



Building Your Exempt Empire

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Speaker Biography – Jeffrey J. Schragg

Jeff Schragg is a Tax Partner with over 25 years of experience counseling clients on highly complex tax and business matters. He provides his clients a broad and deep knowledge of all areas of state, federal and international taxation. Jeff has coordinated services for both individual and business clients, including real estate developers (commercial and residential), individual and business nonprofits, publishing companies, real estate investors, hotel operators and hotel management companies, ESOPs and technology companies. He brings a results-driven approach to closely held businesses and high net-worth individuals. Jeff advises clients in all phases of growth from inception to funding growth to exit strategies via sale, tax-free exchanges or a public offering. He also has extensive mergers and acquisitions experience, and, as such, Jeff has brought sophisticated tax planning and advice to Fortune 500 companies, S corporations and partnerships.

Jeff holds a B.A. in Economics and Management from Albion College and a J.D. from George Washington University. He is also a Board Member of the Leadership Greater Washington, Fairfax County Chamber of Commerce and Synetic Theater.

Speaker Biography – Tracy Paglia

Tracy has over 14 years of public accounting experience, starting with PricewaterhouseCoopers in Eugene, Oregon before joining Moss Adams. She is the leader of tax services for exempt organizations in Northern California, and is based in the Stockton, California office.



Tracy's experience includes assisting for-profit and tax exempt clients in creating and managing complex groups, addressing unrelated business income sources, restructuring entities to fit current and future needs of the organization, and merger and dissolution planning.

Tracy is a highly-rated national speaker on tax exempt issues. Her teaching and speaking experience includes sessions for the National Association of College and University Business Officers, the American Institute of CPAs, Ziegler's National CFO Workshop, and several state CPA societies.

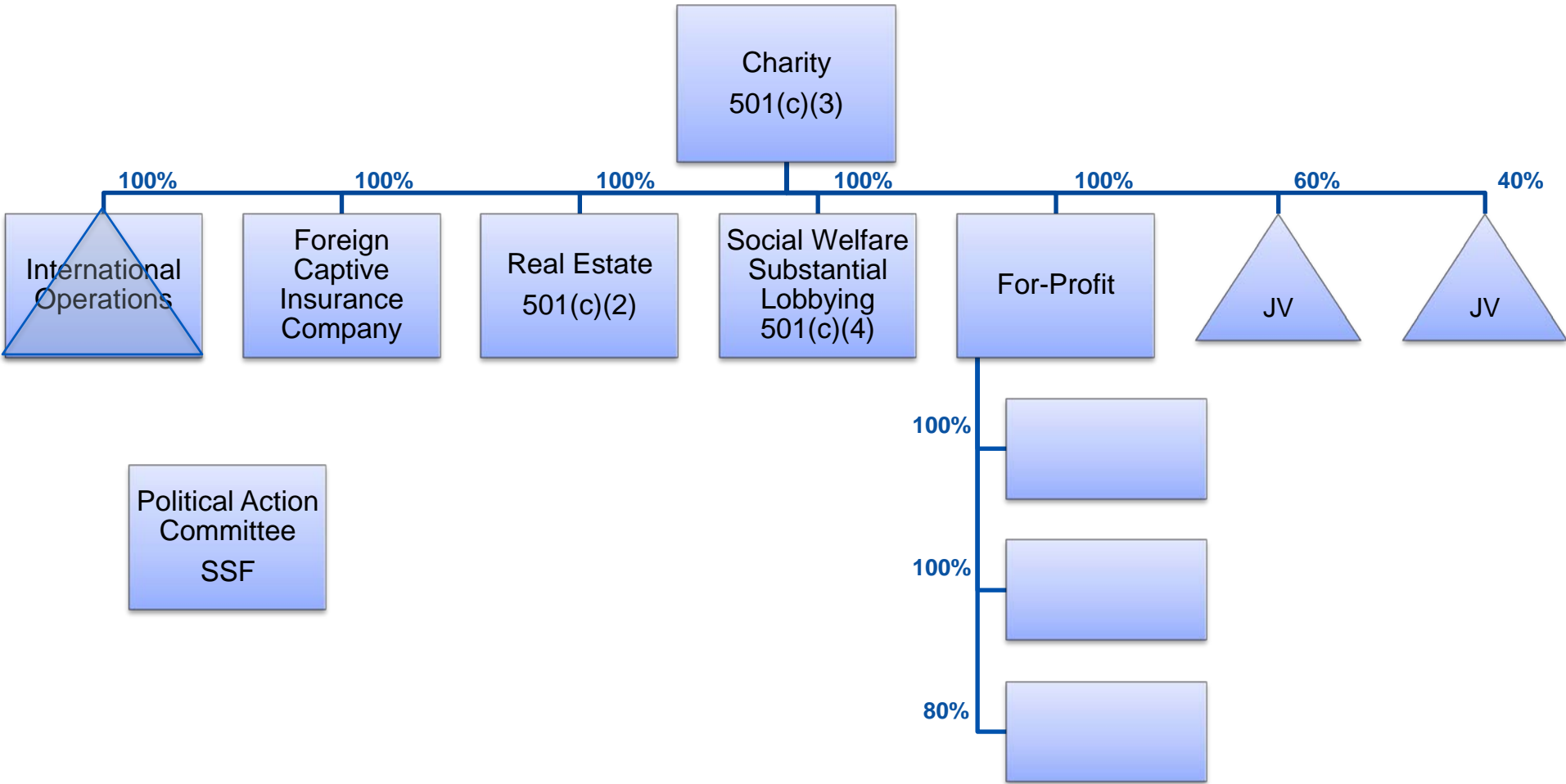
Tracy has a bachelor degree in accounting from the University of Idaho, and holds CPA licenses in Oregon and California.

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Agenda

- **Considerations for expansion**
- **Operating and expense considerations**
- **For-profit issues**
 - Disregarded entities
 - Joint ventures, LLCs, Partnerships
 - C Corporation issues

Exempt Empire



Why Consider a Subsidiary?

- Different exempt purpose
- Different boards from original organization
- New grants or revenue sources
- Liability protection
- Purchasing an existing business
- Unrelated business
- Future spinoff or sale
- Compensation and incentive plans
- State issues

Why NOT to Establish a Subsidiary

- Cost of setup and maintenance of additional entities
- Intercompany accounting
- Short lived projects / lack of long term sustainability
- Public perception of entities
- State filing fees

Subsidiary Questions

- Taxable or tax-exempt?
- If tax exempt, charitable or noncharitable?
- Flow through?
- 100% owned?
- What state should it be organized in?
- How much board overlap?
- Insider transactions
- Capitalization options

Exempt Org
- Charitable
- Other

C Corporation
S Corporation

Trust

LLC
LLP
General Pship
Limited Pship

Common Types of Exempt Entities

§501 (c)	Description	Other	Description
(c)(2) (c)(25)	Title holding company	501(e)	Coop hospital service org
(c)(3)	Charitable organizations Supporting organization Private foundation Private operating foundation	501(f)	Coop education service org
(c)(4)	Civic league & social welfare	527	Political organization
(c)(5)	Labor, Ag & Horticultural Org		
(c)(6)	Business league		
(c)(7)	Social clubs		
(c)(8) (c)(10)	Fraternal association		

IRC § 501(c)(2) and (c)(25)

■ Title holding tax exempt organizations

■ (c)(2)

- Single § 501 organization receives the net income from property activities
- Can have UBI that is incidentally derived from holding real property

■ (c)(25)

- Up to 35 shareholders or beneficiaries, which may include: § 401(a) plans, § 414(d) government plans, federal or state government, subdivision, agency or instrumentality, or § 501(c)(3) organization
- 1 class of stock or beneficial interest
- Can have UBI that is incidentally derived from holding real property

Private Foundation

Private Operating Foundation

■ Private Foundation

- No public support test requirement
- No § 4958 excess benefit transaction restrictions, but do have § 4941 self dealing taxes
- Net investment income excise tax and minimum distribution requirements
- Contributions are deductible, but lower AGI limits apply and some donations are limited to basis

■ Private Operating Foundation

- No minimum distribution requirements; can be exempted from the net investment income excise tax
- Public charity rules apply to contribution deductions
- Must annually meet the income test and one of three other tests to qualify – direct conduct of charitable activities

§ 501(c)(4) – Social Welfare Organizations

■ Similar to § 501(c)(3) orgs

- Net earning devoted exclusively to charitable, educational or recreational purposes
- Private inurement prohibited
- § 4958 excess benefit transaction rules apply

■ Differences

- Contributions are not deductible as donations by the donor
- No public support test
- No limit on lobbying expenses
- Can establish and maintain a PAC

§ 501(e) – Coop Hospital Service Org

■ Centralized service provider

Data processing	Food	Printing
Purchasing	Clinical	Communications
Warehousing	Industrial engineering	Record center
Billing and collection	Laboratory	Personnel services

- Two or more exempt hospitals
- Organized and operated on a cooperative basis
- Pays all net earnings to patrons within 8 ½ months after year end based on services performed for them
- All stock is owned by the patron hospitals

§ 501(e) – Coop Hospital Service Org

■ Benefits

- Treated as a § 501(c)(3) organization for AGI limitation and charitable deduction rules
- No Schedule A public support test required
- May retain some portion of net earnings for any necessary operational purposes

■ Limitations

- Can only provide the services listed in § 501(e)
- Can only provide services to patrons
- Cannot have UBTI, but can have debt-financed income treated as UBI under IRC § 514
- Cannot have a taxable subsidiary

Intercompany Transactions

■ Allocating common expenses

- Compensation and benefits of shared employees
- Allocation of space, utilities
- Overhead allocation of insurance, supplies, etc.

■ Reporting compensation

■ Fundraising entities

■ Management entities

■ IRC § 512(b)(13) payments

■ IRC § 267

Intercompany Transactions

- **Allocating common expenses**
- **Reporting compensation**
- **Fundraising entities**
- **Management entities**
- **IRC § 512(b)(13) payments**
- **IRC § 267**

Joint Ventures

- **Disregarded Entity vs. Partnership**
- **What is LLC?**
- **What year end must a partnership use?**
- **Fractions rule**
- **Depreciation rules when for exempt use property**

Disregarded Entities

■ Jeff?

LLCs / Partnerships / Joint Ventures

■ Jeff?

Consolidated C Corp Issues

■ Jeff?

Fundraising Affiliates

■ Basis for Not a Private Foundation

- Publically supported
- Supporting organization

Questions?

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Nonprofit Organizations

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