



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

The L<sup>3</sup>C\* 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. The legislation was specifically written to dovetail with the federal IRS regulations relevant to Program Related Investments (PRIs) by foundations. The L<sup>3</sup>C facilitates PRI investment without the need for IRS private letter rulings. It also facilitates tranching investing with the PRI usually taking first risk position thereby taking much of the risk out of the venture for other investors in lower tranches. The rest of the investment levels or tranches become more attractive to commercial investment by improving the credit rating and thereby lowering the 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.

The L<sup>3</sup>C is now legal in all 50 states as a result of legislation signed into law in Vermont in April 2008, Michigan in Jan. 2009, the Crow Indian Nation in Jan. 2009, Wyoming in Feb. 2009 and Utah in March 2009. A Vermont, Wyoming, Utah, or Michigan L<sup>3</sup>C, like a Delaware corporation, can be used anywhere. The L<sup>3</sup>C is awaiting the governor's signature in North Dakota and pending in some form in Illinois, Missouri, Arkansas, Montana, Oregon, Washington State, North Carolina, Massachusetts, Tennessee, California, Colorado, and Georgia.

Although private letter rulings or other federal intervention are not required to use an L<sup>3</sup>C, we see the potential benefit of federal legislation to enhance the value, ease of use, and flexibility of the L<sup>3</sup>C. To that end, we have introduced *The Program-Related Promotion Act of 2008*, which was discussed with Senate Finance Committee staff on Dec. 18, 2008 and with the Joint Committee on Taxation staff on Jan. 15, 2009. The objective of the proposed legislation is to facilitate PRIs by private foundations, in part by amending section 4944(c) of the Code to provide a process by which an entity seeking to receive PRIs can receive a determination

that below-market foundation investments in such entity will qualify as PRIs. For purposes of the determination process, entities organized under state or tribal law as L<sup>3</sup>Cs, would be entitled to a rebuttable presumption that below-market foundation investments qualify as PRIs.

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. It also makes it very easy for lawyers and laymen alike to grasp since it does not create a new structure but merely amends the definition section of the llc acts in most states. That leaves 15+ years of legislation and litigation that is behind the llc intact behind the L<sup>3</sup>C.

Probably more importantly than anything else, the L<sup>3</sup>C is a brand which stands for all this and more and hopefully as a brand will make the concepts easy to grasp and thereby frequently used.

The L<sup>3</sup>C was created by Robert Lang, CEO of the Mary Elizabeth & Gordon B. Mannweiler Foundation (with many years of corporate and nonprofit management experience) and carefully refined with the assistance of Marcus Owens, a partner in Caplin & Drysdale, the preeminent Washington DC tax law firm, and a former director of the exempt division of the IRS for 10 years; Arthur Wood, the Director of Social Financial Services for Ashoka, with over 20 years of financial experience at upper level management positions with leading UK financial institutions; and many other individuals and organizations whose assistance we value greatly.

\*low profit limited liability company

L<sup>3</sup>C Advisors L<sup>3</sup>C is the first L<sup>3</sup>C created in the world and was organized for the purpose of helping others to organize and finance L<sup>3</sup>Cs.

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