

**Legal Structures for Earned Income Ventures**  
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Type of Entity	Separate Entity / Formation / Liability Protection	Ownership / Management	Tax Issues	Capital	Distributions of Funds Not Used in Operations	Used For
<b>Program/Division of CAA</b>	<ul style="list-style-type: none"> <li>No</li> <li>501(c)(3) not protected from venture's liabilities</li> </ul>	<ul style="list-style-type: none"> <li>Part of CAA; CAA board of directors controls; CAA staff manages day-to-day activities</li> </ul>	<ul style="list-style-type: none"> <li>Treated as part of CAA for tax purposes</li> </ul>	<ul style="list-style-type: none"> <li>Grants and charitable contributions to CAA</li> </ul>	<ul style="list-style-type: none"> <li>Part of CAA – any net income from operations belongs to CAA</li> </ul>	<ul style="list-style-type: none"> <li>Activities related to CAA's exempt purposes or</li> <li>Unrelated activities that are not substantial and</li> <li>Activities whose liabilities CAA can absorb/address</li> </ul>
<b>Separate 501(c)(3) Corporation (subsidiary or affiliate)</b>	<ul style="list-style-type: none"> <li>Separate entity</li> <li>Formation - file articles of incorporation with state</li> <li>Limited liability; protects CAA if properly structured and operated</li> </ul>	<ul style="list-style-type: none"> <li>For subsidiary, CAA is sole member or appoints all the board members</li> <li>For affiliate, CAA and one or more other organizations appoint board members</li> <li>Separate board of directors controls</li> <li>Employs separate staff from CAA or has a contract with CAA under which corp. pays CAA to provide staff</li> </ul>	<ul style="list-style-type: none"> <li>Must apply to IRS for tax-exempt status</li> <li>Separate EIN, IRS, and state tax filings from CAA</li> <li>No tax to sub./affiliate on income related to sub./affiliate's exempt purposes</li> </ul>	<ul style="list-style-type: none"> <li>Grants and charitable contributions to 501(c)(3)</li> </ul>	<ul style="list-style-type: none"> <li>Grants for charitable purposes</li> </ul>	<ul style="list-style-type: none"> <li>Entity that requires separate board structure or licensing or that has different tax-exempt purposes from CAA</li> <li>Tax-exempt entity formed by multiple nonprofits</li> </ul>
<b>Separate For-Profit Corporation</b>	<ul style="list-style-type: none"> <li>Separate entity</li> <li>Formation - file articles of incorporation with state, issue stock</li> <li>Limited liability; protects CAA if properly structured/operated</li> </ul>	<ul style="list-style-type: none"> <li>For wholly owned subsidiary, CAA owns all the stock</li> <li>For other subsidiaries, CAA owns majority of the stock</li> <li>Separate board controls</li> <li>Employs separate staff or contracts with CAA to provide staff</li> </ul>	<ul style="list-style-type: none"> <li>Separate EIN, IRS, and state tax filings from CAA</li> <li>All net income taxable to for-profit</li> <li>Dividends paid to CAA are exempt from UBIT</li> <li>Rent, interest, annuities, royalties paid by 50% controlled sub. to CAA parent are subject to UBIT</li> <li>For UBIT reasons, don't set up as an "S" corp.</li> </ul>	<ul style="list-style-type: none"> <li>Contributions by shareholders</li> <li>May be able to receive loans or equity from foundations known as "program related investments" (PRIs)</li> </ul>	<ul style="list-style-type: none"> <li>Dividends to shareholders</li> <li>Can make charitable contributions, but they are only deductible up to 10% of corp.'s net income</li> </ul>	<ul style="list-style-type: none"> <li>Substantial unrelated activities and/or</li> <li>Activities for which primary source of capital is investors</li> </ul>

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<b>Single-Member LLC treated as a partnership</b>	<ul style="list-style-type: none"> <li>Separate entity</li> <li>Formation – file certificate of formation with state</li> <li>Limited liability; protects CAA if properly structured/operated</li> </ul>	<ul style="list-style-type: none"> <li>CAA is sole member and manager</li> <li>Employs separate staff or contracts with CAA to provide staff</li> </ul>	<ul style="list-style-type: none"> <li>Disregarded for federal tax purposes; LLC's activities, income and expenses are considered to be those of CAA</li> <li>Often not eligible for state property tax exemption</li> </ul>	<ul style="list-style-type: none"> <li>Contributions from CAA as sole member</li> <li>May be able to receive PRIs</li> </ul>	<ul style="list-style-type: none"> <li>Distributions to CAA as sole member</li> </ul>	<ul style="list-style-type: none"> <li>Activities where additional liability protection is desired</li> <li>Activities related to CAA's exempt purposes or</li> <li>Unrelated activities that are not substantial</li> </ul>
<b>Multiple-Member LLC treated as a partnership</b>	<ul style="list-style-type: none"> <li>Separate entity</li> <li>Formation – file certificate of formation with state</li> <li>Limited liability; protects CAA if properly structured/operated</li> </ul>	<ul style="list-style-type: none"> <li>CAA is one of two or more members</li> <li>Members choose manager(s)</li> <li>Rights and responsibilities of members and managers set out in an operating agreement</li> <li>Employs separate staff or contracts with CAA to provide staff</li> </ul>	<ul style="list-style-type: none"> <li>LLC's activities are considered to be those of CAA; CAA is allocated a share of LLC's income and expenses</li> <li>Rent, interest, annuities, royalties paid by 50% controlled LLC to CAA parent are subject to UBIT</li> </ul>	<ul style="list-style-type: none"> <li>Contributions from members</li> <li>May be able to receive PRIs</li> </ul>	<ul style="list-style-type: none"> <li>Distributions to members (including CAA)</li> </ul>	<ul style="list-style-type: none"> <li>Joint ventures with individuals, nonprofits or for-profits</li> <li>Unrelated activities that are not substantial</li> <li>Be alert to IRS joint venture rules; adopt joint venture policy</li> </ul>
<b>Limited Partnership</b>	<ul style="list-style-type: none"> <li>Separate entity</li> <li>Formation – file certificate of formation with state</li> <li>Limited liability; protects CAA if properly structured</li> </ul>	<ul style="list-style-type: none"> <li>General partner with unlimited liability (often single-member LLC established and managed by CAA) manages daily operations</li> <li>Limited partners have limited involvement in management</li> <li>Rights/responsibilities of partners set out in a partnership agreement</li> </ul>	<ul style="list-style-type: none"> <li>Same as multiple member LLC above</li> </ul>	<ul style="list-style-type: none"> <li>Contributions from members</li> <li>May be able to receive PRIs</li> </ul>	<ul style="list-style-type: none"> <li>Distributions to partners</li> </ul>	<ul style="list-style-type: none"> <li>Certain activities to be funded by investors (e.g., affordable housing development through Low-Income Housing Tax Credit or community development investment fund)</li> </ul>
<b>Low-Profit Limited Liability Company (L3C)</b>	<ul style="list-style-type: none"> <li>Separate entity</li> <li>Formation – file certificate of formation in state that recognizes L3Cs</li> <li>Limited liability;</li> </ul>	<ul style="list-style-type: none"> <li>Same as LLCs above (generally would be a multiple member LLC because purpose is to attract outside investors)</li> </ul>	<ul style="list-style-type: none"> <li>Same as LLCs above (would generally be a multiple member LLC)</li> </ul>	<ul style="list-style-type: none"> <li>Same as LLCs above (would generally be a multiple member LLC)</li> <li>Structure to receive PRIs</li> </ul>	<ul style="list-style-type: none"> <li>Distributions to members</li> <li>Grants for charitable purposes</li> </ul>	<ul style="list-style-type: none"> <li>Attracting PRIs from private foundations and investments from other outside investors</li> </ul>

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<b>Benefit Corporation</b>	<ul style="list-style-type: none"> <li>• Separate entity</li> <li>• Formation – file certificate of incorporation in state that recognizes benefit corporation; issue stock</li> <li>• Can convert existing for-profit corporation into a benefit corporation (usually requires supermajority shareholder vote under state statute)</li> <li>• No certification from B Lab necessary (but may elect to obtain to become a “Certified B Corporation”)</li> <li>• Limited liability; protects CAA if properly structured</li> </ul>	<ul style="list-style-type: none"> <li>• Same as for-profit corporation above</li> <li>• Board of directors obligated to consider the public benefit(s) identified in its certificate of incorporation along with shareholders’ interests in exercising fiduciary duties</li> </ul>	<ul style="list-style-type: none"> <li>• Same as for-profit corporation above (may elect to be taxed as either a C corp. or S corp./pass-through entity)</li> </ul>	<ul style="list-style-type: none"> <li>• Contributions by shareholders and investments from social enterprise funds</li> <li>• May be able to receive PRIs</li> </ul>	<ul style="list-style-type: none"> <li>• Dividends to shareholders</li> <li>• Can make charitable contributions, but they are only deductible up to 10% of corp.’s net income</li> </ul>	<ul style="list-style-type: none"> <li>• For-profit activities (substantial unrelated activities and/or activities for which primary source of capital is investors) that have an identified social mission.</li> <li>• For-profit corporations (i) seeking legal protection from shareholder lawsuits alleging that the board is focused on considerations other than maximizing profits and/or (ii) desiring to insert the corporation’s social mission into its governing documents so that the mission cannot be removed in a hostile takeover without a supermajority vote of shareholders</li> <li>• Attracting investments from socially-conscious investors or social enterprise funds</li> </ul>