More Insights from Representative Cooperatives

Phil Kenkel
Bill Fitzwater Cooperative Chair

As I mentioned in last week's newsletter, our cooperative research group developed a number of representative cooperatives as part of our project analyzing the impact of the 2017 Tax Cuts and Jobs Act. Representative cooperatives are useful for providing an understandable example of the effect of a decision or policy. Cooperative leaders obviously need to take the representative cooperative result with a grain of salt since their mileage may vary.

The representative cooperative analysis suggested that grain marketing cooperatives need to pass on up to 50% of their Section 199A deduction to keep the average producer equivalent with a producer marketing through a non-cooperative. Digging deeper provides a few more insights. Five different representative cooperatives were created for educational programs in four different states. Three of the representative cooperatives had an activity mix of roughly two-thirds grain sales and one-third farm supply sales. Those cooperatives were created for education programs in three separate states so that mix must be somewhat common. Those representative cooperatives needed to pass on around 20% of their Section 199A deduction to keep their producers equivalent. That reflected the common assumption that a cooperative can include the wages for farm supply activities in the Section 199A calculation.

The Oklahoma representative cooperative was based on an actual firm and had an activity mix of 81% grain sales and 19% farm supply sales. The results indicated that it needed to pass on 45% of the cooperative level Section 199A deduction. A representative cooperative in Illinois with 100% grain sales (created from data base averages) needed to pass on 59% of the Section 199A deduction. When cooperatives have lower proportions of farm supply sales they have lower payroll expense. That reduces the cooperative level Section 199A deduction and requires a higher percentage pass through to provide the same per bushel benefit to the producer. While the effect is not difficult to understand, the representative cooperative examples highlight the sensitivity of the required pass through to the activity mix.

The general conclusion is that grain marketing cooperatives may need to pass on up to 50% of their Section 199A deduction to keep their members equivalent. An amendment to that statement is that "equivalent percentage" may be lower for cooperatives with higher portions of farm supply sales. As I said, your mileage may vary. I hope these examples give you feel for how it may vary.

If you want help in making the calculations for your cooperative, give me a shout. Your cooperative is the most representative of them all!

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