



## What is the L<sup>3</sup>C?

The creator of the L<sup>3</sup>C, Robert Lang, calls it the “for profit with the nonprofit soul.” It operates in the space between the nonprofit and the pure for profit organization to perform a social mission. A type of LLC, the L<sup>3</sup>C (Low-Profit Limited Liability Company), is able to bring together a mix of individuals, foundations, trusts, Donor Advised Funds, endowments, pension plans, corporations, nonprofits, governmental entities and others in order to achieve socially beneficial objectives while operating according to for-profit metrics. Just like any LLC, an L<sup>3</sup>C has the liability protection of a corporation and the flexibility of a partnership.

## WHAT IS THE L<sup>3</sup>C?

The L<sup>3</sup>C (Low-profit Limited Liability Company) is not a nonprofit. It is a for profit venture that under its state charter must have a primary goal of performing a socially beneficial purpose not maximizing income. Any activity which fits within the IRS definition of charitable and has a revenue stream, which with adequate capitalization, can achieve a revenue level that exceeds costs, is a potential L<sup>3</sup>C. For too long the world has been divided into for profits and nonprofits while ignoring the possibilities of a special class of for profits that might not earn enough to attract market rate capitalization but which, with adequate capital at an affordable cost, can be self sustaining while performing a valuable service. This group, the L<sup>3</sup>Cs have a distinct advantage since they are able to function without an on going fund raising program and, in some cases, even bring income into a nonprofit.

UBIT laws and charitable regulations often make it difficult for non profits to maximize the possibilities from their revenue streams. The legislation was specifically written to dovetail with the federal IRS regulations relevant to Program Related Investments (PRIs) by foundations. These regulations also essentially define the IRS position as to what constitutes a charitable activity. The L<sup>3</sup>C makes it easier for foundations and others to determine the appropriateness of a possible PRI investment without the need for an IRS private letter ruling. As a form of LLC, it also facilitates tranching (layered) investing with the PRI usually taking first risk position at a low return thereby taking much of the risk out of the venture for other investors in more secure tranches. The rest of the investment levels become more attractive to commercial investment by improving the credit rating and thereby lowering the blended cost of capital. It is particularly favorable to equity investment. Because the foundations take the highest risk at little or no return, it essentially turns the venture capital model on its head and gives many social enterprises a low enough cost of capital that they are able to be self sustainable.

It is the perfect vehicle for economic development, medical research, operation of social service agencies, museums, concert venues, housing and any other activity with both a charitable purpose and a revenue stream. It can be used to consolidate a group of activities, some of which will earn significant revenue, with some that will earn very little and/or even lose significant amounts of money, and use the total revenue to keep the overall L<sup>3</sup>C revenue stream positive and achieve the social benefits because of elimination of ROI focus.

The L<sup>3</sup>C is now legal in all 50 states as a result of legislation signed into law in 9 states and two Indian tribes.

Probably more importantly than anything else, the L<sup>3</sup>C is a brand which signifies to the world that it is a for profit that puts mission before profit yet is self sustaining. As a brand it makes these concepts easy to grasp. The L<sup>3</sup>C laws also create a template for the structure and are a protection against possible misuse by owners or management of the L<sup>3</sup>C.

The L<sup>3</sup>C was built on the LLC structure in order to provide the flexibility of membership and organization needed to cover a wide variety of social enterprise situations while including the liability protection of a corporation.

**Note: the L<sup>3</sup>C is a legal construct and like all legal constructs may need the trained eye of an attorney, accountant and/or qualified consultant in order to achieve the objectives you wish to obtain and to protect you from making unforeseen errors.**

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