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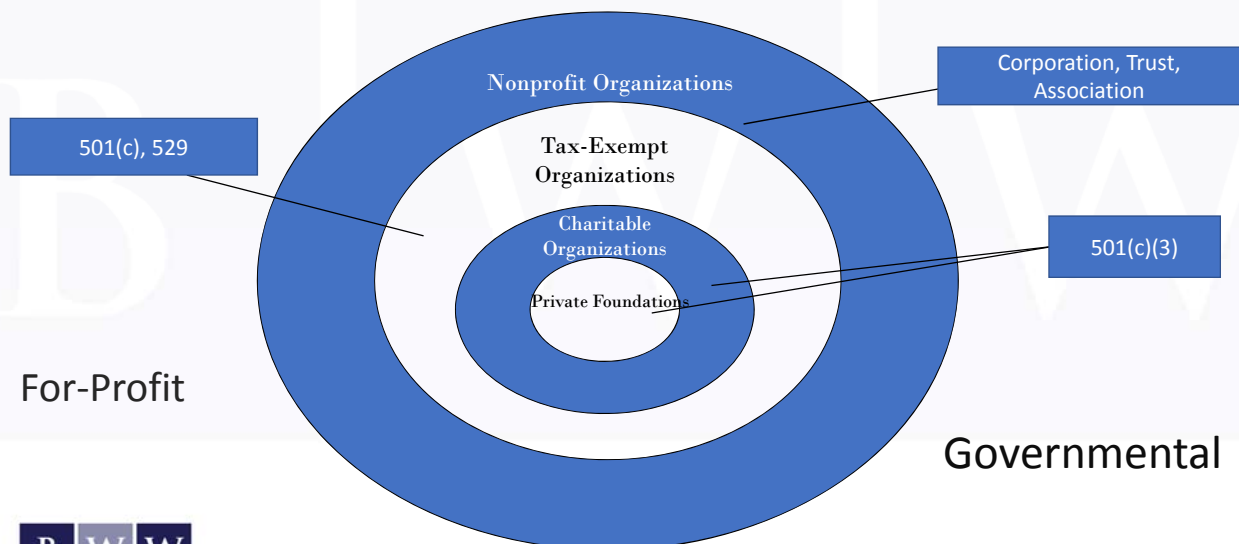
# LLCs in the World of Nonprofit and Mission-Minded Organizations

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## Nonprofit vs Charitable Organization



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## § 501(c)(3) Elements

1. Proper organizational structure
2. Organized exclusively for charitable or otherwise exempt purposes
3. Operated exclusively for charitable or otherwise exempt purposes
4. No part of net earnings inures to benefit of private individual
5. Not an action organization
6. <<case law>> - not violative of public policy



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## Unrelated Business Taxable Income

- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• Activities subject to UBIT<ul style="list-style-type: none"><li>• Trade or business</li><li>• Regularly carried on</li><li>• Not substantially related to exempt purposes</li></ul></li></ul> | <ul style="list-style-type: none"><li>• Primary Exceptions<ul style="list-style-type: none"><li>• Volunteer Exception</li><li>• Convenience Exception</li><li>• Thrift Shop Exception</li></ul></li><li>• Notable Exclusion<ul style="list-style-type: none"><li>• Passive income (usually)</li></ul></li></ul> |
|---|---|



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## Common Uses of the LLC in the Nonprofit\* Space

- **Subsidiary** of an Exempt Organization
  - Risk Mitigation
  - Participation in Joint Venture
  - Focused Management of Activity (often revenue-producing)
- Stand-alone **Exempt LLC**
- LLC for **Social Enterprise** (Revenue Generating Activities)
  - Subsidiary of Exempt Organization
  - For profit “social enterprise”



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## Use of the LLC as a Single Member Subsidiary

- **Risk mitigation**
  - Isolate endowment from high risk activities
  - Isolate real property ownership from other funds/activities
  - Participation in joint venture (as general partner, managing member, or as a passive partner/member)



**Contractual obligations:** alter ego/sham to perpetrate a fraud require *actual fraud* for direct personal benefit of shareholder



**Torts:** injustice or inequity will result if separate corporate existence is recognized



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## Title search: LLCs in the World of Nonprofit and Mission-Minded Organizations

Also available as part of the eCourse

[2017 LLCs, LPs, and Partnerships eConference](#)

First appeared as part of the conference materials for the  
26<sup>th</sup> Annual LLCs, LPs and Partnerships session  
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