

## Community Interest Company

Community Interest Company (CIC) status has been developed for people in the UK who wish to develop social enterprises, i.e. businesses that benefit the community, not just the owners, employees or shareholders. This Information Sheet explains the nature of this type of company and considers its advantages and disadvantages in comparison with other organisation types.

The availability of CIC status varies depending on which part of the UK and the Republic of Ireland you are in.

- In **England, Wales and Scotland**, CIC status has been available since June 2005.
- In **Northern Ireland**, you will be able to register as a CIC from 6 April 2007, following the extension of the *Companies (Audit, Investigations and Community Enterprise) Act 2004*. CICs in Northern Ireland will be regulated by the UK CIC Regulator (see *the Further Resources section for details*) and not the Northern Ireland Companies Registry.
- In the **Republic of Ireland**, Designated Activity Company (DAC) will be the new legal form for community enterprise /social economy type organisations (see *Section E for more details*).

### A. What are Community Interest Companies?

CIC status is designed for people who wish to run a company for the benefit of the community, rather than solely to make money. The main feature of CICs is that they are asset locked to prevent the assets (cash, goods, property, etc.) and profits of the company being used for anything other than community benefit.

Under the **asset lock**, a CIC's assets and profits may only be:

- retained within the company for community purposes;
- transferred to another asset-locked organisation (eg another CIC or a charity) specified in the CIC's governing documents or approved by the CIC Regulator;
- sold at their full market cost, so that their value is retained by the CIC;
- otherwise transferred for the benefit of the community.

**The CIC Regulator** is responsible for ensuring that the asset lock is maintained, and any stakeholder (i.e. anyone with a stake in the company, such as an employee, shareholder or client) who believes that it is being breached can ask the Regulator to take action.

### What is a 'social enterprise'?

Social enterprises are defined by the UK Government as 'businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners.' By using the principles of business to help communities, the Government believes that social enterprises have a distinct and valuable role to play in helping create a strong, sustainable and socially inclusive economy. CIC status has been designed to support this growing sector by creating an appropriate legal framework and by helping to raise its profile.

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### B. The rules of CICs

- CICs can be private companies limited by shares or by guarantee. Like any other type of company registered under the *Companies Act 1985*, CICs must conform to general company law (See Constitutions and Legal Status for information on different company types).
- A charity cannot be a CIC unless it gives up its charitable status. However, a charity may register a CIC as a subsidiary company. In this case the CIC (eg a charity shop) would be permitted to pass assets to the charity.
- CICs must register with the CIC Regulator and submit annual reports to demonstrate that they are working in the interest of the community and that the asset lock is being observed.
- CICs are governed by a board and shareholders/members.
- CICs must involve their stakeholders in decisions and include evidence in their annual report to the CIC Regulator on how they have done so.
- The memorandum and articles of association of a CIC must comply with the requirements of the CIC Regulator (model memorandum and articles of association documents are available on the CIC Regulator website – see Further Information section below).
- CICs are taxed in much the same way as any other company, and are eligible for the same tax concessions and grants (eg due to their type of activity or location) as any other company.
- CICs can borrow money, but there is a limit, set by the Regulator, on how much interest they can pay. They can be funded from a variety of sources, including grants and donations, loans from

high street banks and other institutions. Additionally, by investing through **Community Development Finance** Institutions, investors themselves may benefit from **Community Investment Tax Relief** of 5% per annum, which can provide additional funding for CICs working in disadvantaged areas (see *Further Information section for more information*).

- CICs cannot be formed to support political activities.

### What is 'community benefit'?

This includes such things as:

- empowering local people;
- regenerating disadvantaged areas;
- improving the environment;
- providing local services (such as education, leisure, childcare provision, transport, housing, etc.).

CICs are not supposed to deliver essential public services such as hospitals and schools. Instead, they are intended to complement core public services.

### C. Why should we form a CIC?

The CIC structure is particularly useful for:

- organisations that are going to earn all or most of their income through trading (charging for goods or services) and do not have charitable objects as defined by their charity regulator;
- organisations that are going to earn all or most of their income through trading and have charitable objects, but do not want the limitations of charitable status and are willing to forego the tax and other advantages of charitable status;
- charities' trading subsidiaries.

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However, most organisations that are set up for the benefit of communities will, in all probability, choose to become (or remain) charities, as long as they are eligible to do so (refer to the website of your national charity regulator in the *Further Information* section for eligibility criteria). The main advantages of running a charity are that they attract a wide range of funding opportunities and enjoy certain tax advantages, including relief from corporation tax, capital gains tax, stamp duty and inheritance tax, as well as benefiting from tax-effective giving.

### Advantages of CICs over charities?

- CICs have fewer regulations than charities. However, they lack many of fundraising and tax benefits associated with charitable status, even if their purpose and activities are entirely charitable.
- Charities must be established exclusively for charitable purposes, but a CIC can be established for any lawful purpose, as long as it provides a benefit to the community.
- Unlike charities, CICs limited by shares can sell shares and pay dividends to individual shareholders, subject to a limit known as a cap.
- If you are a founder of a charity and wish to be paid, you must hand strategic control of the organisation to a voluntary board, as charities are not usually allowed to pay board members. As the founder of a CIC, however, you can be paid and still maintain strategic control. The decision as to how much an individual director should be paid is left up to the CIC itself, but if stakeholders believe that pay levels are inconsistent with the CIC's community benefit aims, they can go to the Regulator.

### Advantages of CICs over normal limited companies?

Other than applying for charitable status, setting up a CIC is the simplest way of ensuring that your organisation's assets and profits are used for the benefit of the community.

### D. How do we form a CIC?

To register a company as a CIC you will need to first register with **Companies House** (England and Wales) or the **Registrar of Companies** (Scotland) as a company limited by guarantee or by shares (if you have not already done so), and then apply for CIC status to the CIC Regulator who, if your registration is successful, will continue to monitor you and ensure that the rules are upheld.

The CIC Regulator will consider whether your purposes could be regarded by a 'reasonable' person as being in the community or wider public interest. It will also check to ensure that access to the benefits you provide will not be confined to an unduly restricted group. This is demonstrated using the **community interest statement**. If satisfied that your application meets the criteria, the Regulator will advise the registrar at Companies House (England and Wales) or the Registrar of Companies (Scotland) who, providing all the documents are in order, will issue a certificate of incorporation as a CIC. Thereafter, CICs must submit an annual report to the Regulator on how they are delivering for the community and how they are involving their stakeholders in their activities. This report must include details of how much the directors are being paid, the dividends awarded to shareholders and the interest paid on capped loans.

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### The community interest statement

Form CIC36 (and Form CIC37 to convert an existing company to a CIC – *both available to download on the CIC Regulator website – see Further Information section*) requires you to submit a community interest statement. The purpose of this statement is to confirm that the company will provide benefit to the community, by describing its intended activities and beneficiaries. Not only is it a pre-requisite for becoming a CIC, it also demonstrates the community benefits of your company to potential funders. Once registered with the CIC Regulator, the community interest statement cannot be changed unless the company changes its objects.

The community interest statement should contain:

- a declaration that the company will not engage in political campaigning;
- a declaration that the company will pursue activities for the benefit of the community, or section of the community;
- a description of the community or section of the community that the company's activities will benefit;
- a description of the company's activities;
- a description of how the activities will benefit the community;
- a description of how any surpluses will be used.

### Converting from a charity

Whereas the *Charity Act 1993* allows a charity registered in England and Wales to convert to a CIC, it prohibits a Scottish charity from doing so. Although the Act specifies that this prohibition can be repealed at some stage, this would require an amendment to the *Community Interest Company Regulations 2005* and any such change would take a number of months to pass

through Parliament.

Before deciding whether to convert from a charity to a CIC, it is worth consulting your national charity regulator (see Further Information section below) and to take professional legal or accountancy advice.

### Converting from a limited company

To convert from a limited company to a CIC, applicants must complete form CIC37 (available to download on the CIC Regulator website – see Further Information section below) along with a community interest statement, and ensure its constitution (memorandum and articles of association) complies with the CIC rules. Constitutional changes must be lodged with Companies House (England and Wales) or the Registrar of Companies (Scotland).

### Names

CICs may not use 'ltd.' or 'limited' as part of their name. Instead, their name must end with one of the following designations – 'community interest company' or 'c.i.c.' [Companies with a registered office in Wales may use the prescribed Welsh alternatives – 'cwmni buddiant cymunedol' or 'c.b.c.']. For existing companies, there is no need to invent a new name unless you want to – a simple change from 'ltd.' to 'c.i.c.' will be enough. These designations must not be used by companies that are not CICs.

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### E. What are Designated Activity Companies?

Designated Activity Company (DAC) will be the new legal form for social enterprises in the Republic of Ireland, equivalent to UK CICs. Under proposed changes contained in the *Irish Draft Companies Bill*, DACs will vary from other types of limited company in that they will be able to designate a particular cause (as opposed to shareholders) as the recipient of their profits.

DACs, which may be formed for any lawful purpose, will come in two types:

- private companies limited by shares, with the power to do only those things set out in their constitution;
- private companies limited by guarantee *and* having a share capital, with the power to do only those things set out in their constitution.

It is hoped that the new Companies Bill, which replaces the *Companies Acts 1963-2005*, will be enacted in late 2007.

### Further Information

- The Community Interest Companies Regulator website contains detailed information and the forms necessary to apply for CIC status – [www.cicregulator.gov.uk](http://www.cicregulator.gov.uk)
- The Community Interest Company Regulations 2005 are available on the website of the Office of Public Sector Information – [www.opsi.gov.uk/si/si2005/20051788.htm](http://www.opsi.gov.uk/si/si2005/20051788.htm)
- The Companies (Audit, Investigations and Community Enterprise) Act contains the basic CIC provisions in Part 2 – [www.opsi.gov.uk/acts/acts2004/20040027.htm](http://www.opsi.gov.uk/acts/acts2004/20040027.htm) with helpful explanatory notes at [www.opsi.gov.uk/acts/en2004/2004en27.htm](http://www.opsi.gov.uk/acts/en2004/2004en27.htm)

- Social Enterprise – a strategy for success – a report from the Department of Trade and Industry –

[www.sbs.gov.uk/SBS\\_Gov\\_files/services/socialenterprise.pdf](http://www.sbs.gov.uk/SBS_Gov_files/services/socialenterprise.pdf)

- A business planning guide to developing a social enterprise – produced by Fourth Sector in Scotland, the guidance is useful to any voluntary and community organisation who may be thinking of social enterprise as a way to develop their activities – [www.forthsector.org.uk/docs/New\\_BusPlanGuide.pdf](http://www.forthsector.org.uk/docs/New_BusPlanGuide.pdf)

- The Community Development Finance Association

is the trade association for Community Development Finance Institutions – [www.cdfa.org.uk](http://www.cdfa.org.uk)

- Community Matters is the national federation for community organisations –

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

- The Wheel – support, advocacy and leadership for community and voluntary activity in the Republic of Ireland – [www.wheel.ie](http://www.wheel.ie)

- The Companies House website contains details of the Registrar of Companies in England, Wales and Scotland –

[www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

- Companies Registration Office, Ireland –

[www.cro.ie](http://www.cro.ie)

- The Charity Commission for England and Wales –

[www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

- The Office of the Scottish Charity Regulator (OSCR) –

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

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### Other Related Information Sheets

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Getting Charitable Status

Constitutions and Legal Status

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