

# ORGANIZATIONAL STRUCTURES

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LAULIMA CENTER

FOR RURAL AND COOPERATIVE  
BUSINESS DEVELOPMENT™



# Choosing a Structure

Need to identify the

- purpose, and
- tax structure

of an organization.



# Purpose

- If the purpose is religious, charitable, or educational, then a Non-Profit (tax exempt) could be appropriate.
- If the purpose is to make a profit or provide a needed service, then a Business structure could be appropriate.



# Tax-Exempt Corporation

- cannot pay dividends or distribute income or profits to members or directors.
- cannot issue stock.
- tax-exempt.
- incorporate under appropriate section according to the law
  - Guam--Section 18, Chapter 10, GCA
  - RMI--Title 18, Chapter 3, RMI Code
  - CNMI--4CMC subsection 4102, CNMI Code
  - Yap--YSC, Title 23, Chapter 8
  - Pohnpei--??



# Tax-Exempt Corporation

- Most common “tax-exempt”:
  - 501(c)(5)--501(c)(3)--Religious, educational, charitable, etc., etc.
  - Labor, Agricultural, and Horticultural Organizations,
  - 501(c)(6)--Business Leagues, Chambers of Commerce, Real Estate Boards, etc.

# Business Corporation

- generate profits for its owners.
- can issue stock.
- subject to taxation.
- incorporate under local statutes
  - Guam--GCA Section 18, Chapter 2
  - Yap--Title 23
  - RMI--Title 18

# Business Structures

Most business structures are patterned after IRS guidelines regarding taxation. There are six basic structures to consider.



# Business Tax Structures

- Sole Proprietorship
- Partnership
- C-Corporation
- S-Corporation
- Cooperative Corporation
- Limited Liability Company



# Issues to Consider

- Personal liability,
- Transferability of interests,
- Duration of the organization,
- Management responsibilities--who runs the business,
- Who gets the profits, and
- Who is responsible for the taxes.



# Tax Exempt-Pro' s

- Social objectives
- Respond to community, rather than investor interests
- Funding sources--foundation grants, most government grant programs, individual contributions
- Tax-exempt on most income
- Controlled by board and to some extent, its membership



# Tax Exempt-Con' s

- Limitations on political and lobbying activities
- Limitations on activities outside “exemption”
- May have trouble operating in a business-like fashion
- Prohibition on distribution of dividends/ profits to members
- Extra reporting and registering requirements
- Restrictions on dissolution

# Cooperative-Pro's

- Balance economic and social needs
- Limited anti-trust exemption for agricultural cooperatives
- Controlled by members who are its owners (local ownership)
- Structured to benefit members, not to make a profit (for the corporation)--responsive to member needs.
- Returns based on participation in services, not on investment.
- Single tax treatment



# Cooperative-Con' s

- Financing--less likely to receive: outside investors, direct foundation grants, some government grant programs, individual contributions
- More business-like than the tax-exempt but less profit-oriented in most cases than investor oriented
- Subject to internal conflicts due to varying expectations of different members as to how to balance social and economic concerns
- Potential members lack capital to start operations
- Difficult “paradigm” shift