

Steans advances new socially responsible for-profit organizations

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By: Steans Staff



SPRINGFIELD, IL - State Senator Heather Steans (D-Chicago) was pleased to see Senate Bill 239 unanimously pass out of Senate this week. With a history of working with nonprofits and foundations in underserved communities, Senator Steans looks forward to the opportunities Senate Bill 239 will provide with the establishment of low-profit, limited liability companies (L3C).

The low-profit, limited liability company is a hybrid of a nonprofit and for-profit organization. More specifically, it is a new type of limited liability company (LLC) designed to attract private investments and philanthropic capital in ventures designed to provide a social benefit. Unlike a standard LLC, the L3C has an explicit primary charitable mission and only a secondary profit concern. But unlike a charity, the L3C is free to distribute the profits, after taxes, to owners or investors.

“L3Cs can revitalize Illinois’ economy and put certain industries back on their feet,” explained Senator Steans. “Yes, an L3C is partially constructed as a for-profit venture, but it will be a for-profit company that will serve a public purpose.”

A principal advantage of the L3C is its ability to attract program related investments (PRI), which is an investment with a socially beneficial purpose that is consistent with and furthers a foundation’s mission. Because foundations can only directly invest in for-profit ventures qualified as PRIs, many foundations refrain from investing in for-profit ventures due to the uncertainty of whether they would qualify as PRIs. An L3C’s operating agreement minimizes this problem by specifically outlining its respective PRI-qualified purpose in being formed. This makes it easier for foundations to identify social-purpose businesses and ensures that their tax exemptions remain secure.

“Time and again I have seen companies pass up opportunities to invest in LLCs,” said Senator Steans. “It is not for want, but due to an inability to establish a concrete tax exemption for the plausible investment endeavor.”

In the past, there have been for-profit corporations that focused on making money and there were not-for-profits which focused on a social mission. While socially responsible and mission driven for-profits are common, most corporations are only measured by their return on investment. Illinois’ free enterprise structure and tax system naturally require that the shareholder benefits be maximized. In an L3C, the social mission drives the decisions of the corporation, but profit and return on investment remain objectives. L3Cs are willing to accept a higher risk on investments and settle for a

lower profit if necessary to further the social mission but they continue to operate with all the controls of a for-profit business.

Chicago attorney and financial advisor Marc J. Lane, the President of the Chicago Chapter of Social Enterprise Alliance, predicts that "L3Cs will leverage foundations' program-related investments to access trillions of dollars of market-driven capital for ventures with modest financial prospects, but the possibility of major social impact."