Everything You Ever Wanted to Know About Per Unit Retains

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The wording of the Section 199A provision of the Tax Reform and Jobs Act of 2017 has created great consternation. One aspect of the section provided members with a 20% deduction on "qualified cooperative dividends". A "qualified cooperative dividend" was defined as "any patronage dividend (as defined in section 1388(a), any per-unit retain allocation (as defined in section 1388(f)) and any qualified written notice of allocation (as defined in section 1388(c),…." Perhaps this is a good time to re-visit the concept of "Per Unit Retains".

According to the IRS Farmers Tax Guide, a per-unit retain certificate is any written notice that shows an amount paid to patrons for products sold that is fixed without regard to the next earnings of the cooperative. Per-unit retains can be paid in cash or in qualified or nonqualified equity certificates. The name, "per-unit retain" probably comes from non-cash (equity) per-unit payments. In that case the cooperative is effectively "retaining" an amount of equity for each unit of commodity handled. In comparison to retained patronage, which is based on the profitability of the cooperative, creating equity through per-unit retains is much more predictable and stable. It obviously makes sense for cooperatives handling fresh fruits and vegetables or other commodities with volatile prices. One season tomatoes might be highly profitable while bell peppers are sold for a loss while the situation reverses the next year. Deducting an amount of equity for each box handled is fairer than creating equity through the patronage process.

As mentioned, cooperative can also distribute funds to members in the form of per-unit retain certificates. Cash payments are referred to as per-unit retains paid in money (PURPIMS). Pooling cooperatives have historically used PURPIMS. In a pooling cooperatives members deliver commodities to the cooperative but the value is not determined until all of the commodities are processed and sold and the expenses associated with operating the pool are deducted. Many pooling cooperatives handle specialty crops where there is no apparent market price outside the cooperative. Members might get some sort of intermediate payment (structured as a PURPIM) when they deliver the commodity and then get the final PURPIM payment when the commodity is sold. The final payment is thought of as being equivalent to a patronage payment but in a pooling cooperative there is no bright line between the commodity payment and the profit distribution.

Any marketing cooperative can choose to make PURPIM payments rather than purchase the commodities. There is nothing inappropriate about the PURPIM structure and it is not a significant change in cooperative operation. The difference between patronage (a profit based distribution) and per-unit payment (a broader category of distribution not based on profit) can make a difference for policies such as the new Section 199A that seek to provide a partial deduction on cooperative distributions. I won't speculate on whether all of the drafters of the Section 199A provision understood per-unit retains.

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