

AIA Minnesota Joint Venture Policy

Tax-exempt organizations and taxable entities frequently team up to take advantage of available business opportunities. These interactions are increasingly common, but joint ventures with taxable entities may raise some concerns. A tax-exempt organization that operates substantially outside its express tax-exempt purposes risks a revocation of its tax-exempt status. Even if unrelated activities are carefully limited, revenue generated from a joint venture may still constitute unrelated business income subject to federal income tax (this tax is often referred to as “UBIT”). These concerns may also extend to a joint venture among tax-exempt organizations. Therefore, every joint venture should be governed by a written agreement, reviewed by counsel, and designed to protect AIA Minnesota’s tax-exempt status.

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In compliance with Internal Revenue Service guidelines for approval and management of any joint venture entered into by AIA Minnesota, the Board of Directors adopts the following guidelines.

Activities Subject to this Policy

For the purposes of this policy, the term “Joint Venture” is defined as any arrangement, including contractual or more formal arrangements undertaken through a limited liability company, partnership, or other entity, through which AIA Minnesota and another entity jointly undertake any activity or business venture, or otherwise agree to joint ownership of any asset. A Joint Venture may include both taxable and tax-exempt activities.

Approval and Management of Joint Activities

Before making any decision to participate in a Joint Venture, AIA Minnesota will ensure that the Joint Venture furthers AIA Minnesota’s exempt purposes and will negotiate at arm’s length contractual and other terms of participation that safeguard AIA Minnesota’s exemption from federal income tax. Such terms shall be in writing in the operating agreement of the Joint Venture and shall include the following minimum requirements:

- With respect to any whole joint venture (that is, a joint venture in which AIA Minnesota contributes substantially *all* of its assets to the enterprise), AIA Minnesota exerts control over the Joint Venture through fifty-one percent (51%) or more of the voting rights and/or veto power;
- With respect to any ancillary joint venture (that is, a joint venture to which a portion of AIA Minnesota’s resources are contributed), AIA Minnesota would, at a minimum, maintain sole control over the tax-exempt aspects of the Joint Venture and would have voting and

ownership interests in the Joint Venture that are consistent with AIA Minnesota's capital contributions;

- A requirement that any subsequent contract with AIA Minnesota's partner in the Joint Venture be negotiated at arm's length and for fair market value;
- A requirement that the Joint Venture give priority to AIA Minnesota's tax-exempt purposes over maximization of profit for the participants of the Joint Venture; and
- A prohibition on activities that would jeopardize AIA Minnesota's tax-exempt status.

Where there is any question as to whether a particular Joint Venture may pose a risk to AIA Minnesota's tax-exempt status, a decision to enter into such Joint Venture will be made only in consultation with legal and/or tax counsel.