Derbyshire Dales CVS

Fact-Sheet: Finding the right legal structure for your organisation

People who are starting new organisations, or running existing ones, often find it difficult to decide which the best legal structure for their organisation is. There are a number of options for not-for-profit, charitable and voluntary organisations. Below is a brief summary of the main options, and a few pros and cons for each. For more information and guidance about which is the right model for your organisation, contact DDCVS.

Unincorporated Association

An Unincorporated Association (UA) is a simple model that is suitable for many kinds of voluntary and community activity. A UA is basically a group of individuals with a common aim. It will usually have a constitution, some kind of management committee, and a bank account in its own name. Many small charities, voluntary organisations, clubs and societies are UAs. They can be relatively simple to run and manage. UAs can become registered charities. However, they have disadvantages. They are not recognised in the law as a 'legal entity' in the way that a Company is, but are regarded as just a collection of individuals. This means that if problems arise, the members of the management committee can be held personally liable for debts and liabilities of the organisation. Because they are not a legal entity, it is hard for them to do things like employ people, own or lease property, or enter into contracts.

Charitable Company

A charitable company is an organisation that is registered with Companies House, and with the Charity Commission. It has a legal identity as a company which means its management committee (known as Directors / Trustees) have limited liability, and in most cases cannot be held personally liable for the company's debts. It is also registered with the Charity Commission, so also enjoys the benefits of charity status. If your organisation aims to employ people, own or lease property, enter into contracts, or turnover large sums of money, then becoming a Charitable Company is a sensible option. However, because it has dual registration, this means that you have to submit two annual returns. Failure to submit an annual return to Companies House can lead to substantial fines.

Charitable Incorporated Organisation

A relatively new model which has become available is the Charitable Incorporated Organisation (CIO). This is likely to become an increasingly popular model. It provides most the advantages of being a limited company (legal identity, limited liability for trustees) without having to register with Companies House. CIOs are regulated by the Charity Commission, and applications to register CIOs have to be made to them. CIOs are easier to set up and manage than a Charitable Company because they have only one regulator. For those wishing to create an incorporated charity, the CIO is now probably the best option for most.

Community Interest Company

A community interest company (CIC) is registered with Companies House, but has a number of features that make it different from an ordinary commercial company. It is a not-for-profit model where surpluses are reinvested in the company or into the community; it has an 'asset lock' which means the assets of the company cannot be sold off to profit directors or shareholders, and it is given a certificate of community interest by Companies House which recognises that the company's activities are of benefit to the community in some way. A CIC is a suitable model for 'social enterprise' where a commercial or trading activity is taking place, but this has a wider benefit to people and communities. They can trade like a normal company, issue shares, and do not have the restrictions on trading that registered charities have. However, CICs cannot become registered charities, and they have to pay corporation tax like a commercial company, and do not enjoy the other financial benefits that registered charities.