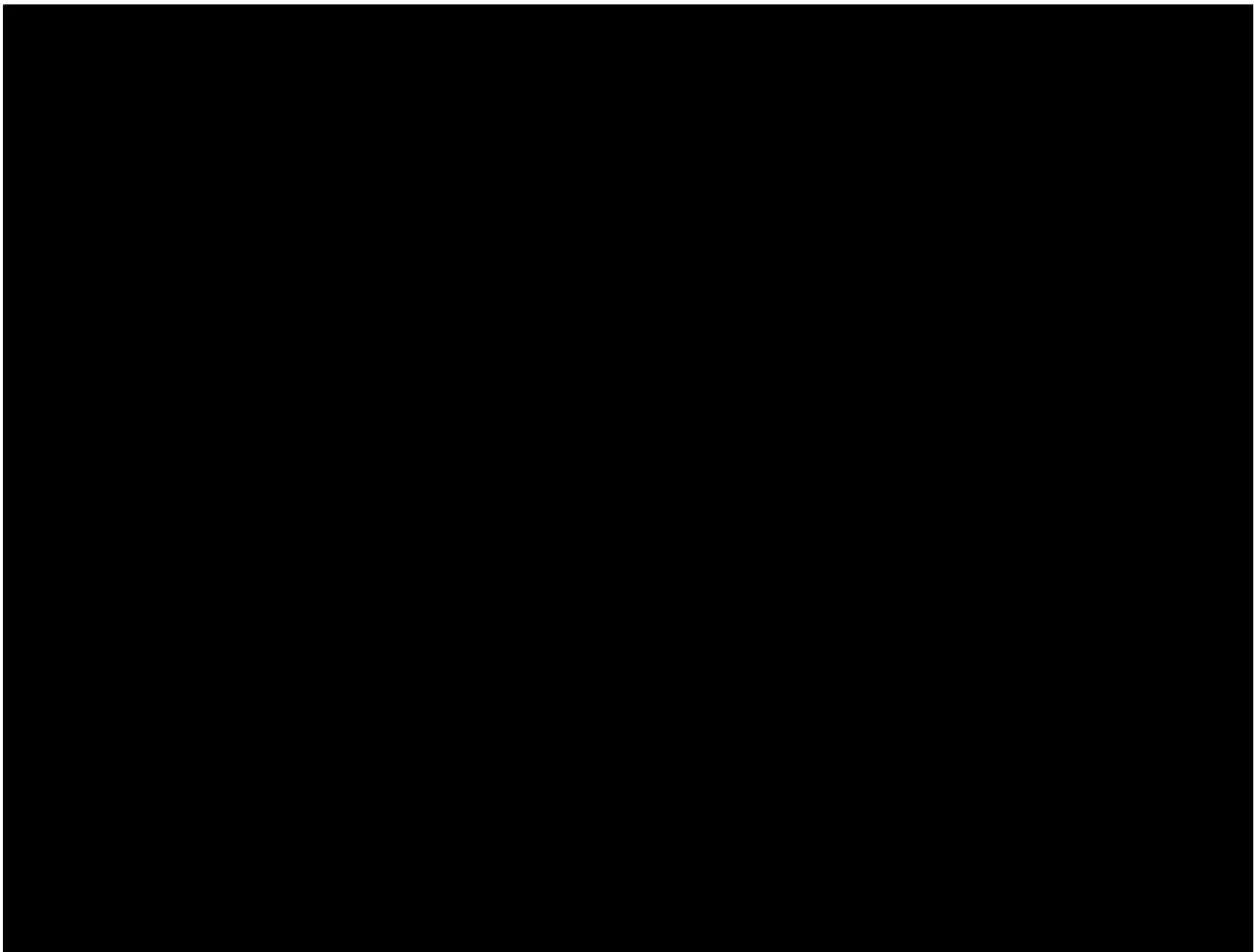
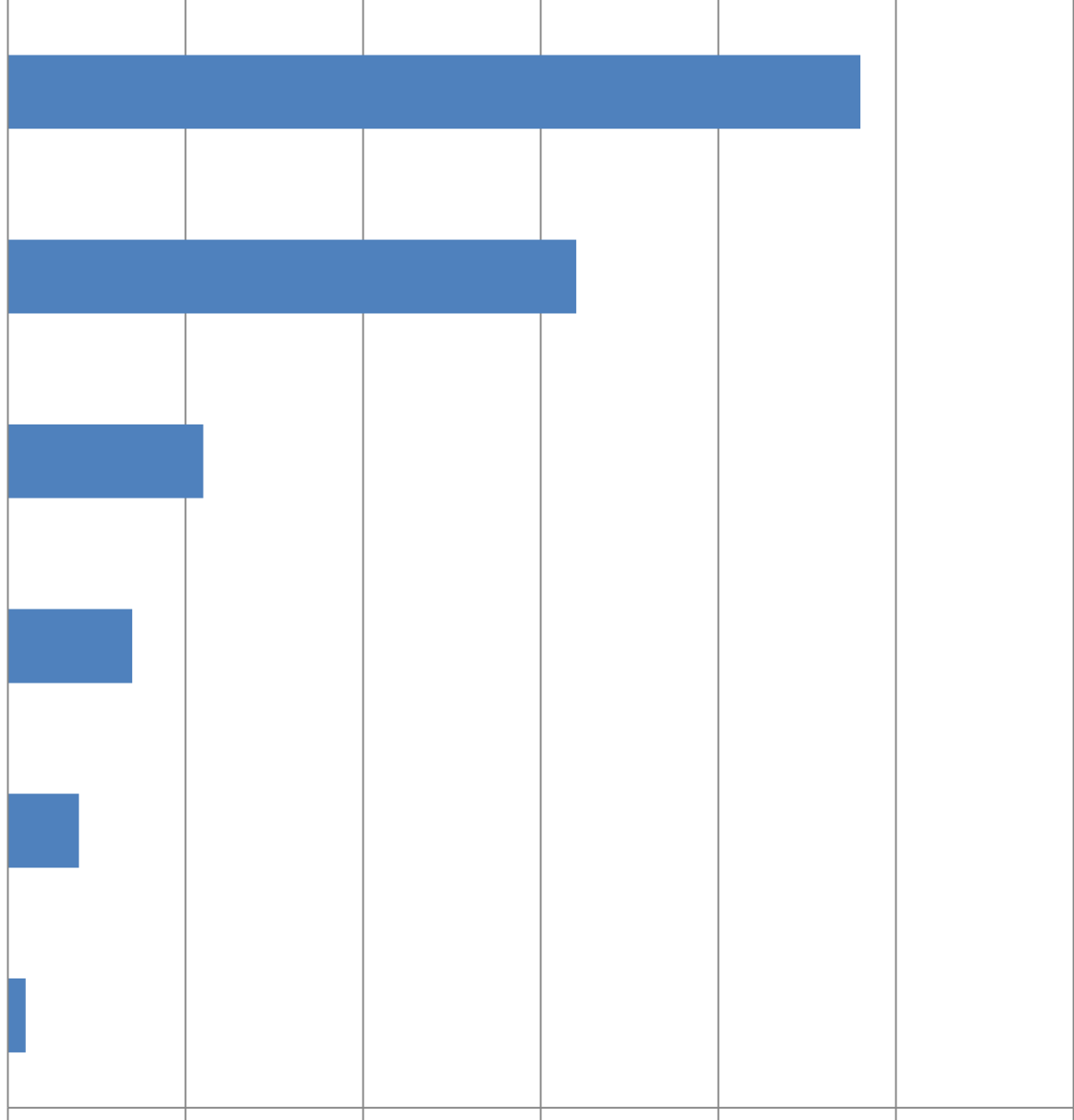


# The Path To University Startups

A Launchpad for Innovators at  
the University of Alaska  
Fairbanks





32 New Inventions Disclosed

3 Provisional Patents in FY 2012

4 Provisional Patents in FY 2013 to  
date



# Why Create Startups?

- Benefits our University and our Inventors
  - Provides an alternative means of commercializing technology
  - Inventors and the university receive royalties
- Benefits the Alaskan and national economies
  - UAF can create sustainable jobs.
  - Consumers will get better products and services

# The Path to Startups

To have the capacity to build startups, we need:

- A means to take and isolate risk;
- A means to hold equity in startups; and
- The ability to work closely with the university and these companies in our community.

# Best Practices

- To properly handle these issues, other state universities have created research foundations
- UAF has engaged an outside law firm to conduct a full analysis.

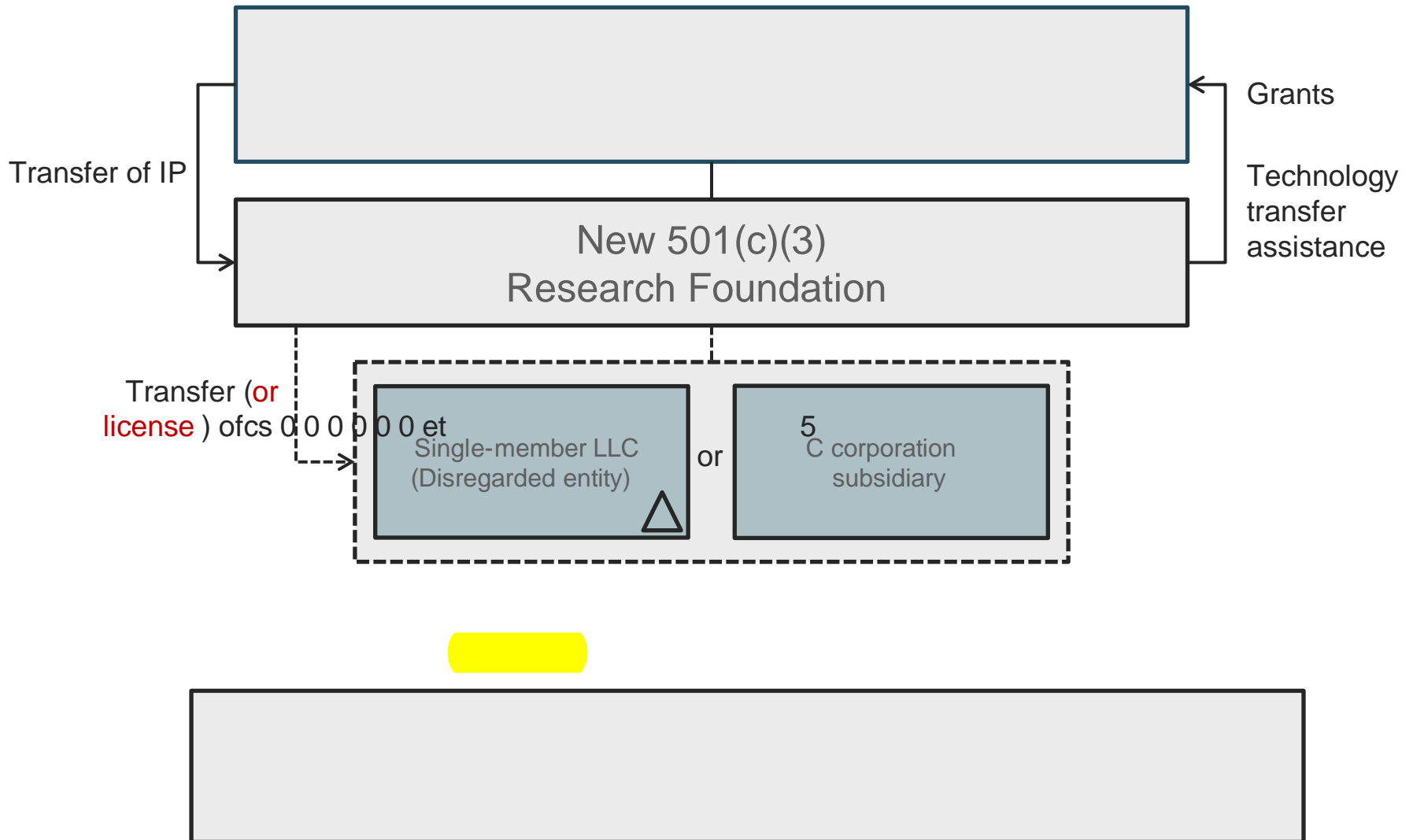


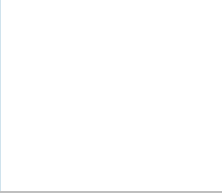
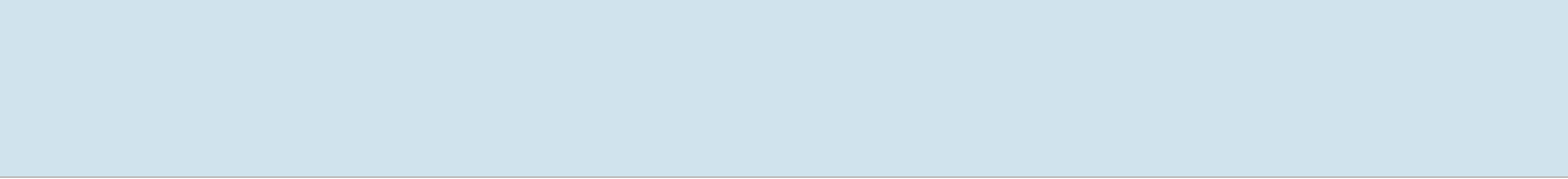
# UAF Research Foundation

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# Structure of a Research Foundation





# UAF RF and Type I SO Status

## *f* Types of supporting organizations

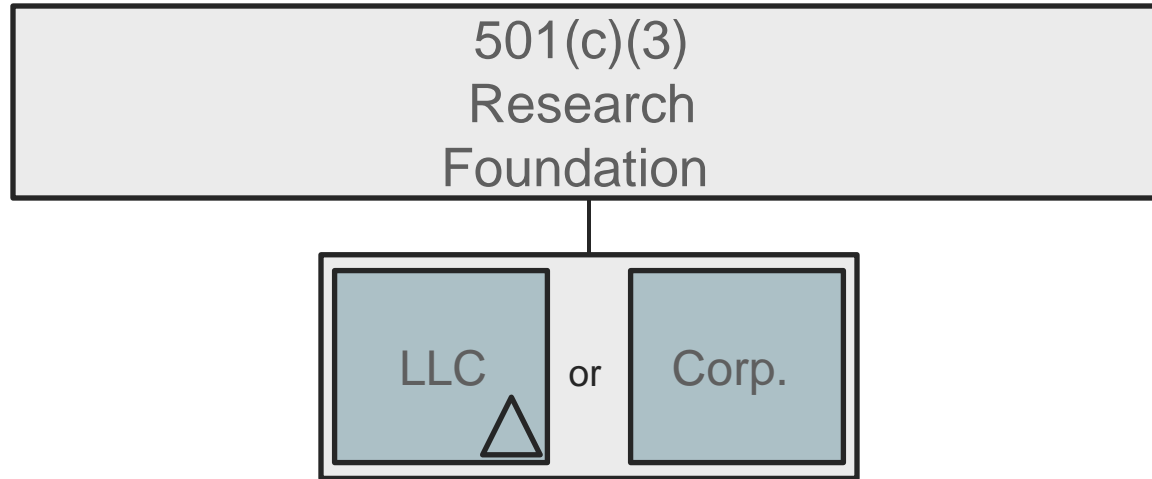
- “Type I” —parent -subsidiary relationship —is recommended for UAF RF
- “Type II” (sibling relationship) and “Type III” (no formal relationship) are not recommended

## *f* Two options for qualifying for Type I status :

- Make UA/UAF the sole member of UAF RF



# Structuring a Subsidiary of UAF RF



Two ways to organize a subsidiary:

*f* **LLC**, with research foundation as sole member

*f* **Corporation** , with research foundation as sole shareholder

# Single-member LLC

*f* A single-member LLC is a “ **disregarded entity** ” under federal tax law

- The IRS considers all activities and income of the disregarded entity to be the activities and income of the member.
- There are **no tax consequences** (good or bad) for a 501(c)(3) organization from forming a single -member LLC.
- **Royalty income excluded from UBTI if properly structured or not UBTI if exempt function income, otherwise taxable UBTI**

*f* The main benefit of the single-member LLC: **liability protection**

# Unrelated Business Income Tax (UBIT)

*f* When “tax -exempt” organizations must pay income tax

*f* What is “unrelated business?”

- Trade or business
- Regularly carried on
- Not substantially related to exempt purposes

*f* Most income from unrelated business is taxable at regular graduated corporate rates

*f* Most royalties and dividends are excluded from UBIT

- But royalties are taxed if paid by a fully controlled subsidiary

# C corporation subsidiary

*f* Net income of the C corporation is taxable.

Tax will be paid one way or another.

- If it is distributed to UAF RF as **royalties**, then the C corporation can deduct it, but UAF RF likely has to pay UBIT.
- If it is distributed as **dividends**, then the C corporation will pay tax on it, but it will not be taxable to UAF RF.

*f* Reasons to use C corporation despite tax liability:

- Protect UAF RF's exempt status from non-exempt activity
  - Non-exempt activity (providing services or office space, etc.) will likely incur UBIT liability if conducted directly by UAF RF, in any case
- Allow researchers to take equity stake
- Liability protection (as with an LLC)



# Disadvantages of a Subsidiary

## *f* Additional administrative burden and expense

- Operating agreement between UAF RF and subsidiary
- Separate board of directors that must meet regularly (Corporation only)
- Additional obligations for UAF RF as set forth in LLC agreement, such as member meetings (LLC only)
- Maintain separate books and records
- Account for all employee staff time spent on behalf of UAF RF and on behalf of the subsidiary
- Do not commingle UAF RF and subsidiary funds

Recommendations  $f$

