Community Interest Companies (CICs)

What is a CIC?

Community Interest Companies or CICs were born out of the realisation that Companies Limited by Guarantee (CLGs) had a structural problem when used for non-charitable organisations – the company members can amend the governing document to allow profits or assets to be used for private gain rather than a social or community purpose.

So in 2005 a new non-charitable legal structure for social enterprise and not-for-profit organisations[1] was introduced – the CIC.

> *'A Community Interest Company (CIC) is a limited company, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage.'*
>
> CIC Regulator

CIC's can be set up as a CIC CLG or a Company Limiited by Shares (CLS) and they may be public limited companies (plc's). They can also convert to being charitable companies, Charitable Incorporated Organisations andIndustruial and Provident Society's. However, they can never also be a charity, (i.e. **charitable companies cannot also be CICs**) although they may have charitable objects. Therefore the Charity Commission is not involved with CICs.

In order to have CIC registration approved, organisations must also pass the **community interest test**.This means that the organisation must be able to show that its objects are for a community purpose, and the activities it will carry out are for the benefit of the community or a section of it (this does not include political activities).

CIC's are more lightly regulated than charitable companies, however, they do have to file accounts complying with company law as well as a CIC report demonstrating the community benefit. They also have to comply with other company and CIC regulations and requirements.

CIC's are a useful vehicle for those who would like to have an organisation that is for community benefit but who may want in the future to pay the governing body. Unlike in charities, those founding a CIC will not necessarily have to make the decision between being on the governing body or being paid as a member of staff. Although this will depend on how the CIC is set up as well as what funding it may want to go for.

[1] Please note that Social Enterprise and Not-for-Profit have no legal meaning – they are ways of doing thngs, ideologies. It is the legal structure of an organisation that gives it legal meaning.

CIC Overview

1. Incorporation	Yes
2. Limited Liability	Yes – for members and directors
3. Governing document	Memorandum and Articles of Association
4. Can register as a charity	No – but can convert into a charitable company
5. Ease to set up	Similar to setting up a company + a bit extra
6. Costs	Cheap – nominal registration fee
7. Sources of finance available	Some grants, loans, equity finance (if CIC CLS), Crowdfunding etc. May be able to get grant funding but
8. Regulator	Registered with Companies House and regulated by CIC Regulator
9. Members	Yes
10. Income requirement	No
11. Converting to CIO	Yes – as long as objects charitable can convert to CIO but this is not yet available. Can also convert to an IPS.
12. Asset Lock	Yes
13. Dividends& interest	Yes but with caps
14. Tax Benefits	No

The Pros and Cons of CICs

Pros	Cons
Incorporation	No charity tax advantages – subject to corporation tax on profits and capital gains
Model constitutions available	Registration slower than for non-CIC companies – CIC regulator must be satisfied before Companies House
Easy to register, provided the community interest test is met	Cannot be a charity or charitabel company and a CIC
Easy to convert to from an existing non-charitable company	Difficult to convert from a charitable company to a CIC
Can issue shares – although subject to a dividend cap	Not eligible for stamp duty reliefs on transfer of investments or transfer of land
Can raise loans and debebtures and interest on these is subject to a cap	Cannot benefit from gift aid and other forms of tax-effective giving
Members of the governing body can be paid as long as they are reasonable payments, don't violate community interest test or the asset lock	Bequests to CICs are not exempt from inheritance tax
Lighter touch regualtion than a charitable company	Some funders may not be able to fund CICs
Reputational and trust advantage over unregulated organisations because of asset lock and regulation	Dividend and interst caps can raise complicated issues
Makes it clear the organisation is for community benefit not private gain	
If wound up the assets are preserved for community benefit rather than being distributed to members or used for other purposes outside the original intention	

The other main legal types of social enterprise

It is worth remembering that 'Social Enterprise' has no legal meaning. In fact at least 60% of all Charities would also fall under the Social Enterprise category.

'*A social or community enterprise may use almost any type of structure, either unincorporated or incorprated. Most are likely to register as a community interest company (CIC), ordinary (non-CIC) company limited by guranatee or company limited by shares, community benefit industrial and provident society or prescribed community benefit society.'* (Russell-Cooke Voluntary Sector Legal Handbook, 3rd edition)

Company Limited by Guarantee	Charity*	Industrial and Provident Society
1. Created in 1862, the majority of voluntary organisations which incorporate become private companies limited by guarantee and not having share capital. 2. Registered to Companies House, Regulated by Company Law 3. Can also register as a charity – will then be regualted by Charity Commission as well. 4. Limited liability – members guarantee to contribute a sum, normally,between £1 and £10 if the company becomes insolvent and is wound up. Personal liability is limited to this sum. 5. Easy to set up with Companies House – costs £15 to register 6. Must file accounts and report to Companies House – fine if not 7. Asset lock 8. Sources of funding: loans, Crowdfunding, trading, some grants, service delivery contracts	1. Charities were established over 400 years ago and becoming a charity is still the most widely recognised way for an organisation with a social mission to be established. 2. Regulated by the charity commission and subject to Charity Law, (Charity Law 2010)[2]Registration with the Charity Commission is peremptory for charities with an annual turnover beyond £5000. 3. Memorandum and Articles of Association 4. Board of Trustees - unpaid 5. Must meet Public Benefit Test 6. Partial or full tax VAT exemption 7. Asset lock 8. Can trade for Primary Purpose and up to £50,000 or 25% of income on non-primary purpose trading 9. Sources of finance: grants, service delivery contracts, loans, Crowdfunding, donations, legacies 10. Can incorporate	1. Less common than companies, and not available to all organisations. IPS structure is only available to genuine cooperatives and voluntary sector organisations carrying on an industry, trade or business for the benefit of the community. 2. Recent legal developments include the Co-operatives and Community Benefit Societies Act 2003 3. Community Benefit Societies have an assest lock 4. IPSs may in general conduct any legal business except that of investment for profit 5. Co-operatives - these trade for the mutual benefit of their members, and the Registrar will judge the legality of their action by reference to co-operative principles 6. Community Benefit Societies - these trade to benefit the broader community, and the Registrar will refer to charity law. Societies for the benefit of the community are granted charitable status by the taxation authority, HMRC, rather than the Charity Commission. 7.Registered (but not regulated) by the Financial Conduct Authority (FCA) 8. Advantages of incorporation but with less cumbersome legislative requirements

[2] Might have to respect other legal framework including criminal law, anti-bribery act, health and safety regulation

		9. Straightforward merger process called transfer of engagements that is not available to companies 10. Cost of registration and annual fees substantially higher than for a company 11. May be difficult to explain structure to funders. 12. Slower registration process.

*Charities can be social enterprises but is is less likely that a social enterprise would choose a charity structure if they wish to run as a social business.

Resources

- The Russell-Cooke Voluntary Sector Legal Handbook, Third Edition
- Get Legal Website www.getlegal.org.uk
- CIC Regulator http://www.bis.gov.uk/CICREGULATOR
- CIC Association http://www.cicassociation.org.uk/
- Financial Conduct Authority (FCA) http://www.fca.org.uk/firms/firm-types/mutual-societies/industrial
- Charity Commission http://www.charitycommission.gov.uk/detailed-guidance/registering-a-charity/exempt-charities-cc23/industrial-and-provident-societies/
- HMRC http://www.hmrc.gov.uk/manuals/ctmanual/ctm40505.htm
- Social Enterprise UK http://www.socialenterprise.org.uk/

Support

If you would like any support with setting up an organisation and picking a legal structure or any other issues facing your organisation, please contact the Development Team at Community Southwark: development@communitysouthwark.org or 020 7358 7020