



**CONSORTIUM**

for stronger lgbt+ communities

# **Types of Groups and Legal Structures**

## **Guidance tool**

Consortium

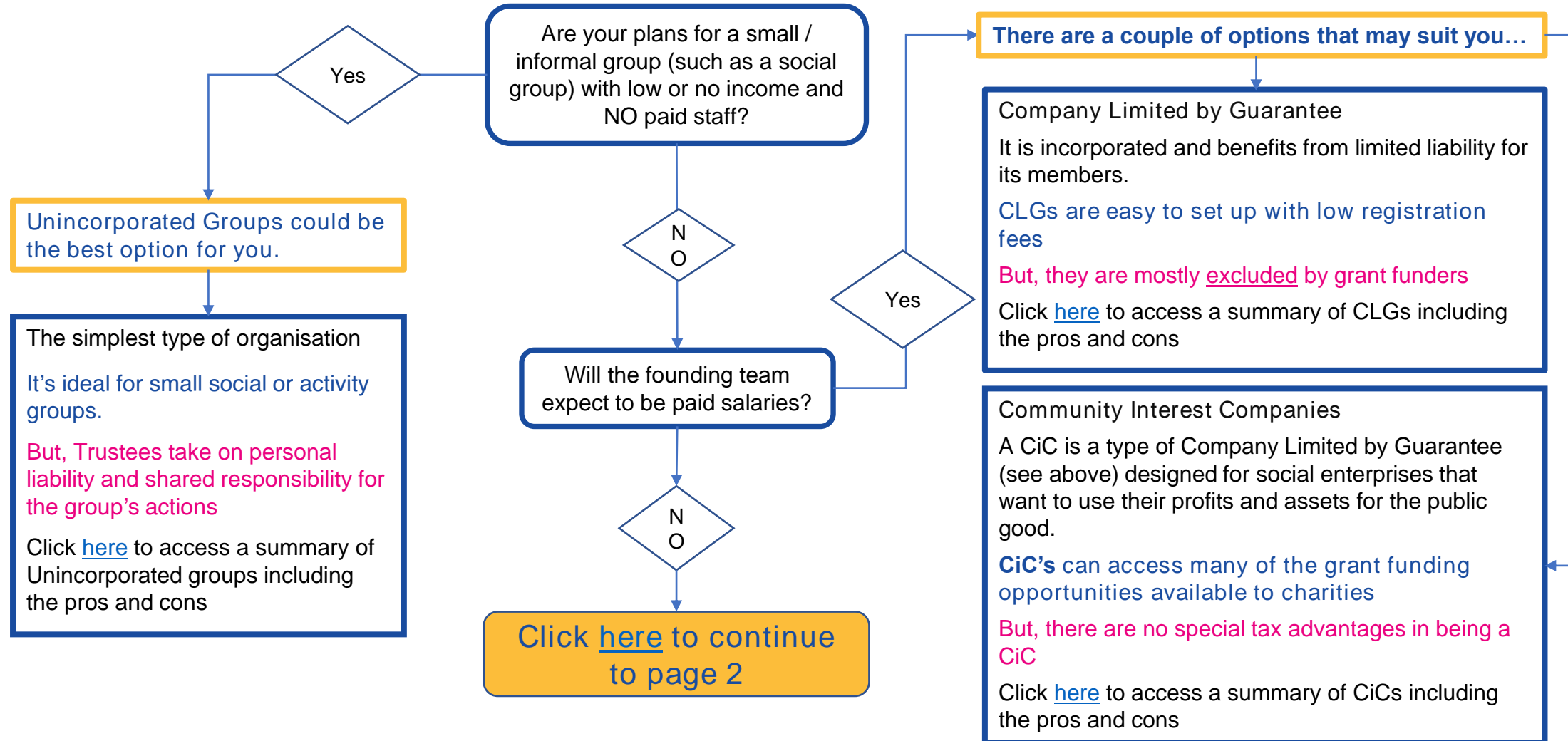
[www.lgbtconsortium.org.uk](http://www.lgbtconsortium.org.uk)

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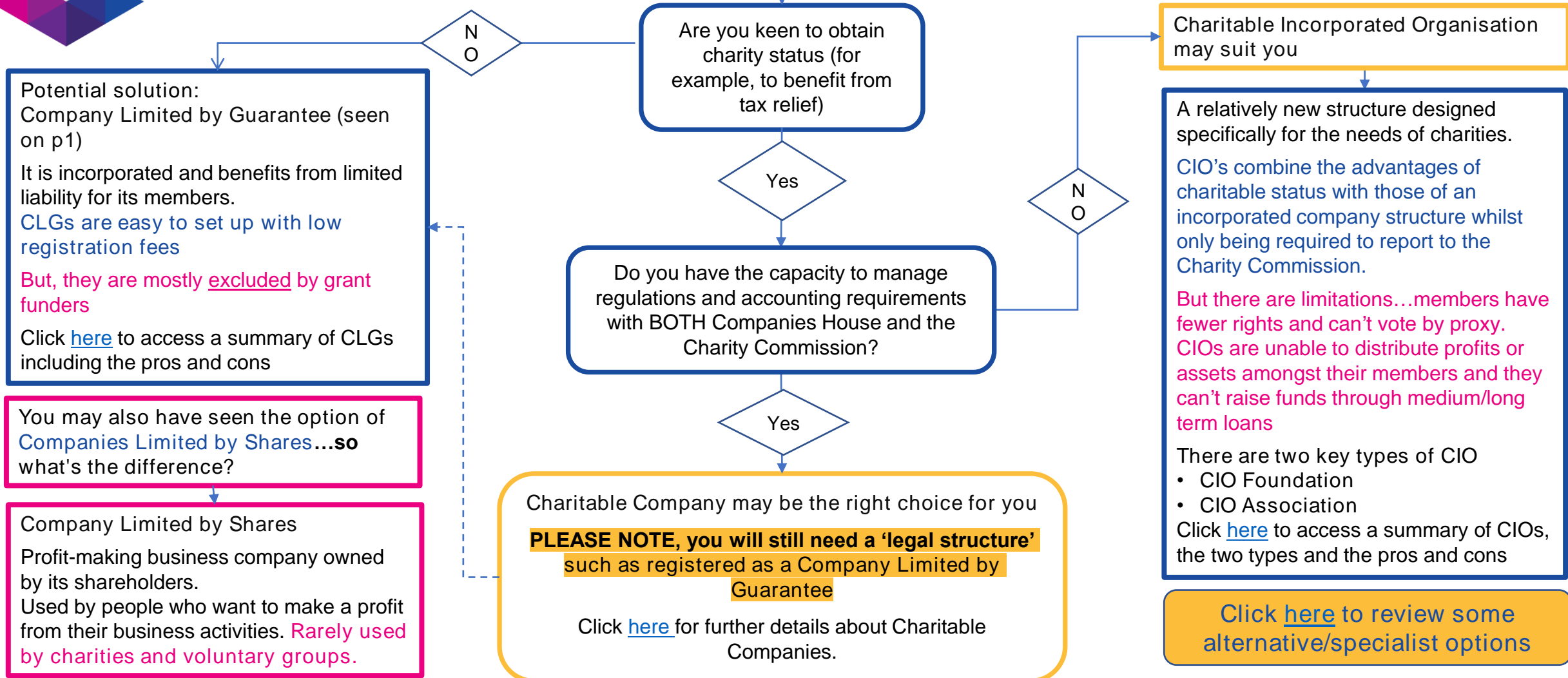
# Legal structures for your group

Explore the legal structures available to your group, using this tool as a starting point to review key questions.





## Explore legal structures for your group





# Alternative options

## Charitable Trust

A special unincorporated group, set up to administer money and/or property and services for the benefit of the community or for another clearly defined charitable purpose. Charitable trusts do not normally have a membership other than management committee/trustees; they may employ staff and will usually be registered with the Charity Commission.

- Like an unincorporated group, Trusts make their own governing rules, normally known as a Trust Deed, which outlines and protects their social objectives.
- Trusts normally establish a formal relationship between three parties:
  - o the donors of money or property;
  - o the Trustees who become the nominal owners of the trust property;
  - o and the beneficiaries (the people who will benefit from the trust).

## Community Benefit Society

Owned by its members, who hold shares and control the society democratically, on a one-member one-vote basis. It is regulated by the Financial Conduct Authority. A Community Benefit Society is a useful structure if your community wishes to take control of an asset, such as a building. You can fund your organisation by selling “Community Shares”, and run the service to benefit the wider community.

For further information please visit this [site](#)

## Cooperative Society

A Cooperative Society is a similar structure to a Community Benefit Society, but its main purpose is to provide services to its members rather than the wider community. A Cooperative Society cannot be charitable because its beneficiaries are its own members, rather than the public.

For further information please visit this [site](#)

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# Unincorporated Groups

- The simplest type of organisation and the favoured structure chosen by new groups.
  - An unincorporated group should have a governing document even if it does not intend to apply for charitable status in the future. Otherwise known as a constitution, a governing document sets out the rules by which the group is to be run. Model governing documents (Constitution) are available from [The Charity Commission](#).
  - The constitution of an unincorporated association is deemed in law to be like an informal 'contract' between the individual members.
  - Defined as being an informal 'collection of individuals working together' and as such it has limitations over what it can and cannot do.
- For further details on unincorporated groups please visit this site

## Pro's

- It's cheap (to the point of being free!) to set up and run.
- Groups do not need anyone's permission to form an 'unincorporated' group.
- It's ideal for small social or activity groups.
- Easy for new groups to undertake and get support with.

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## Con's

- An unincorporated group cannot own property or enter into contracts in its own right as it is only the sum of its trustees and has no legal personality of its own.
- If you are considering doing something more major, for example, employing a worker or managing a building, you may well need a structure which gives the group a legal personality and gives members more individual protection (see below for more info on trustee liability).
- Trustees take on a certain amount of personal liability and shared responsibility for the group's actions.



# Companies Limited by Guarantee (CLG)

- CLG is simply an alternative type of corporation, primarily used for not-for-profit organisations. For example, the CLG form is often used for clubs, membership organisations, including students' unions, residential property management companies, sports associations, workers' cooperatives, other social enterprises, non-governmental organisations (NGOs).
- CLG has members who act as guarantors, undertaking to contribute a nominal amount (normally £1 or £10) in the event of winding up the company.
- Any profits made by a CLG are therefore distributed not to its members but back into the company or if the company is a trading subsidiary of a charity, the profits would go to the charity as unrestricted income. CLG is controlled by a group of directors, who can be paid or unpaid.
- Companies are registered with and regulated by Companies House. To establish a company, you must adopt a governing document called a Memorandum and Articles of Association, and submit it to Companies House. It is a legal document, so it is sensible to get it checked by a solicitor.

For further information on CLGs please visit this [site](#)

## Pro's

- The structure and its day to day operation are widely understood.
- Very quick and easy to establish with low registration fees.
- Limited liability for its members
- Can enter contracts, employ staff, etc.
- Can become charitable if it registers at Charity Commission (e.g. as social enterprise). If charitable, all usual charity tax reliefs are available.
- Flexible as to number of members and whether subscriptions charged.
- Not restricted by charitable purposes (if not a CCLG)

## Con's

- No possibility of equity investment – cannot issue shares.
- Although filing with Companies House is straightforward, there are high penalties for delay/failure to file information.
- No special tax exemptions

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# Community Interest Company (CiC)

A CIC is a type of company designed for social enterprises that want to use their profits and assets for the public good.

A CIC can choose from one of three company forms: a private company limited by shares, a private company limited by guarantee or a public limited company

All CICS are subject to an 'asset lock' which limits their profit.

A CIC can be registered at Companies House in the same way as a normal company with the same incorporation documents.

There are however additional incorporation documents; to find out more visit [www.cicregulator.gov.uk](http://www.cicregulator.gov.uk) When groups register as a CIC, The CIC Regulator will consider whether applications meet the criteria to become a CIC. If satisfied, the Regulator will inform the Registrar in Companies House who, providing all the documents are in order, will issue a certificate of incorporation as a CIC.

CIC's need to have a statement that describes the social purpose; this is normally called a community interest statement.

For further information on CiCs please visit this [site](#)

## Pro's

- This type of structure enjoys a certain amount of flexibility.
- CIC's can have shareholders and can pay their directors unlike paying Trustees.
- Designed to attract investment.

## Con's

- An asset lock ensures that the assets of a CIC are, after any expenditure that meets their obligations, either used for the community purposes outlined in their community interest statement or transferred to another 'asset locked' body or Charity.
- There are no special tax advantages in being a CIC so corporate tax is payable on any unrestricted profits (though specific regional relief and may be open to CIC's).
- Not all grant funding is open to CiCs

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# Charitable Incorporated Organisation (CIO)

A new legal form of incorporated structure which, unlike the structure of charitable companies, has been designed specifically for the needs of charities. Very new, so still finding its feet.

Existing charitable companies, community interest companies and industrial & provident societies can apply for conversion into CIO status with the Charity Commission, who has said that it will be relatively easy to do so.

There two types:

- CIO Foundation - the board of trustees are the only voting members.
- CIO Association - with wider membership are voting members.

For further information on charitable structures please visit this [site](#)

## Pro's

- CIO's combine the advantages of charitable status with those of an incorporated company structure whilst only being required to report to the Charity Commission.
- Reduced risk of personal liability.
- There is no need to register and comply with the regulations of both Companies House and the Charity Commission.
- Having to comply with only one regulating body means that CIO's will only have to prepare and submit one annual report and set of accounts making the administration of the group much more user friendly.

## Con's

- Like Community interest Companies, CIO's have an assets lock in place.
- They are unable to distribute profits or assets amongst their members.

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# Charitable Company

It is important to remember that charitable status is not a legal structure in its own right and is separate from the legal structure of a group. As part of the process of registering as a charity you will need to decide what legal structure your group takes before registering.

You can apply for charitable status after setting up your group, even if your group is unincorporated you can still apply. Only groups with an income of over £5000 per annum are eligible to apply for charity status.

Small groups with an income of less than £5,000 that are not eligible to apply for charity status can get recognition from HM Revenue and Customs (HMRC) for the tax reliefs available to charities and use their HMRC charity number as evidence of charitable activities. Check out more details on that [here](#).

For further information on charitable structures please visit this [site](#)

Click [here](#) for full details of the registration process

## Pro's

- Relief from certain tax and stamp duty
- Probable rates relief of premises
- Recovery of income tax on 'Gift Aid' donations.
- Only registered charitable organisations are eligible to receive grants from some charitable trusts or funding streams
- The general public usually has more confidence in a body which is formally recognised as charitable

## Con's

- Cost and time to set up
- Regulations and accounting requirements that accompany the status can sometimes be daunting.
- Charities are sometimes limited in what they can do and trading may present complications.
- Once you have adopted charitable status it is difficult to get rid of, so think carefully if it's the right thing for your group.

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