax incentives and removing existing tax barriers.

Co-op sector response: For all the reasons noted above, targeted federal tax and incentives and removal of existing tax barriers applied to EOTs need to also apply to worker co-operatives.

- 3) EOT Proposal: Ensuring appropriate oversight to protect employees and the public interest.

Co-op sector response: The manner in which employees are protected and rewarded is already well-designed for worker co-operatives. This could also include additional considerations for co-operatives with [indivisible reserves](#).

Representatives of the co-op sector are open to discussing the kinds of criteria that need to be included in the tax incentive program to have them function in the same or a similar manner across various types of employee ownership. We would be pleased to discuss further or participate in consultations.

See the Appendix for information on advantages of the co-operative model, as well as more on the Canadian and international experience with employee ownership and co-op conversions.

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Appendix

I. Advantages of the Co-operative Model

- Worker co-operatives have support and networks throughout the broader co-operative sector.
- Worker co-operatives are the most democratic form of employee ownership, being grounded in the co-operative principles including one member, one vote and co-operative values of self-help, self-responsibility, democracy, equality, equity, and solidarity.⁵ In worker co-operatives, workers both co-own and co-manage the firm.
- There are existing resources which are co-operative-specific to support Small and Medium-Sized Enterprise (SME) conversions to worker co-ops: CWCF's granting program and network of Worker Co-op developers, Quebec's [Réseau COOP](#) and its [TransfertCoop](#) services, [Co-operatives First](#) and its [Co-op Creator](#), provincial co-operative associations, [la Coopérative de développement régional du Québec](#) (CDRQ), as well as financing, such as, the [Canadian Co-operative Investment Fund](#) (CCIF), CWCF's [Tenacity Works Fund](#), and co-op-friendly loans available from credit unions, etc.
- Worker co-operatives are often the enterprise form of choice of racialized people, youth, women, and other equity-seeking groups (for instance, : [Glitter Bean Café](#), [Blooming Ladies Co-op](#), and [Kincardine Ladies Fitness Co-op](#)⁶).⁷
- Co-operatives have a higher survival rate than other business forms.⁸

⁵ Statement of the Co-operative Identity, <https://www.ica.coop/en/cooperatives/cooperative-identity> .

⁶ Case studies, courtesy of [The Conversion to Co-operatives Project](#) (Co-opConvert).

⁷ In the US, the most recent census of worker co-ops found that approximately 59% of member-owners were people of colour, and 62.5% were women. See: <https://www.fiftybyfifty.org/2020/02/worker-co-ops-show-significant-growth-in-latest-survey-data/> . In Canada, the evidence is anecdotal.

⁸ It is likely that the same survival advantage of other forms of employee ownership exists as for co-operatives generally. A series of studies is outlined here: https://www.uk.coop/sites/default/files/2020-10/co-operative_survival_1.pdf . See also this [BC study](#); this [Alberta study](#), and this [Quebec study](#). Also see [a study of Italy's worker buyouts](#) suggesting similar findings.

II. Canadian Experience

- Examples of successful worker co-operatives in Canada include: [Fogo Island Co-operative](#) (Newfoundland), [Groupe Forestra Coopérative Forestière](#), [Just Us Coffee Roasters](#), [Sustainability Solutions Group](#), [Multicultural Health Brokers Co-op](#), and [PromoPlastik](#) (an example of a worker co-op conversion).
- A 3-year, Social Sciences and Humanities Research Council-funded research project on Co-operative Conversions ([Co-op Convert](#)), will soon be completed. Led by the University of Toronto and l'Université de Sherbrooke, the team has published very relevant research which can help inform and guide conversions to worker co-operatives. Some background information and references, prepared by Co-op Convert with the assistance of CMC and CWCF, is available [here](#). On 21 October, a [report](#) on the succession intentions of Canada's business owners, [case studies](#) and additional pieces of information were released.

III. International Experience

- Notably, in the US, France, Italy, other European countries, as well as in parts of Latin America, business succession to worker co-operatives is a growing trend with a track record of success.⁹
- Some worker co-op advantages and the current state of the worker co-operative movement in the US has been profiled by the National Co-operative Business Association and the Co-operative Development Foundation in the US.¹⁰

⁹ France: for numbers, see: <https://www.les-scop.coop/chiffres-cles>. For the French Worker Co-op Confederation site on business succession to worker co-ops, see: <https://www.jetransmetsamessalaries.fr/>. Re: the US, see: <https://www.bloomberg.com/news/articles/2020-02-05/retiring-boomers-turn-to-co-ops-to-keep-their-businesses-running>.

¹⁰ [Worker Co-operatives: A Framework for Measuring Impact](#).