

## Charitable Use and Pursuit of Entrepreneurship Activities

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### Introduction

- Entrepreneurship is inherently not charitable, but certain approaches can be.
- Among the vehicles increasingly being used for entrepreneurship activity are the following:
  - Incubators
  - Accelerators
  - Investment funds
  - Venture funds
  - Prizes and awards
- Some applications are charitable; Others are not

## Incubators and Accelerators - Definitions

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- Incubators:
  - For start-ups in their early stages
  - Provide things like office space, guidance, and help with management
  - Some charge fees or rent
- Accelerators:
  - For developing companies (at a later stage than incubators)
  - Provide access to mentoring, networks (including potential investors), and other support
  - Often take an equity interest in the companies

## Incubators and Accelerators

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- Sparse guidance from the IRS specific to incubators and accelerators.
- Instead, look more generally to legal principles regarding:
  - Charitable/educational purpose(s)
  - Unrelated business income tax (“UBIT”)
  - Private benefit and private inurement
  - Law of joint ventures

## Tax Analysis – Charitable Purpose and UBIT

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- Will the activity give rise to UBIT?
  - Income derived from:
    - A trade or business that is
    - Regularly carried on and
    - Not substantially related to the organization's exempt purpose.
  - Third prong is key to determining whether activity is charitable

## Basis for Relatedness/Charitability – Education

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- Education is defined as:
  - instruction and training of individual(s) to develop capabilities; or
  - instruction of the public on subjects useful to individual(s) and beneficial to the community.
- University experiential learning and research opportunities
- *PLR 200010052*

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"Charitable Use and Pursuit of Entrepreneurship Activities: Incubators, Accelerators, Prizes, Funds, and More"