



## **Introduction to Fiscally Sponsored Companies (FSCs)** **with Innovate United LLC**

### Getting Started

You are reading this document **because** you have an idea, product, or company that you are starting, but are daunted about dealing with the legal, finances, and tax burdens required for companies and startups. Before we jump in to how to request fiscal sponsorship from the umbrella LLC, let's first take a minute to think about why a company would want fiscal sponsorship in the first place, and **whether** an other fiscal sponsorship partner may be a better fit for your company.

### Why ask for Fiscal Sponsorship with an umbrella LLC like Innovate United?

In deciding whether or not you want to become a sponsored LLC, there are three primary contexts of legal business models that are applicable. The fourth one would be a 501c3 public charity, but if you are already thinking of an LLC, then you probably don't need charity status, but you may have considered it if you have a social cause attached to your goals as a business, or you may want to have a foundation associated with your business. So if you need more information on getting sponsored as a 501c3 for grants or tax deductible donations, then please do contact the Community LIFE Network at [inc@CommunityLIFENetwork.org](mailto:inc@CommunityLIFENetwork.org). But getting back to the business models, there are three primary forms of business models to consider, membership CORP, equity LLC, and stock INC.

Let's start with the membership model. A membership model would be a non-profit company, kind of like a cooperative model, where there is no direct ownership or equity involved. This would be the same model of 501c3 public charity, except it wouldn't be tax deductible at all because it

would be a business. The organization, in this case a non-profit business, would have to pay normal business taxes, but it wouldn't have owners, and everyone paid would have to be a worker actively helping the business, in other words a worker owned cooperative, or something like it.

This differs significantly from an equity LLC, which is only consists of equity owners who each own a certain % of the company. The owners can choose to hire staff that do the work, separately from the ownership and collection of profit. In other words you can get paid for doing absolutely nothing, because you own the company, but first you have to pay the employees or staff, and the owners can only collect profits. An LLC functions almost exactly like a simple partnership, except it is defined as a separate legal entity from the partners themselves. The primary reason to do a partnership instead of an LLC is that a partnership is free, where as an LLC costs at least \$800 per year in CA taxes, and for the umbrella LLC costs about \$15/mo or \$160/yr. Again a partnership is free, so if you want to consider creating a sponsored partnership under our umbrella partnership, please send an email to [connect@unityinnovation.com](mailto:connect@unityinnovation.com). To finish up with the LLC option, it is important to note, that unlike a simple partnership, LLC's can own partnerships, joint ventures, and own stock in INCs. So that gives an LLC a much broader function than a simple partnership. The primary difference between an LLC and a INC is that the individual who owns the LLC directly pays individual taxes on all capital and profits. This can be a burden because if your company has a capital value of \$100,000, you would have to pay the full taxes on that, even if you haven't received a single penny in profits from the company. Because our umbrella LLC is owned primarily by a non-profit, we are able to reduce your capital expenses effecting your own personal taxes by splitting off the capitol ownership into the non-profit. This simply means that if the umbrella LLC was dissolved, the profits would be dispersed to the owners, and the capital of the organization would go to the non-profit.

With a for-profit corporation, an INC has direct stock ownership, where the stock itself exists independently from the dividends, or distribution of profits to the owners. In this way you create what is called a double tax system, where the corporation and its stock is taxed separately from the individual who receives the dividends or the capital gains if they sell their stock. In that way an LLC can be much more desirable for a company that intends to

primarily distribute its surplus as profits to the owners, whereas a company that primarily wants to build up capital and value as a company would want to create stocks so that its owners are only taxed when they receive profit or sell their stock. The other great context of having stock is that unlike an LLC where owners simply have a % equity, with a stock INC the owners are actually issued legal documentation stating that they actually own a tangible asset, aka the stock itself. This can be a better option for enticing investors. Overall stock INCs are the most complex corporate business model, and also have the highest tax burden.

Feel free to contact us [for more](#) information about our "sister" umbrella organizations including our umbrella partnership, umbrella INC, umbrella non-profit, umbrella public charity, and umbrella political committee, and their respective sponsorship options. It is possible that sponsored LLC status is not what you need, depending on what your project is, and if that is the case, our umbrella CommUnity Network can help you find the type of organizational status and fiscal sponsorship that you need, just email: [support@unitynet.info](mailto:support@unitynet.info) or call Jay at 415-323-5833. Of course it is also possible, but rare, that there are multiple aspects of your project goals, or multiple sub-projects with some parts that would fit better into a simple partnership or political committee, but with other parts that may still need LLC status. If you feel that LLC status is possibly what you need, or even just part of what you need, feel free to move forward with your request to Innovate United LLC, and we can work out the details later.

So if you have established that you want to have a company that is based on equity % ownership that directly distributes profits and the capital and general tax control is with each individual owner, then Innovate United LLC sponsorship may be the right choice for you. There are not a lot of LLC's that are offering sponsorships, but in general it is not that difficult to set up your own LLC, and we can help you with that if you would prefer.

## Who is eligible for Innovate United LLC Fiscal Sponsorship?

Any individual or group of individuals who are actively engaged in an idea, product, or company that operates physically or legally within the United States. If your program does not operate physically or legally within the United States, Innovate United LLC would not have jurisdiction to function as a legal entity to sponsor your project. If you need local company sponsorship in another country, we may be able to help you find one, but it depends on the country. If international sponsorship is enough for your project, we certainly will consider your request no matter where in the world you are, but there may be additional restrictions on your project.

## How to become a Fiscally Sponsored Company of Innovate United LLC?

It is simple to become a FSC of Innovate United LLC, all you need to do is submit a short proposal. We will go over the four parts (Description, Owners, Equity, % Cash Flow) of this short proposal that is usually just an email. You should do your best to keep the proposal down to just a few sentences, or a maximum of a 1/2 page, and it is fine to have links to as much supporting documentation as you want.

### Proposal Description

The description should just be a few short sentences describing your idea, product or company. This should also include the basic business practice you will be legally engaging in. For example: Making and Selling Baskets. It is against our policies to be approved as a sponsored company selling baskets, and then go into web site development without letting us know. If you plan on creating an umbrella company with many sources of revenue, please list each one in your proposal description, and if you don't know yet, that is fine, when you figure it out, or would like to add a new business practice, simply let us know in the future. If you are an existing product or company that has been around for a while, you also should give a few sentences on your history and how you got started. If it is a new company there is no need to give us history. In the description you may also want to make a quick note of any possible legal issues or concerns that may arise from your program, but there is no need to explain them, as we will want to talk to you about it before the proposal goes to the Board, and get supporting documentation.

### Owners / Managers

A few sentences or two on each of the 1-3+ people who would be the owners or managers of the company. This could include experience, degree, passions, or other applicable information about an individual's background.

### Equity

Simply list the exact ownership of the company as it currently exists, typically this could start with 100% founders equity, or split equally between the two founders.

### % Cash Flow

Lastly the % cash flow is the amount of money that would be transferred over to the umbrella LLC to pay for a administrative and overhead costs for the entire umbrella LLC to support all our sponsored companies. Many non-profits have their sponsored projects budget a 15% fee for all revenue, and although that seems high, it is a reasonable estimate of overhead costs. Instead of establishing a pre-set fee, we allow each company itself to decide what the best % cost flow fee they think would work for their situation, as long as it is reasonable and Innovate United LLC Board approves it. Typically this will be about 5%, but can be up to as much as 20%, or as little as 1%(or even less), if that is applicable to your projects situation. Whatever % is established at the time of the FSC proposal approval by Innovate United LLC Board, that % will be set as the exact % cash flow that will be given to Innovate United LLC as an administrative fee, from all funds that pass through the FSPs accounts regardless on how that money was raised or spent. If you want different types or different amounts of donations to have different % of cash flow, that needs to be worked out ahead of time and included in your proposal, but most organizations have a single %. At anytime in the future your organization can propose to change your % revenue as a new official proposal to reconsider your fiscal sponsorship to Innovate United LLC Board, but the Board can reject it and you can lose your fiscal sponsorship if agreement cannot be reached on changing the % cost flow administrative fee.

## Choosing the right % cash flow administrative fee, and re-proposing fiscal sponsorship to change the % cash flow.

First of all, don't worry too much about what % revenue fee you decide on at the beginning of your sponsorship. It can always be changed later down the road, but don't be to **nonchalant** about it either, as to change it you will be re-proposing your entire fiscal sponsorship to Innovate United LLC Board, and the Board will re-consider your fiscal sponsorship status in the context of the new % cash flow that you are proposing. As long as the % cash flow is reasonable in the context of the projects relationship with the whole umbrella LLC, it will be approved. Because you can change your % cash flow admin fee at any time, we suggest starting at the highest level you feel comfortable with, as the likelihood that a company will ever consider raising their % cash flow admin fee in the future is almost nil, so we would rather have you consider lowering it in the future, than start so low that you consider raising it, but can't get the approval from your leadership. Although 10% or even 15% is a perfectly reasonable % cash flow admin fee for a typical sponsored company, we certainly understand if this is too high for your company, and we would expect you to submit a proposal with a 5%-10% cash flow admin fee. If you feel that even 5% is too high, feel free to propose a smaller % cash flow admin fee, but you may want to give an explanation as to why you feel that you should be paying less than other companies and why the costs to support your program would be less than other companies.

## Spin-Offs and **long-term** internal fiscal sponsorship.

Any fiscally sponsored company always has the option to Spin-off their company at anytime (bottom-up), and separate from innovate United LLC into their own or different LLC, into a partnership, or other legal entity form. Additionally the Innovate United LLC Board can decide to spin-off any company (top-down) into its own LLC, partnership, or other legal entity form at anytime. Neither the Innovate United LLC Board nor the fiscally sponsored company need get approval to initiate a spin-off, and therefore your interest in being a spin-off, or not, does not need to be part of your proposal. But it is important to communicate and be clear with the Innovate United LLC leadership about your companies long term aspirations and **w**hether you would want to stay as an internal company, or would like to

eventually spin-off into your own organization. If you do want to initiative a spin-off LLC or INC it typically takes about 1-week, and you will be required to keep your existing % equity ownership within the new legal entity. We are more than happy to help you accomplish this goal if you want. Additionally, a FSC that intends to spin-off has more leniencies in following the policies of Innovate United for FSCs, as a spin-off project will eventually need to create all its own internal policies. Additionally, a FSC that does not follow the Innovate United policies will be spun-off anyways, as there is no reason to be fiscally sponsored by Innovated United if you do not have the intention to learn and collaborate with us on our policies to ensure smooth functioning and long-term stability of the umbrella LLC itself.

### General Overview of Responsibilities if Approved

If your project is approved as a FSC of Innovate United, then your group's leadership committee will have specific responsibilities to follow, which are explained within the Innovate United policies. Not all policies will be applicable to all FSCs, depending on the type, size, and status of your projects current activities. Here is a preliminary list of the most important policies and responsibilities your project will have.

- Make a Budget and get it Approved
- Personnel Reporting (Workers, Volunteer or Paid)
- Quarterly and Annual Company Reporting
- Financial Documentation
- Documenting Decisions of your projects "Leadership Committee"
- Appointing a Project Representative to the Innovate United Leadership Council
  - This representative will be involved in approving other company proposals as well as presenting proposals from your company.
- There may be other responsibilities depending on your company.

If your company is approved for sponsorship, you will receive much more detailed information on exactly what and how to follow the Innovate United polices.

## A Little About Innovate United LLC

If you would like more information about Innovate United LLC, you can visit the website at <http://InnovateUnited.net> (currently isn't set up) but for now here is a few points you may want to know:

Innovate United is an umbrella LLC, so although it does have internal projects that are related to its purpose and goals, all of its internal projects are organized as FSCs just like all other sponsored companies. The mission of Innovate United LLC is to help our communities network together and find solutions to overcome the crises of the 21st century. We believe that innovation is a centerpiece to helping solve our 21<sup>st</sup> century crises, and by building networked companies within umbrella organizations, we can increase the success rate of startups utilizing our support services. Our goal is not just to give you a bank account and pressure you into unwelcome policies, instead we want to support you to stabilize a revenue stream for your company and help you with reporting as needed.

Although there is a lot more to learn about running and launching a successful project, we feel that this short information sheet is more than enough information to get you started in your consideration of requesting fiscal sponsorship from Innovate United LLC.



Questions? Contact Us:

If you have any questions, concerns, or just want to talk about your possible project, feel free to contact us **anytime:** [info@InnovateUnited.net](mailto:info@InnovateUnited.net) or 415-323-5833 (Jay)

### A little about the CommUnity Network:

Innovate United LLC is a member in a larger umbrella network called the CommUnity Network. The goal of the larger CommUnity Network is to build Unity between all peoples and social movements of the world to work towards societal transformation. The CommUnity Network is synchronized in supporting the efforts of Innovate United, but Innovate United is a separate legal autonomous entity. By using the principles of sustainability, grassroots activism, and collaborative decision making, the CommUnity



Network supports a framework for prioritization and establishment of new community projects and programs that help find solutions to the greatest problems of the 21st century. This can go beyond just sponsored LLC companies, which is why Innovate United has direct connections to help support projects that want other types of sponsorship besides just LLC, including public charities, political committees, and not-for-profit projects, as well as entrepreneurial innovations that can be for-profit endeavors that help communities.

For more information about the CommUnity Network: <http://UnityNet.info>

For more information about the Theory behind Unity: <http://UnityTheory.net>