

Quick Guide to Company, Society and Charity Legal Forms

For charitable organisations, social enterprises, societies and businesses



(NB: this “Quick Guide” is for reference only. Legal structures are a matter of law and by their nature potentially complex with numerous exceptions and caveats. This document is for guide purposes only and we would always recommend seeking the appropriate qualified and professional advice. More support is available via Real Ideas membership <https://realideas.org/membership/> and you can contact us at info@realideas.org.

Legal Structure	Company Limited by Guarantee (CLG)	Company Limited by Shares (CLS)
In Brief...	Flexible and once popular model for social enterprises, now superseded by CICs. Social purpose can be written into governing documents and often used as a trading subsidiary for enterprising charities.	Most popular structure for all businesses. Not as common for social enterprise as social purpose is not guaranteed
Ownership Who owns it?	A CLG is owned by individuals and/or corporate bodies known as 'guarantors'. Guarantors do not have any shares in the company and, generally, they do not take profits.	Any person/corporate body can own a CLS. The owners are generally referred to as 'shareholders', who appoint directors to run the day-to-day activities of the company. In many cases, the shareholders will also be directors.
Governance Who runs it and makes decisions?	Board of Directors manage on behalf of members. Members have voting rights – one member one vote	Board of Directors manage on behalf of shareholders. Shareholders have voting rights - one vote per share
Regulator & Reporting Who to apply and report to?	Regulated by Companies House Reporting: Annual accounts Any changes to Directors or registered address must be reported	Regulated by Companies House Reporting: Annual accounts Any changes to Directors or registered address must be reported
Governing Docs. What's the paperwork?	Memorandum Articles of Association	Memorandum Articles of Association
Incorporated?	Yes – has its own legal identity to enter into contracts, employ people, or make a profit	Yes – has its own legal identity to enter into contracts, employ people, or make a profit
Limited Liability? Who is liable for its activities or debt?	Members and directors are protected – liability is limited to value of guarantee written into governing docs (can be as little as £1 each). Company finances are separate from personal	Shareholders are protected – liability is limited to value of shares

	finances of members /directors	
Who can benefit or get paid?	Directors can be paid as members/employees but do not own shares therefore generally cannot benefit personally from profits.	Directors can be paid. Profits can be distributed to shareholders
Asset Lock? How can assets be used?	No asset lock built in but can be added in governing documents (although can be amended by members)	No asset lock built in – not unless specified in governing docs (although can be amended by members)
Financial/ funding benefits	Low registration fee (Approx. £20) Trade focused – can access to wide range of investment and some funding options. Grants/donations are more difficult – unless there is clear social purpose and asset lock.	As CLG but with greater access to investment via issuing share equity and can also access debt.
Tax implications	Liable for all forms of tax.	Liable for all forms of tax
Can it be a charity?	No, but often used and a trading subsidiary to charities or other social enterprise	No but can be a shareholder and used a trading subsidiary for charities and other bodies.

Legal Structure	Community Interest Company (CIC)	Community Benefit Society (CBS & CCBS) *see cooperatives below
In Brief...	A type of company, readymade for social enterprises with community benefit and asset lock built in. Can be run cooperatively, or as not for profit though to create surplus. Can be a CLG or CLS (see above), where some share value can be taken out via shares in a CIC CLS.	Type of 'society' that primarily benefits the community as well as members. Bring together social enterprise and cooperative thinking and they have the ability to raise community shares. Not for profit though seek to create surplus and can offer interest on shares to members. Suitable for democratic organisations that wish to be owned and run by members for a community. Two form CBSs can seek charitable status as a Charitable CBS (CCBS). This is regulated via HMRC.
Ownership Who owns it?	As CLG or CLS	Owned by members/shareholders, who elect directors from the membership.

Governance Who runs it and makes decisions?	Board of Directors manage on behalf of members for a CLG, and this will include shareholders in a CLS.	Directors, elected from the membership. Members have a vote on directors and some decisions on a one member one vote basis.
Regulator & Reporting Who to apply and report to?	Companies house and the CIC Regulator Reporting: Annual accounts (less detailed than standard CLG or CLS) Annual CIC report to CIC regulator – what community benefit have you delivered that year?)	Registered with Financial Conduct Authority (FSA) and listed on Companies House. Charitable status regulated via HMRC.
Governing Docs. What's the paperwork?	Memorandum, Articles of Association & Community Interest Statement	Rules
Incorporated?	Yes – has its own legal identity to enter into contracts, employ people and make a profit/surplus	Yes – has its own legal identity to enter into raise community shares, contracts, employ people, make a profit/surplus and offer interested on shares to shareholders.
Limited Liability? Who is liable for its activities or debt?	Members and shareholders are protected – liability is limited to value of shares/ guarantee.	Members and shareholders are protected – liability is limited to value of shares.
Who can benefitor get paid?	Directors can be paid. For a CLS there is a cap on dividends paid to shareholders – the ability to distribute profits must be agreed by members.	Directors can be paid. Can pay out interest on shares (but should be limited), must ensure primary benefit is to community.
Asset Lock? How can assets be used?	Asset lock built into model: assets can only be used to further community interest. Model also prevents it from falling under control of non-members	Asset lock built in – assets must only benefit community, interest on shares is consider part of operational cost.
Financial/ funding benefits	Low registration fee (approx. £35), though additional professional support costs should be considered. As for CLG or CLS - access to wide range of funding: common grant funders, donations, social investment (debt, equity only in CLS) and private finance. In a CLS the cap on shareholder dividends could reduce interest from private investors	Higher registration/set up costs (currently £150), though additional professional support costs should be considered. Access to community shares, social investment (debt and equity) private finance, donations, and common grant funders. CCBS, with charitable status can often access trust and foundation funding also.

Tax implications	As companies liable for all forms of tax, however, can sometimes negotiate discretionary rate relief. CLS can particularly benefit from offer SITR (Social Investment Tax Relief)	CBS liable for all forms of tax, however, can sometimes negotiate discretionary rate relief. CCBS enjoy charity tax benefits. Both can offer SITR (Social Investment Tax Relief) to investor shareholders
Can it be a charity?	Not a charity. Can generally convert CIC CLG to CIO or CBS	CCBS can achieve charitable status, criteria via HMRC. While not technically a charity it will enjoy charitable benefits.

Legal Structure	Cooperatives*	Charitable Incorporated Organisation (CIO)
In Brief...	Cooperatives are run by, and for the benefit of, members. Generally, their focus is more towards democratic control than social benefit. They can take number of different types: worker-controlled, producers-owned, consumer-owned, community owned (including CBS) and multi-stakeholder. They largely prescribe to the seven cooperative values and should be seen more as a way of doing business and subsequently can be equally for private (member) profit. Cooperatives generally are not so much a legal form (as above), more a way of running the business, so will often overlay another legal forms i.e. a CLG	Great for charities that want to be more enterprising and become less reliant on grants/donations. A hybrid of company and a charity , designed to be lighter to administer than a full charity and more enterprising, but with the benefit of being a charity
Ownership Who owns it?	Ultimately owned by members who elect directors.	Board of Trustees manage on behalf of members
Governance Who runs it and makes decisions?	Elected directors manage it on behalf of members. Members have vote on a degree of decisions – one member one vote	Board of Trustees

Regulator & Reporting Who to apply and report to?	Cooperatives are all registered with the Financial Conduct Authority (FCA). Depending on what other legal form they have, they will also be register/regulated by other bodies.	Charity Commission
Governing Docs What's the paperwork?	Rules and documents related to their other particular legal form.	Constitution
Incorporated?	Yes – related to their particular legal form.	Yes – has its own legal identity to enter into contracts, employ people and make a surplus
Limited Liability? Who is liable for its activities or debt?	Members and/or shareholders are protected – liability is limited to value of shares.	Trustees are protected – they have no liability
Who can benefit, get paid?	Directors can be paid, depending on legal form. Can pay a return on shares but primary benefits should be to members.	Unlikely – only if written into constitution and agreed by Charity Commission
Asset Lock? How can assets be used?	Entirely depended on legal form and detailed rules.	Assets must only be used for charitable purposes
Financial/ funding benefits	Often higher registration/set up costs depending on legal form. Access to finance depends on legal form.	As a charity you have access to a larger number of grants and trusts funding, as well as debt finance.
Tax implications	Dependence on legal form i.e. companies are liable for all forms of tax, however, can sometimes negotiate discretionary rate relief. Different if using a charitable form.	Enjoys all charitable status tax benefits but easier to trade and generate income for your charitable purpose
Can it be a charity?	If they use a charitable legal form.	They are a type of charity.

Legal Structure	Unincorporated Association	Trusts
In Brief...	Not strictly a legal entity. Most popular structure for community, voluntary and interest groups and a common starting place for a range of initiatives. Often quick, cheap and relatively easy.	Used where a group wish to administer a specific asset or fund i.e. a Community Land Trust (CLT) Often, they are set up with charitable purposes and if so, all activities must meet charitable purposes. CLT are often used for community led housing or energy schemes.
Ownership Who owns it?	Not strictly “owned”, though will have a management committee.	Trustees manage trust for beneficiaries
Governance Who runs it and makes decisions?	Governed according to its own rules in governing document	Board of Trustees
Regulator & Reporting Who to apply and report to?	Not regulated by any other the wider regulatory/registry bodies as not incorporated.	None
Governing Docs What’s the paperwork?	Rules of Association or Constitution.	Trust Deed and additional administrative requirements depending on type.
Incorporated?	Not incorporated – may find it difficult to enter into contracts, employ people or hold assets. It has no legal identity and members must enter into contracts personally.	More a legal agreement than an incorporated entity. However, in the third sector common forms such as CLT’s are governed by law and like cooperatives will adopt a legal form.
Limited Liability? Who is liable for its activities or debt?	No protection – the group are personally liable for obligations and actions	Potentially limited protection, but more so if they have a legal form.
Who can benefit or get paid?	Not built into model – would need to be added to governing document.	Not built into model – would need to be added to governing document and agreed by appropriate regulator for legal form or in court
Asset Lock? How can assets be used?	No asset lock built in - Could be added to governing document	Could be added to governing document and based particular legal form if present.

Financial/ funding benefits	<p>Low cost to set up and manage.</p> <p>Will often find it difficult to secure most grant funding, apart from some small grants particularly targeted toward community groups.</p>	<p>Certain trusts can be relatively low cost to set up and manage.</p> <p>May find it difficult to secure grant funding if not a registered charity or other such recognised asset locked, social purpose legal form.</p>
Tax implications	<p>Individual members are personally responsible for debts and contractual obligations. If the association does start trading and makes a profit, it will be liable for taxes in the same way as a Limited Company.</p>	<p>Depends on purpose and legal form – often used to avoid paying tax.</p>
Can it be a charity?	<p>It not a charity but is often a staging post in a journey to become charity.</p>	<p>If it adopts a charity/CIO legal form.</p>

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