



# Legal Considerations for When a Nonprofit Uses IP Created by its Founder

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To provide free legal assistance to community-based nonprofits that serve low-income or disadvantaged individuals.

We match eligible organizations with volunteer lawyers from the leading corporations and law firms in Atlanta who can assist nonprofits with their business law matters.

## Client Criteria & Other Information

- In order to be a client of Pro Bono Partnership of Atlanta, an organization must:
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  - ✓ Be located in or serve the greater Atlanta area.
  - ✓ Serve low-income or disadvantaged individuals.
  - ✓ Be unable to afford legal services.
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- We host free monthly webinars on legal topics for nonprofits
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## Goals

- General understanding of types of IP most nonprofits deal with
- Spot issues to address regarding “founder IP”
- Best practices to avoid problems
- Realize when you need help
- Stay on the right side of tax law

## Agenda

- Overview of basic IP concepts
- Tax considerations for nonprofits
- Common IP created and used by nonprofits
- Issues re “founder IP”
- Best practices
- Other IP considerations

## Basic IP Concepts

- Copyrights
- Trademarks/service marks
- Patents
- Trade secrets
- Right of publicity and name/likeness





## Basic IP Concepts - Copyrights

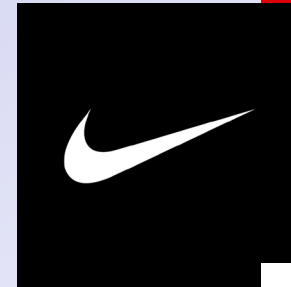
- Protects original expression of an idea, but not the idea itself
- Low level of originality or creativity is required
- A copyright exists from the time an original work of authorship is put in a tangible form of expression
- Examples:
  - ✓ Written works - books, manuals, and even short writings
  - ✓ Visual works – artwork, photos
  - ✓ Musical works and sound recordings
  - ✓ Computer programs and software
- Federal registration but no examination – easy to get
- Common IP issue for nonprofits





## Basic IP Concepts - Trademarks

- Word or symbol that identifies the source, sponsorship, or affiliation of a product or service
- Trademark functions:
  - ✓ Designates a unique source
  - ✓ Represents uniform level of quality
  - ✓ Embodies “goodwill” or “reputation” of a brand or business
- Infringement test: “likely to cause confusion” with another more senior trademark
- Federal registration with application and examination process (not automatic)
- Nonprofits often deal with trademark or service mark issues



## Basic IP Concepts - Patents

- Protects inventions – machines or methods
- Invention must be new, useful, and nonobvious in light of what's already known to people skilled in the relevant area
- Gives right to exclude others from making, using, or selling invention
- Limited time (20 years) and must publicly disclose invention
- Federal application and examination procedure – rigorous process
- Nonprofits rarely own or deal with patents



## Basic IP Concepts – Trade Secrets

- Confidential/proprietary information developed or acquired
- Very broad definition
  - ✓ Information has actual or potential economic value by virtue of not being generally known
  - ✓ Has value to others who cannot legitimately obtain the information
  - ✓ Is subject to reasonable efforts to maintain its secrecy
- Protectable for as long as the information is secret and retains value
- Examples:
  - ✓ Coca-Cola formula
  - ✓ Recipes
  - ✓ Client lists
- No registration or application process
- Most nonprofits have trade secrets (but many don't know it!)



## Basic IP Concepts – Right of Publicity

- Right of person to profit from his/her name, likeness, or other indicia of personal identity
- Protects against commercial use of person's name, likeness, or image without authorization
- Examples
  - ✓ MLK
  - ✓ Elvis
- Rights are based on state laws, which vary
- Nonprofits often encounter right of publicity issues



## Examples of Common IP for Nonprofits

- Books, manuals, and other written works
- Artwork
- Photos and videos
- Trademarks and slogans
- Social media
- Fundraising or member info
- Name/likeness of individuals



## Writing a Book - Hypothetical

- Nonprofit A's founder writes a book about her life's journey and experiences including how she overcame homelessness and a lack of education and includes stories of helping others to overcome these issues as part of her work through Nonprofit A.
- Founder wants full copyright ownership of the book and all proceeds but does want to donate some of the proceeds to Nonprofit A.

## IRS: No Private Inurement

- Arrangements/agreements with founders, officers, directors, substantial donors or family members thereof
  - ✓ Insiders prohibited from receiving benefits greater than she or he provides in return (e.g., excessive compensation, loans at below market rates, etc.)
  - ✓ Insiders = founders, officers, directors, anyone with control/influence over organization during the past 5 years, and certain family members and affiliated companies
  - ✓ Examples: excessive compensation, organization enters into a contract where pay more than value received in return, using or taking organizational property for personal use



## **IRS: No Private Inurement** (cont.)

- Violations = Loss of Exemption or  
“Intermediate Sanctions (IS)”
  - ✓ Excess Benefit Transaction involving an insider
  - ✓ Organization entering into a contract where pay more than value received in return?
  - ✓ Rebuttable presumption of reasonableness under IS
  - ✓ Penalties: Excess amount returned; Excise taxes imposed:
    - Insider: 25% of excess benefit amount if returned within fiscal year provided; 200% tax thereafter
    - Organizational Managers: 10% of excess benefit amount

## Speakers Bureau - Hypothetical

Executive Director Joan works for Healthy Living Nonprofit. Joan is an RN who spent 10 years specializing in nutrition and advising patients how to live healthier lives. As Executive Director of Healthy Living for the past 5 years, Joan has developed many innovative programs to teach parents and children how to live healthier lives and has even been recognized for these programs by the President of the United States.

Joan is approached by a Speakers Bureau to contract with the Bureau for speaking engagements. Joan's salary from Healthy Living is not much as she would rather help the organization thrive, so this contract would really help her out. Can Joan sign the contract and take the money from the speaking engagements?

## Common Problems

- How to deal with IP created by founder before organizing the nonprofit?
- How to deal with IP created or modified by founder while nonprofit is in early stages and lacks formal IP policies and agreements?

## Key Questions

- Who owns the copyright in a work?
  - ✓ Generally, the copyright is owned by the creator of the work
  - ✓ But if the work is created by an employee in the course of her employment, the employer usually owns the copyright
  - ✓ Independent contractor or third party – need written agreement
    - Work made for hire (only for certain kinds of works)
    - Assignment of copyright ownership to nonprofit that commissioned and paid for the work
- Did founder create the work as a nonprofit employee or separately?
- Is there an agreement transferring ownership of the work?

## Key Questions

- Did founder create the work or appropriate it from someone else?
  - ✓ Potential for claim of ownership or infringement from third party
- Fair use – potential defense to copyright infringement
  - ✓ Multi-factor balancing test – very unpredictable outcomes
  - ✓ Just because you are a nonprofit does not mean “fair use”
- Some or all of material is in the “public domain”
  - ✓ Means nonprofit does not have exclusive rights
  - ✓ Cannot prevent other party from copying or using

## Key Questions

- What about revisions or enhancements to the work?
- Who owns trade secret information regarding nonprofit's processes, donor/member info?
- Use of founder's name, likeness, or image?



## Importance of Licenses

- Exclusive license (no one else can use)
- Non-exclusive license to use (but so can others)
- Implied license to use if nonprofit paid for or commissioned work
- Be aware of restrictions imposed for work created from grant funding



## Best Practices

- IP audit to identify IP assets of all kinds
  - ✓ Identify and catalog assets
  - ✓ Document creation and ownership
  - ✓ Process for future protection
- Secure federal or state registrations if possible
- Written assignment agreements where necessary
- Agreements with employees, volunteers re ownership of IP rights created during with work for the nonprofit
- Written licenses for any third-party works or content

## Other IP Considerations for Nonprofits

- Commissioning work from third parties – make sure to get written copyright assignment
- Use of names/likenesses – get consents and releases
- Beware of using internet content
  - ✓ Just because it's on the web does not mean you can use it
  - ✓ Just because you are a nonprofit does not mean fair use
- Be careful about volunteer-created works or content

## **“Take Aways”**

- Identify all the IP the nonprofit creates and uses
- Get agreements with founder, employees, and volunteers to confirm ownership and right to use
- Avoid “private inurement” problem with IRS

**Questions?**

## For More Information

If you would like more information about the services of Pro Bono Partnership of Atlanta, contact us at:

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