

**THE L3C: LOW-PROFIT LIMITED LIABILITY COMPANY  
RESEARCH BRIEF  
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**THE L3C DESIGNATION**

The L3C, or Low-Profit Limited Liability Company, is a new type of corporate designation that is a cross between a nonprofit and for-profit corporation. The L3C was enacted by the Vermont legislature in May 2008 and builds upon the existing Limited Liability Company (LLC) structure.

- **The L3C is a specific type of LLC.** L3Cs are like LLCs in that they have the liability protection of a corporation, the flexibility of a partnership and the ability to be sold in pieces. Unlike the basic LLC, however, L3Cs are specifically formed to further a socially beneficial mission and can qualify as a program related investment, or PRI. As a LLC, L3Cs are not tax-exempt.
- **Organizing as a L3C is similar to organizing as a LLC.** According to the Vermont legislation, organizing as a L3C is the same as organizing as a LLC, “except that the L3C designation must be indicated when the articles of organization are filed and the name must include the words ‘L3C.’”<sup>1</sup>

**BRIDGING THE GAP: “THE FOR-PROFIT WITH A NONPROFIT SOUL”**

The L3C designation is meant to bridge the gap between the capabilities of nonprofit and for-profit corporations. At its core, the L3C is a profit-generating entity with a social mission as its primary objective.

- **L3Cs create a market for investment in financially risky, but socially beneficial activities.** A L3C organization will be able to access capital in situations where the profit potential of a business is too low to warrant the risk of investment by traditional investors. The corresponding return on investment profile and private sector resources available for each type of organization are outlined below:

| Type of Corporation                                    | Organizational Purpose(s)     | Potential Rate of Financial Return on Investment (ROI) | Private Sector Resources   |
|--|-------------------------------|--|--|
| Limited Liability Company (LLC)                        | Financial                     | 5% or greater  | Market driven; making money and building wealth  |
| Low-Profit Limited Liability Company (L3C)             | Financial and mission-related | Between 0% and 5%                                      | Philanthropic source invests with a lower than market rate of return; philanthropic investment lowers the risk and raises potential ROI for subsequent investors |
| Nonprofit (501(c)(3) or other tax-exempt organization) | Mission-related               | 0% to negative 100%                                    | Market incentives inadequate or non-existent   |

*Source: Americans for Community Development*

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<sup>1</sup> Poulin, Betty. “Low-Profit Limited Liability Company.” Vermont Secretary of State, Corporations Division, July 2008. [http://www.sec.state.vt.us/corps/dobiz/lc/lc\\_l3c.htm](http://www.sec.state.vt.us/corps/dobiz/lc/lc_l3c.htm)

## CANDIDATES FOR THE L3C DESIGNATION

In addition to having a socially beneficial mission, strong candidates for the L3C structure are organizations that:

- **Have cash flow.** Since investors will be seeking a return on their investment in a L3C, the organization must consistently generate revenue.
- **Are entrepreneurial in finding ways to generate revenue.** Organizations that are willing to supplement their current services with additional revenue-generating activities will be more attractive to investors.<sup>2</sup>

Existing nonprofits can utilize the L3C structure in two ways: reincorporating as a L3C or establishing a subsidiary. If a nonprofit generates enough earned income to qualify as “low profit,” it could reincorporate as a stand-alone L3C. However, the most likely scenario for existing nonprofits will be establishing subsidiaries to conduct qualifying activities.

## CURRENT L3C ACTIVITIES

With the enactment of the Vermont legislation, a L3C can incorporate in Vermont, but headquarter or operate in another state or country. Due to the newness of the enacted legislation, L3Cs and their potential investors are still in the planning phases. Current L3C activities include:

- **Interest in the structure is spreading to other states.** The states of North Carolina, Oregon, Georgia, Michigan and Minnesota are all interested in and/or working to adopt L3C legislation.
- **Eleven L3Cs currently exist.** Robert Lang, who is spearheading the L3C effort, and his colleagues have established “L3C Advisors L3C” to help organizations adopt this structure. Eleven other L3Cs have been established but, at this time, L3C Advisors L3C is the most active organization.
- **Foundations are interested in investing in L3Cs, but none have currently done so.** According to Robert Lang, a handful of foundations have been interested in funding L3Cs, but have not yet committed any funds.
- **The Council on Foundations has put seeking a private letter ruling on L3Cs on hold.** When the L3C legislation was first enacted, the Council on Foundations contemplated approaching the Internal Revenue Service (IRS) about a blanket private letter ruling on L3Cs qualifying for PRI. Since the L3C legislation was written in such a way as to comply with all PRI regulations, the COF has decided to see how activity surrounding the L3C develops before approaching the IRS with any requests. This issue will be reexamined by the COF in January of 2009.

### SPEARHEADING THE L3C INITIATIVE

- **Robert M. Lang, Jr.:** President and CEO, The Mary Elizabeth & Gordon B. Mannweiler Foundation Inc.
- **Marc Owens:** Partner, Caplin & Drysdale; Former director of the Internal Revenue Service's Exempt Organizations Division

The L3C structure is characterized by its flexibility, and organizations and investors are developing creative models to capitalize on the L3C opportunity. Some specific examples of L3Cs that are in the planning phases include:

- **The National Cancer Coalition.** The National Cancer Coalition will operate a clinic offering low-cost early-detection and cancer treatment services for women in Paraguay, generating revenue from patient fees while providing health services to a population in need.

<sup>2</sup> Lang, Robert. Community Wealth Ventures interview. July 18, 2008.

- **The Montana Food Bank.** The MT Food Bank provides farmers with access to its food processing plant to process and deliver fresh, local food to Montana grocery stores. The food processing program is also a training program for Montana prisoners.

More general models include health clinics, charter schools, music venues and museums, among others.<sup>3</sup>

## IMPLICATIONS FOR FOUNDATIONS

The opportunities for foundations with the L3C center on PRIs and the opportunity to invest in organizations that have both financial and social returns. For a foundation, the L3C provides several positive benefits:

- **Reduces the costs of PRIs.** Since the L3C legislation in Vermont was written in such a way as to comply with all PRI regulations, the structure eliminates the need for private letter rulings or legal opinions for foundation investment in L3Cs.
- **Attracts outside investors.** Investment in a L3C can be layered, delivering returns according to the needs of the investor (low or no return to a foundation, greater returns for a market-driven investor). Foundations will be able to serve as early-stage investors by taking on more financial risk, in exchange for a high social return. Further, early foundation investment will pave the way for more market-driven investment.
- **Satisfies a foundation's philanthropic mandate.** Investment in a L3C would allow a foundation to invest in an organization that is meeting community needs, while providing an opportunity for a foundation to generate a modest return. To be successful at investing in a L3C opportunity will most likely require close coordination between the program staff and the foundation's investment officers.

## FOR FURTHER READING

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<sup>3</sup> Lang, Robert. Community Wealth Ventures interview. July 18, 2008.

