



## North Carolina Law Life

### L3C and B-Corps

**By: Donna Ray Chmura. *This was posted Friday, March 4th, 2011***

Anyone who is at all active in the Triangle business community knows we are a breeding ground for [social enterprise](#) – companies that are formed to achieve a social purpose as well as make a living for the founders. Social entrepreneurs have two cutting edge resources to available to them in North Carolina — the L3C and the B corporation. I was quoted today in an article in the [Triangle Business Journal](#) about low-profit limited liability companies, known as L3Cs.

L3Cs are limited liability companies that have both a profit-purpose and a charitable or education purpose. They were approved by the legislature on August 1, 2010. About a dozen have been formed to date here. They are intended to attract investment and funding sources that may not be available to traditional for-profit entities.

Proponents would like the L3C to become the entity of choice for “[program-related investments](#)” (known also as PRI) from private foundations. Private foundations are required by the IRS to distribute a percentage of their funds each year, either through grants, loans or other investments for mission-related activities (i.e., program-related investments). Few private foundations make loans or investments because it is cumbersome and regulation-heavy. It is easier to give outright grants. Because the L3C authorizing statutes contain certain PRI language from the Internal Revenue Code, proponents hope private foundations will begin considering funding mixed use for-profit/charitable projects by investing in L3Cs. They are lobbying to get federal tax recognition for the PRI investments in L3Cs.

Another cutting edge social enterprise concept is the B-Corporation (“B” standing for Benefit). Currently, B-corporations are not recognized via a specific statute in North Carolina, but a [bill](#) has been introduced in the North Carolina senate to recognize benefit corporations. Companies, however, can voluntarily be certified as B-corporations by [B Labs](#), a non-profit organization. The impact of being a “B Corp” now is like having a “[Good Housekeeping Seal of Approval](#)” — it is a certification from an independent third-party acknowledging your company’s commitment to serving society and the environment. B Corps do not receive any specific tax breaks at the state or national level.

Current corporation law is arguably geared toward maximizing profits for shareholders. The L3C statute and proposed Benefit Corporation statutes are geared at making it acceptable legally for a company to focus on a

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social goal, perhaps to the detriment of the profit motive. The L3C [statute](#), for example, clearly states that the company should operate so that “no significant purpose of the company is the production of income or the appreciation of property.” It allows the owner to focus on meeting the social purpose without having to focus exclusively on return on investment. The company is in no way prohibited from being profitable; it should not be the main focus.

It is thrilling as a lawyer to be involved at the inception of a new entity — particularly one that will help people “do well by doing good.”

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