

Getting Started

This section covers social purpose entities that function as alternatives to 501(c)(3). The next section of this guide reviews social purpose entities that function as alternatives to 501(c)(3) nonprofit corporations by incorporating a social mission into the organization's structure. These entities can be distinguished by how each values, accrues, and uses its profits as compared to the importance the entity gives its social purpose.

Any company can have a social purpose, but problems can arise when a company wants to put that social purpose above making profits. The most common business entities—corporations and Limited Liability Companies (LLCs)—are not structured to fully incorporate social purposes. Corporations value profits above all else. Courts protect corporate shareholders' investments with case law enshrining profit maximization as the business's ultimate and most important purpose.

The Limited Liability Company (LLC) business structure is used by for-profit companies and is more flexible in its governance than corporations. In fact, LLC member-owners could agree to add a social purpose to their operating agreement. However, the shortcoming of the LLC for the social entrepreneur is that the social purpose will not be integrated into the business structure itself. This means that at any time, if all member-owners agree, the operating agreement could be changed and the social purpose removed. Furthermore, there is no assurance that a court would uphold the pursuit of social purposes over other business goals, such as making a profit.

This guide focuses on business structures that are created to highlight and memorialize the social purpose; the alternatives to nonprofits we address below are all permanently social purpose organizations. These options fall between these two opposing structures, and each has a unique way of managing the relationship between profits and social purposes.

- Benefit corporations (formed with the state)
- B Corporation certification for sole proprietorship, LLC, or corporation

their L3C. Experts have expressed cynicism about the effectiveness of the L3C legislation to increase private foundation investments.

Part of the ongoing problem is a lack of clarity in the tax mechanics. Right now, the foundation needs to seek a private letter ruling from the IRS if it wants to proceed confidently, knowing that the L3C meets the requirements of a PRI. Foundations and L3C advocates have lobbied for an IRS ruling or federal legislation that would make L3C qualifications for PRIs clear, but as of yet, this has been unsuccessful. **Until there is more clarity in the law, there will likely still be hesitancy in contributing PRIs to L3Cs.**

Nonprofits and Alternatives: At-A-Glance Comparison

Take some time to consider the 3 entity options in the table below to see which might be the best fit for your farm's goals. You'll notice B Corp certification isn't listed, and that's because it's not an entity—it's a certification for benefit corporations and other for-profit businesses.

	Nonprofit, Charitable, 501(c)3	Benefit Corporations	L3Cs (Low Profit LLCs)
Volunteers Allowed?	Yes	No	No
Tax-Deductible Donations Accepted?	Yes	No	No
Foundation Funding Accepted?	Yes	No	Yes, but only in the limited form of Program Related Investment (and with substantial barriers relative to the IRS currently.)
File Schedule F?	No	Yes	Yes
Is the entity expected to provide a return on investment?	No	Yes	Yes, but there is an understanding the entity is low-profit, so ROI might be low.
Ability to Sell the Enterprise for Profit at the Business' End	No- must be given to another qualifying nonprofit	Yes	Yes

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Can you sell or let the owner have assets?	No	Yes	Yes
Available in all states?	Yes	No	No, but can be formed in another state and then registered as a "foreign entity" at home
Are profits taxed?	Not at the federal level; state income tax rules vary	Yes	Yes
Political or Legislative Purposes	Prohibited	Allowed	Allowed
Personal Liability Protection	Yes	Yes	Yes

Moving Forward

Now that you've learned about the alternative options to a 501(c)3 nonprofit, consider:

- **Are you called to pursue either the benefit corporation or L3C for your farm?** If so, that's great news. We wish you the best of luck as you move forward with formation.
- **If not, you may want to operate your farm as a for-profit business that does good** through donating food in your local community, bartering goods with other businesses and community members, and sponsoring charitable events in your community. In that case, read the next section for best legal practices that can boost the resilience of your business while providing potential tax benefits.
- **Alternatively, you may be reconsidering the nonprofit structure.** Be sure you understand the *Exploring Qualifications for a Nonprofit Farm* to get your bearings.