

## Overview of incorporated legal forms

Legal Form	Typical features	Ownership, governance & constitution	Where does liability lie?	Can its owners benefit from it?	Are assets 'locked in' for community benefit?	Can it be a charity or have charitable status?
<p><b>Company Limited by Guarantee (CLG)</b></p>	<p>CLGs are the preferred vehicle for trading on a 'not for profit' basis.</p> <p>Newly formed CLGs do not have a share capital and do not benefit from the intrinsic 'for profit' framework associated with CLSs (see note on CLS below).</p>	<p>CLGs are subject to the Companies Act (CA) 2006 and are required by law to be registered with Companies House. CLGs must file and make public certain information (e.g. financial accounts, annual returns etc).</p> <p>Unless a CLG registers its own bespoke articles of association at Companies House, the model articles of association for companies limited by guarantee will apply in default.</p> <p>In accordance with the articles, directors manage the day to day business of the CLG. The members own the CLG and may be required to make a number of 'member decisions' such as amending the articles of association.</p> <p>The directors of a CLG owe a number of statutory fiduciary duties to the company including to promote the success of the CLG.</p>	<p>Members' liability limited to such amount as they undertake to contribute to the assets of the company in the event of it being wound up. This is usually in the form of a nominal guarantee (i.e. £1).</p>	<p>As a CLG has no share capital, the members of a CLG do not receive payment of dividends.</p>	<p>Not by default.</p>	<p>Yes, if it meets the criteria for being a charity.</p>

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<b>Company Limited by Shares (CLS)</b>	<p>A CLS would not generally be the vehicle of choice for a 'not for profit' organisation.</p> <p>CLSs are generally the preferred vehicle for trading exclusively for profits due to its intrinsic 'for profit' framework which enables its shareholders to receive a return on their investment (i.e. payment of dividends in respect of their shareholdings in the CLS).</p>	<p>CLSs are also regulated and subject to the provisions of the CA 2006.</p> <p>Shareholders own the company and the directors manage the day to day business of the CLS in accordance with the articles of association.</p> <p>A shareholders' agreement may also be put in place to govern the relationship between members but this is not a legal requirement.</p> <p>The directors of a CLS owe a number of statutory fiduciary duties to the company including to promote the success of the CLS.</p>	<p>Shareholders' liability is limited to amount of their shareholding.</p>	<p>Yes, shareholders may receive dividend payments or sell their shares for a profit (subject to any restrictions in the articles of association).</p>	<p>Not by default.</p>	<p>No</p>

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<p><b>Community Interest Company (CIC) (limited by guarantee or shares)</b></p>	<p>Limited liability company form developed specifically for social enterprise with 'asset lock'. A CIC is established for the specific purpose of providing a benefit to the community and it must use its income, assets and profits to fulfil this purpose.</p>	<p>CICs can take the form of CLSs or CLGs. As well as the CA 2006, CICs are also subject to the Companies (Audit, Investigations and Community Enterprise) Act 2004 (as amended) and the Community Interest Company Regulations 2005 (as amended).</p> <p>CICs are regulated by the CIC Regulator under a 'light touch' regime. The CIC Regulator decides whether a company satisfies the 'community interest test' and whether it is therefore eligible to become a CIC. The CIC Regulator has the power to investigate CICs and also has a wide range of enforcement powers.</p> <p>The directors of a CIC will owe a number of statutory fiduciary duties to the company in much the same way as these duties would be owed to a CLG or CLS.</p>	<p>Members' liability limited as for CLGs or CLSs above depending on model selected.</p>	<p>A CIC has dividend and performance interest caps which restrict the amount of money that can be taken out of a CIC for specified purposes. (Note the dividend cap would only apply to CICs with share capital and so does not apply to CICs that are CLGs).</p>	<p>Yes, this is prescribed in statute and CICs must provide for a mandatory asset lock in the articles of association.</p> <p>CICs may only transfer assets out of the CIC if the transfer is:</p> <ul style="list-style-type: none"> <li>•at market value (that is for full consideration);</li> <li>•if less than market value then the transfer is to another CIC or other asset locked body (either specified in the CIC's articles or with the consent of the Regulator);</li> <li>•otherwise made for the benefit of the community.</li> </ul> <p>CICs may adopt asset-lock rules that impose more stringent requirements in addition to the mandatory asset lock set out above.</p>	<p>No, however legislation provides for the conversion of a CIC to a charity at a later date if certain requirements are fulfilled.</p>

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<b>Registered Societies – Co-operative Societies</b>	Businesses that are run for the benefit of their members, distributing profits between their members.	Committee / officers manage the society on behalf of members. In general, the principle of 'one member, one vote' should apply.	Members' liability limited to amount of their shareholding.	<p>Yes, through trading activities with the society or increased buying power rather than as a direct result of shareholding/ membership.</p> <p>A co-operative society may pay interest or dividends on money invested, deposited with or lent to the society but these activities cannot be the main purpose or 'object' of the society's actual or intended business.</p>	Co-operative societies can put a non-statutory asset lock in their rules but it does not have the same effect as a statutory asset lock.	No
<b>Registered Societies - Community Benefit Societies</b>	Businesses that are run for the benefit of the wider community, re-investing profits in the community.	Committee / officers manage the society on behalf of members. In general, the principle of 'one member, one vote' should apply.	Members' liability limited to amount of their shareholding.	No, profits are returned to the community and so the members will not receive dividends. Interest may be paid on shares however this must not be the primary purpose.	Statutory asset locks are available to community benefit societies and the specific wording must be included in their rules. Once included, the wording cannot be removed and it will apply for the rest of the society's life.	A community benefit society cannot register as a charity with the Charity Commission but it can apply to HMRC to be recognised as an exempt charity for tax purposes.

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<b>Charitable Incorporated Organisation (CIO)</b>	First corporate structure specifically designed for charities or charitable groups that wish to be incorporated	Similar to a limited liability company but with different terminology (e.g. 'Charity trustees' rather than directors).  Charity trustees owe similar fiduciary duties as directors owe to a CLG or CLS.	Members either have no liability or liability limited to the amount they have invested in the CIO or have guaranteed upon the winding up of the CIO.	Members cannot benefit. Charity trustees are entitled to be reimbursed by the CIO any expenses incurred in the performance of their function as a charity trustee.  A charity trustee can only lawfully receive payment or benefit if an express provision in the CIO's constitution authorises it.	Yes	CIOs only register with the Charity Commission.