Understanding the Organizational Objectives of the Low-Profit Limited Liability Company (L3C)

Social Purpose Investing by philanthropists is increasingly displacing charity as a preferable strategy to achieving sustainable social innovation for positive social change. One procedure to facilitate this opportunity is based upon a little known but highly important feature in the Internal Revenue Code, “Program Related Investments”!

Foundations are required to distribute at least five percent of their assets to social programs every year, all or part of which can be designated as socially beneficial "program-related investments" as long as they clearly relate to the foundation's tax-exempt activities, and would not have been made if profit were the sole reason for the investment. And therein is the opportunity for the introduction of the L3C!

The "low-profit, limited liability company" (L3C) is a new, hybrid business form which can receive program-related investments by foundations to facilitate “for –profit” ventures with modest financial prospects, but with the possibility of making significant social impacts!

An L3C can have different classes of investors including individuals, nonprofits, for-profits, and even government agencies, all however agreeing to accept below-market dividends. Thus for them, the “low profit” indication in the L3C is strictly focused on their investment return, not on the income of the business venture which could be derived from income producing activities related to:

- Environmental Protection Initiatives including land and water restoration;
- Humanitarian Welfare Services;
- Housing for the elderly and low income families;
- Health related services;
- Food production, processing and distribution services;
- Education for employment preparation activities; etc.

Key points to understanding the organization of the L3C:

The L3C, similar to an LLC, is investor owned and managed, but it has 2 distinct purposes unlike the LLC. The first is its “social objective” and the second is its “business objective”.

Registration is offered by 3 Native American Tribes: Navajo, Crow, and Sioux, and currently, 9 U.S. States and Puerto Rico.

Investors earn yearly dividends on company profit, as an alternative to a one-time tax deductible receipt for a contribution made to a charity.

It conducts its business as a Partnership based on its Operational Agreement.