

TAX STATUS AND EXPIRING PROVISIONS IN 2025

About Cooperative Tax Policy

Current federal tax policy reflects the fact that cooperative businesses create direct economic benefit for their members—the people who use, own and control these businesses. Cooperatives are taxed at the individual level or at the entity level but not usually both given that the people who use the business also own and control the business. These policies put more dollars in the pockets of working families and helps small businesses and farmers compete. The 2017 Tax Package provided increased support for the value that cooperatives provide through shared ownership under the 199A or “pass-through” entity deduction, however, it is set to expire in 2025.

POLICY POINTS

Preserve cooperative tax treatment and extend the 199A deduction for cooperatives

- The tax treatment of most types of cooperatives is found under Subchapter T of the Internal Revenue Code. It enables flexibility and efficiency in the cooperative model.
- Under Subchapter T, cooperatives may pass through their earnings to their member-owners without double taxation; earnings from business conducted with or for a cooperative’s members are subject to single tax treatment as income.
- Earnings from sources other than business with or for the cooperative’s members are taxed at regular corporate rates.
- Section 199A allows cooperatives to deduct up to 20% of pass-through income, which strengthens the direct economic benefits returned to the people that own and control them, and ultimately puts more dollars into local economies.
- Federal tax policy should ensure that the farmers, consumers, employee-owners and entrepreneurs are treated fairly and not put at a disadvantage compared to other business forms. Extending the 199A deduction for cooperatives is crucial to creating more resilient communities and a thriving economy.
- Cooperatives and credit unions with tax-exempt status are not-for-profit institutions that return earnings to member-owners. Removing this status would undermine their ability to serve low-income, rural, and historically underserved populations with a devastating impact on local economic growth.
- Renewing innovative measures like a direct pay tax credit for housing cooperatives can help address the affordable housing crisis and provide a pathway to homeownership with incentives for development.