



Becoming a CIC

Community interest companies (CICs) are limited companies that are set up to provide a community benefit or achieve a particular social purpose. This legal structure is a popular option for those who are planning to start a social enterprise.

In this guide, we explain what a community interest company is, the rules on distributing profits, and the steps you need to take to set up a CIC in the UK.

The purpose of community interest companies

Established in the United Kingdom in 2005, community interest companies are designed for businesses that trade with a social purpose (e.g. social enterprises) or carry on activities to provide benefit to a community.

In particular, the CIC model is favoured by those who wish to enjoy the benefits of a limited company structure without the need to register as a charity.

It is suitable for social enterprises and 'not-for-profit' projects of all sizes operating in various sectors. Some examples include:

- Recreation and leisure services (e.g. community sports club)
- Arts centres and cultural events
- Cafes or shops in which all profits are used to benefit the community
- Local transport services
- Youth centres or projects
- Skills and training services
- Holding local assets, like community halls or theatres
- Health and social care services
- Welfare or advisory services for vulnerable or disadvantaged people
- Businesses distributing fair-trade goods for the benefit of overseas producers

More than 75% of community interest companies are

Private companies limited by guarantee.

Limited by guarantee companies are most often formed by non-profit organisations such as sports clubs, workers' co-operatives and membership organisations, whose owners wish to have the benefit of limited financial liability.

A company limited by guarantee does not have any shares or shareholders (like the more common limited by shares structure) but is owned by guarantors who agree to pay a set amount of money towards company debts.

Furthermore, there will generally be no profits distributed to the guarantors as they will usually be re-invested in the business to help promote the non-profit objectives of the company. If any profits are distributed to the owners, then the company will forfeit its right to apply for charitable status.

Benefits of companies limited by guarantee

- A company limited by guarantee is a distinct legal entity from its owners and is responsible for its own debts.
- The personal finances of the company's guarantors are protected. They will only be responsible for paying company debts up to the amount of their guarantees.
- 'Limited' status builds trust and confidence amongst clients and investors. This type of professional credibility is valuable and can help a company achieve its objectives more effectively.

Forming a company limited by guarantee

Please make yourself aware of the following requirements and regulations before applying to incorporate a limited company:

- All companies limited by guarantee must be registered with Companies House, the Registrar of Companies in the UK.
- A company limited by guarantee must have at least one director and one guarantor. One person may assume both positions, or there can be multiple directors and guarantors. Information held on all directors and guarantors will be available on public record.
- All limited companies must provide a physical address to be used as the registered office address in the country (jurisdiction) where your company is registered. This should be based in the UK.
- Standard Industrial Classification (SIC) codes should be supplied. These codes explain the nature of your company's trading activities. You can have up to four SIC codes.
- Information about People with Significant Control (PSCs) in the business should be provided. Normally, the directors and guarantors will be PSCs.
- All registered companies require a memorandum of association and articles of association. The memorandum states the name of each owner (guarantor) and their agreement to set up the company and become members. The articles outline the rules and regulations the company must follow. The memorandum is provided by Companies House and the articles are supplied by 1st Formations.

Private company limited by shares

Companies limited by shares, more commonly referred to as limited companies, account for most private companies registered in the UK. This company structure is particularly popular as the company exists as a separate legal entity from the individual owner.

This means the owners have limited financial liability, so their personal finances are protected if the company encounters financial problems.

Limited liability is a major benefit over the sole trader structure whereby the sole trader is liable for business debt. This page provides all of the need-to-know information about private companies limited by shares.

Benefits of companies limited by shares

- Limited financial liability – Shareholders' personal finances are protected and they are only responsible for company debts up to the nominal value of their shares.

- Incorporated status will greatly improve your professional image and business profile. Limited companies are often more appealing to prospective clients and investors, giving the impression of a well-organised, established, and reputable business.
- You can choose to sell shares in your company at any time to raise additional capital or grow the business.
- Another company can be a shareholder or director in a limited company. However, there must always be at least one natural (human) director. Please note: legislation has recently been passed to ban corporate directors, which is currently being implemented.
- Ownership of a limited company can be passed on. As the company exists as a separate legal entity from the individual, the company can continue to exist even in the event of the owners' death – unlike a sole proprietorship.
- When you register a company name, it is protected and cannot be used by any other limited company or LLP, nor can another company register a name that is the same as, or too similar to your own company name.

Forming a company limited by shares

Incorporating a company limited by shares is incredibly simple.

Here is what you need to know about the process of setting up a company limited by shares and some key points about maintaining your business after company formation:

- All companies limited by shares must be legally registered with Companies House, the official Registrar of Companies in the UK.
- You must have a unique company name to get approval from Companies House.
- You must have a registered office address – this is the official address of the company which will appear on public record. This must be a full physical address (not a PO Box Number) in the same country (jurisdiction) as the company is registered.
- You require a minimum of one shareholder and one director to set up a company limited by shares. The same person can hold both positions.
- Standard Industrial Classification (SIC) codes must be included to describe the business activities that your company will engage in. You can provide a maximum of four codes.
- Details of all People with Significant Control (PSCs) in the company must be included on the application. In most companies, the PSCs are the shareholders.
- On incorporation, Companies House will issue a memorandum of association to state the names of the first shareholders (known as the 'subscribers') and their intention to form the company and take at least one share.
- A governing document called the articles of association must be adopted during the company incorporation process - this outlines the rules and regulation of the company and its members and officers.

Public limited company (PLC).

What does it mean to be public?

[Most corporate bodies](#) registered in the UK are private limited companies. However, a small portion of registered companies (as in they are registered with Companies House – the UK's registrar of companies) are public limited companies. But what does this mean?

- **Company formations and Companies House**
- **What is a private limited company?**

Whilst there are many differences between private and public companies, the biggest difference is the ability for a public company to offer its shares to the public via a stock exchange. Here's what else you need to know:

- PLCs must allot at least [£50,000](#) worth of shares, with £12,500 (one-quarter) of these shares paid up.
- PLCs are subject to increased reporting requirements and must provide a greater level of transparency with regard to their accounting.
- PLCs must have at least 2 directors and a qualified company secretary.
- Before a PLC may trade, once they have been incorporated – they must apply to Companies House for a trading certificate. This certificate will confirm that the company meets all the necessary requirements to be a PLC.
- A PLC's name must end in either "public limited company" or "PLC" unless it is a [Welsh company](#). In this case, it may end in either "cwmni cyfyngedig cyhoeddus" or "CCC".

Similarities to private companies

Like a private company, a PLC offers limited liability to its members, where a member is only liable up to the monetary value of their shares.

The PLC structure also looks similar to a private company as it is owned by its members and managed by directors.

Advantages of a public limited company

A public company's biggest advantage is that they are afforded the ability to raise capital by selling shares to the public.

By listing on a stock exchange, a PLC can attract funding from many different sources, including international investors. However, this may also become a disadvantage, as the value of the company is determined by a potentially volatile financial market.

Being a PLC carries a level of prestige. By listing on a stock exchange, the company can increase its reputation and in turn increase brand awareness.

Disadvantages of a public limited company

PLCs are held to a much higher standard and are under much greater reporting requirements when compared to private companies.

In order for a PLC to become listed, it will need to meet the requirements of the stock exchange they are looking to join. Typically, this will involve a particular number of shares being offered to the public, and attaining a minimum annual income.

Due to these requirements, many public companies remain privately owned.

Can a private company become a public company?

In short, yes. As long as a private company meets all the requirements to be a public limited company, the company may be re-registered as a PLC.

To undertake the re-registration, the form [RR01](#) will need to be filed with Companies House, along with a copy of the special resolution for the re-registration and payment of the £20 filing fee. Vice versa, a PLC can undertake a similar process to re-register as a private company, using form [RR02](#).

- **What is a private limited company?**
- **What is a public limited company?**
- **Companies limited by guarantee or shares – what's the difference?**

Whilst their primary purpose is one of community benefit rather than private gain, some CICs can distribute a certain amount of profit to shareholders. This feature enables CICs to attract investment and remain viable in the long term, whilst pursuing their true social purposes.

Why would I set up a CIC?

A community interest company offers the flexibility and status of a limited company, with additional features to ensure that the business operates primarily for the public good.

The advantages of setting up a [social enterprise](#) as a CIC include:

- Quick, simple, and inexpensive to register
- Can be set up and run by an individual or organisation
- [Limited liability protection](#) for members (shareholders or guarantors)
- Exists as a separate legal entity (i.e. a legal person) that can enter into contracts, borrow money, and hold assets in its own name
- Ability to combine commercial activities with the pursuit of a social purpose
- No limit to the level of profit the company is allowed to make
- Option to expand and attract investment by selling shares
- Can distribute some profit to [shareholders](#)
- Directors can receive a salary
- Greater flexibility than a [charitable company](#) in terms of activities and profit distribution
- Less administration and fewer reporting requirements than a charity
- Incorporated status provides transparency and reassurance to stakeholders, including investors, banks, and the public
- Assurance that any remaining assets of the organisation will be used for the benefit of the community if it ceases to be a CIC

When considering whether a community interest company is right for your social enterprise, one of the key features to understand is the 'asset lock'. This is included as a provision (clause) within the company's articles of association to control how the CIC uses its assets, income, and profits.

Understanding the 'asset lock'

The asset lock provision is designed to ensure that community interest companies use their assets (including land, property, income, and profits) to support their activities or otherwise benefit the communities they are set up to serve.

Arguably the most important and distinctive feature of the CIC structure, the [asset lock](#) protects the company's resources from being appropriated for private gain.

This means that:

- A CIC must transfer assets for their full fair market value unless the transfer falls within the range of permitted transfers – e.g. to another asset-locked body or for community benefit. 'Transfer of assets' includes selling goods and property (including shares) and making payments to staff, directors, and professional services providers
- If the articles of association allow the CIC to pay dividends to shareholders, these profit distributions will be subject to a maximum aggregate dividend cap of 35% of the company's distributable profits for the year
- Payment of performance-related interest on loans is subject to a cap of 20% of the average amount outstanding on the loan
- Upon [dissolution](#) of a CIC, any surplus assets must be transferred to another asset-locked body after the company settles all outstanding liabilities

All community interest companies must include this statutory asset lock in their articles of association. However, the members of a CIC can choose to impose more restrictive provisions, depending on the aims and requirements of the social enterprise.

What is a 'specified' asset-locked body?

An asset-locked body is a community interest company, charity, charitable incorporated organisation (CIO), permitted registered society, or non-UK based equivalent body. All such organisations are subject to asset-lock provisions.

When setting up a CIC, it is important to specify at least one asset-locked body to receive the company's remaining assets if it is wound up or dissolved when solvent. You should include this information in the company's articles of association.

Who can set up a CIC?

Almost anyone can set up a community interest company, including an individual person, a group of people, or an existing company or organisation.

However, the purpose and activities of the proposed CIC must satisfy the '[community interest test](#)'. This determines the extent to which the enterprise or organisation operates for the benefit of the community.

The following restrictions also apply.

- A community interest company must be set up with limited liability – it cannot have unlimited liability
- A charity cannot become a CIC unless it gives up its charitable status
- If a company engages in activities that benefit only the members of a particular body or the employees of a particular employer, it cannot be set up as a CIC
- Political parties and political campaigning organisations, or any companies that they own or control, are not permitted to become CICs
- Charitable companies registered in Northern Ireland cannot convert to the CIC structure
- You cannot be a director or person with significant control (PSC) of a CIC if you are a [disqualified director](#) or an undischarged bankrupt. This means that, in such instances, you may not set up a CIC by yourself or be involved in the management of a CIC

An existing company that wishes to operate as a CIC must convert to the CIC structure. Whereas, an existing organisation that is not a limited company will first have to become a company before converting to a CIC, or form a new CIC to which it transfers its assets and liabilities.

Can community interest companies make a profit?

Whilst CICs operate for the benefit of the community, they aim to make a profit to achieve their objectives. Indeed, many CICs operate as commercial businesses – it's what they do with their assets and profits that is important.

They must use the majority of their surplus income to support their specific social purpose. However, some CICs are permitted to distribute a certain amount of profit to their shareholders in the form of dividends.

The ability to pay [dividends](#) depends on the CIC's capital structure and constitution (articles):

- **Limited by guarantee without a share capital** – This type of CIC is a 'not for profit' company'. It does not have any shareholders or shares, so it cannot pay dividends.
- **CIC limited by shares, adopting Schedule 2 articles of association** – This type of CIC can only pay dividends to specified asset-locked bodies, or other asset-locked bodies with the consent of the CIC Regulator. Such dividend payments are not subject to the asset-lock dividend cap.
- **Limited by shares, adopting Schedule 3 articles of association** – This type of CIC can pay dividends to shareholders who are not asset-locked bodies, including private investors. However, dividends payments to private investors are subject to the dividend cap.

Providing such options enables CICs to strike a balance between attracting investment in the business without compromising their primary purpose of community benefit.

Can the director of a CIC receive a salary?

Whilst many CIC directors work on a voluntary basis, they can receive a salary, expenses, and other benefits for the work they do.

This is common practice within larger CICs that wish to attract and retain talented directors, whose skills and experience are of significant benefit to the organisation.

However, any such payments must be reasonable, in accordance with the community interest test and the asset lock provision in the company's articles.

Consequently, directors' remuneration arrangements must be transparent and included in the annual [community interest company report](#) (form CIC34), which is a matter of public record.

How to set up a community interest company

The quickest and easiest way to [set up a community interest company in the UK](#) is to register online. By doing so, you will complete the following three requirements at the same time:

- Incorporate a company limited by shares or limited by guarantee at Companies House
- Register with HMRC for Corporation Tax
- Obtain approval from the Office of the Regulator of Community Interest Companies (CIC Regulator) to form a CIC

The application costs £27 and you will need to create a Government Gateway user ID and password for your new company.

To set up a CIC online, the following steps are required:

1. Choose a unique company name

When applying to register a community interest company, you will need to provide a proposed [company name](#) that is not the 'same as' any other company on the public register. As per the [company name rules](#), you must also include 'community interest company' or 'CIC' at the end of the name. If you fail to do this, Companies House will reject your application.

2. Complete an application to register a company

Companies House online application service enables you to register (incorporate) a private company limited by shares or guarantee or a public limited company. The following information is required:

- Proposed company name in full
- Type of company
- Principal business activity
- [Registered office address](#)
- Type of articles of association the company will adopt
- Details of each director (and company secretary, if applicable)
- Details of each subscriber (member)
- Statement of capital (details of issued shares), if the company is limited by shares
- Statement of guarantee, if the company is limited by guarantee

- [People with significant control](#) (PSC)

This is the standard online application used to register any company at Companies House. You will not have to enter any particular CIC aspects at this stage.

3. Complete form CIC36 – application to form a community interest company.

You must use [form CIC36](#) to provide a ‘community interest statement’. This sets out:

- the proposed activities of the company
- what you are trying to achieve (the company’s ‘objects’)
- how the company’s activities will benefit the community
- the way in which your company differs from a commercial enterprise providing similar goods or services for private benefit
- how the company intends to use its profits

The CIC Regulator will use this information to decide whether your company satisfies the community interest test and meets the criteria for registration as a CIC.

4. Create a memorandum and articles of association

Two key documents required by all companies, the [memorandum of association and articles of association](#) form the constitution of your community interest company.

The memorandum simply confirms that the subscribers (founding members) wish to form a company and agree to become members of that company. When setting up a company limited by shares, each member must also agree to take at least one share.

The articles set out key information about the CIC and the rules that govern it, including the powers of directors and members, procedures for company meetings and decision making, issuing and transferring shares, liability of members, and the asset lock provision.

You can use one of the CIC Regulator’s ‘[model constitutions](#)’, provided that the provisions contained therein meet the needs of your company.

When applying online, you need only upload the articles. A digital version of the memorandum is automatically generated as a part of the online company formation process.

5. Submitting your application

Before filing the CIC application with Companies House, you must:

- check and confirm the information on the form
- upload a completed and signed PDF version of form CIC36
- upload a PDF version of your chosen articles of association
- pay the £27 company formation fee

Upon submitting all of the required documents to register a CIC, Companies House will process your application and send it to the CIC Regulator for review.

If the Regulator approves the registration, Companies House will issue a [certificate of incorporation](#) via email, usually within two working days. This certificate confirms that the company legally exists and can start trading as a CIC.

CIC reporting requirements

Like all limited companies, community interest companies have to fulfil certain reporting requirements during their lifetime. These include:

- CIC annual accounts and CIC report for Companies House and the CIC Regulator
- Annual [confirmation statement](#) for Companies House
- Company Tax Returns for HMRC
- VAT Returns for HMRC, if applicable
- PAYE reports for HMRC, if applicable

You must also notify Companies House of any changes to the CIC's registered details, including the registered office address, directors' appointments, and people with significant control.

Wrapping up

The CIC structure is a great option for social enterprises and other types of organisations that want to use their profits for the benefit of the community.

Whilst the process of setting up a community interest company is relatively straightforward, starting a social enterprise requires careful consideration and a great deal of planning.

Credits

The Resource Centre