

Determining what legal entity will work best for your producer-led group

When choosing how to structure your producer led group, determining your “legal entity” is important, and you should consider several factors. If your group is looking to receive donations and sponsorships, your group may want to become a non-profit organization; or for an easy application process, establishing an LLC may be the right option.

When you are considering the most compatible legal entity for your group, we recommend consulting with your accountant, attorney or financial planner to make these determinations.

Some questions to ask your group may be:

- Do you want to be tax-exempt?
- Do you want to be able to take donations?
- Do you want to have lobbying ability?

Some important factors to consider are:

1. Ease of formation – How easy is the application process to form the entity?
2. Liability protection – Are you, if at all, personally liable under the entity?
3. Tax treatment – What are the entities’ tax requirements and benefits?
4. Ability to raise funds – How easy is it to raise funds under the given entity?
5. Cost- Are there costs associated with becoming a particular legal entity?

Available legal entity options compatible with this grant program:

1. 501 (c) non-profit organizations
2. Non-profit agricultural organization
3. Limited Liability Corporation
4. S corporation
5. C corporation
6. Sole Proprietorship
7. Partnership

Helpful articles:

- Creating an exempt organization:
<https://www.irs.gov/Charities-%26-Non-Profits/Creating-an-Exempt-Organization>
- Comparison chart for S corp, C corp and LLC:
<http://www.clickandinc.com/business-formation/resources-and-information/llc-s-corp-c-corp-chart.aspx>
- Steps for creating a small business:
<https://www.sba.gov/category/navigation-structure/starting-managing-business/starting-business>
- Advantages of choosing a 501 (c) 3 non-profit organization:
<http://501c3go.com/about-501c3/501c3-advantages/>
- Non-profit agricultural organization:

<https://www.irs.gov/Charities-&-Non-Profits/Other-Non-Profits/Life-Cycle-of-an-Agricultural-or-Horticultural-Organization>

- Tax information for charitable organizations:
<https://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/>
- Reviewing business structures:
<https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Business-Structures>
- How to choose the right business entity:
<http://www.nationwide-incorporators.com/article-how-to-choose-right-entity>

Comparison chart 501 (c) 3 vs. 501 (c) 4 chart

Chart information derived from: <http://www.nonprofitaccountingbasics.org>

	501 (c) 3	501 (c) 4
Tax Treatment	<ul style="list-style-type: none"> • Exempt from most federal taxes • Contributions to your organization ARE generally tax-deductible • Contributions to your organization are NOT subject to federal gift tax 	<ul style="list-style-type: none"> • Exempt from most federal taxes • Contributions to your organization are NOT tax-deductible • Contributions to your organization MAY be subject to federal gift tax
Lobbying Activities	Limited expenditures to influence legislation, ballot measures, and judicial nominations, among others	Unlimited expenditures to influence legislation, ballot measures, and judicial nominations, among others
Political Activities	<ul style="list-style-type: none"> • Prohibited from engaging in any partisan political activities; may conduct nonpartisan voter engagement activities • May not establish a PO for political activities • Penalties: Revocation of tax-exempt status and excise taxes on both the organization and its managers 	<ul style="list-style-type: none"> • May carry on partisan political activities subject to federal and state campaign finance laws • May not be the “primary purpose” of the organization; must be “secondary” • May establish a PO for political activities • Tax on political expenditures