

Earned Income Strategies
&
Social Enterprise
for the Tax Exempt Organization

Community Ventures
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OVERVIEW

Major Issues

- Legal, Business and Policy Framework
- Examples
- Relationship to Mission
- Structural Options
- Core Competencies/Resource & Asset Base
- Business Planning & Organizational Readiness

• A commercial strategy undertaken by a non profit to generate revenue in support of its charitable, educational or scientific mission

--> payments received in direct exchange for a product, service or privilege

Social purpose business - create jobs or skills learning through training programs (Women's Bean Project, Shelter for the Homeless bakery, Girl Scouts)

• Mission driven - fee for service, often @ reduced rate; housing, health care, food, the arts

• 2ary use of existing asset - facility rental, parking, restaurant, training capabilities (MOMA)

Examples (cont)

- Cause related marketing or purchasing - for profit brands specific events of the non profit for sponsorship ('Avon' Race for the Cure)
- Public-private partnerships - often government and private sector team to support charitable purpose
- Membership based benefits

Legal and Tax Framework - UBIT

- In general - a non profit may engage in any business activity that a for profit company may undertake
- Best to have earned income activity relate and support the mission, but not necessary
- If not in support of mission, profit from the income generating activity will be taxed like a for-profit company at general corporate tax rate
- UBIT - Unrelated Business Income Tax (\$1,000 gross min)
- To avoid tax, profit making must be 2ary purpose of the activity - primary purpose must remain mission

UBTI Test - whether profit from business activity will be taxed

- Activity must be a trade or business whose primary purpose is to earn profit
- Regularly carried on (even seasonal, like gift cards) (WWF)
- Not "substantially" related to the conduct of the group's exempt purpose
- examples

US Tax Policy & the Tax Exempt Sector

- Uniquely allows redistribution of wealth
- To support charity, education and science
- ...where the exempt activities do not compete with for profit sources/ businesses in same sector (unless in furtherance of the tax exempt mission)

Exempt Income Sources (from UBIT)

- Interest Income
- Dividends
- Rents from real estate
- Royalties (publishing or license)
- Capital gains
- Volunteer generated income
- Fragmented income - mission related income separated from non mission related (college bookstore sales to non students)

General Do's & Don't's

- Accounting issues - do keep separate books for non profit and profit generating activities, including use of space in same office, supplies, etc.
- Mission focus - don't let income activity overrun tax exempt mission; IRS could impose UBIT and revoke exempt status (in extreme cases)
- For profit subsidiary - don't make decision based on taxes, you'll pay same tax either

Advertising vs Sponsorship

- Advertising - is taxed under UBIT
 - open solicitations to purchase a product or service including price and where to buy
- Sponsorship - is not taxed under UBIT
 - “qualified sponsor” - no expectation of receiving any substantial benefit
 - other than acknowledgement of name and/or logo (can be on product lines) of

When to adopt for-profit form

- If the profit making activity becomes larger than the non profit mission activities -
Geographic Ventures
- Joint venture with for profit - non profit must be in control of the JV, and it operates in charitable, educational manner
- To create a 'for benefit' company (Newman's Own) for tax purposes

Business & Organizational Considerations

A. Organizational

- Is earned income right for your organization?
 - Brainstorm/storyboard ideas or pursue 1 specific option
 - What are your existing assets - physical, programmatic, intellectual property?
 - Identify both mission related and unrelated profit making activities the group might undertake
- Is there at least 1 internal champion
 - and 1 likely successful scenario?
 - Is there capability to run a small business inside the organization?

B. Business (cont)

- Write a business plan, however informal
 - good to go through the analytics to check if your *idea* is a viable profit making venture
 - whether you keep it internal or show it to possible funders, a good blue print to have and keep updating
- Do the market research - is there room to offer the product/service in the marketplace? is there demand for your idea?
 - Learn about your industry
 - Is there a gap to fill or room left in the market you want to enter? What's the competitive landscape?

B. Business (cont)

- Management - is there an experienced (or at least committed & competent) manager for the earned income activity
- with an entrepreneurial spirit
- who understands marketing and branding
- in relation to the mission

Financial Planning

- Will you bootstrap the project with existing resources?
- or seek outside funding?
 - From an existing or new donor?
 - Through a specific grant?
 - Kickstarter (or similar)?
- Check the competitive scale of prices for your product/service - where does your activity's pricing fit, given your mission?

Financial Planning

- What are your projected sales \times price = revenues? 2-3-4 years out
- What will it cost to get to a launch stage with your product/service? or expand it?
 - Marketing costs (promotion)
 - Burn rate/month - how much monthly can the organization afford to spend to support the early stage of the earned income activity, and for how long?

In Summary...

- You can scale as high as you want with earned income activities
- You can earn **big profit\$** in support of your mission without taxation
- Or even **big profit\$ not** in support of your mission **with** taxation
- You can create a sustainable business model within your tax exempt organization that makes a profit and supports your mission