
Community Interest Companies (CIC) - Information and Guidance

Warwickshire CAVA can help you identify the most appropriate legal structure for your community initiative and more. www.wcava.org.uk

This document presents some key features for a Community Interest Company (CIC).

For support, please contact the Funding and Group Development Officer in your area – Link to Funding and Group Development Officers

DEFINITION

Introduced in 2005, a Community Interest Company (CIC) is a type of company introduced by the United Kingdom government in 2005 under the Companies (Audit, Investigations and Community Enterprise) Act 2004, designed for social enterprises that want to use their profits and assets for the public good.

CICs are intended to be easy to set up, with all the flexibility and certainty of the company form, but with some special features to ensure they are working for the benefit of the community. They have proved popular. There are currently over 19000 registered in the UK with an extra 3175 from previous year (Sept 2020)

KEY FEATURES

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|---------------------------------|---------------------------|
| • The Community Interest Test | • Incorporation Process |
| • Directors' responsibility | • Articles of Association |
| • Person of Significant Control | • Form CIC36 |
| • Asset lock | • Funding |
| • Membership | • Benefits / Constraints |
| • Limited Status | • CIC start-up support |
| • HMRC & Making Tax Digital | |

THE COMMUNITY INTEREST TEST

When a CIC is formed, it must pass the community interest test and express how it intends to benefit "the Community", with a combination of

- Specific geographical location eg "Leamington Spa", "United Kingdom", "European Countries"

- Specific social group eg the residents of a particular town, or a social group such as “the elderly” or “people with special needs”.
- Specific community purpose, eg “the preservation of the riverbank” or “the promotion and encouragement of sporting activities”

In practice, passing the test is simple as long as form CIC36 is clearly completed.

The Case Manager will look at the motivation of the company and its underlying purpose:

- What is it going to do?
- What will it do with any surplus it makes?
- Who is it going to help and how?

It is only when the Regulator is satisfied that the company’s main purpose is to benefit the community it will be set up to serve that she will approve the application and ask the Registrar of Companies to incorporate the company as a CIC. The CIC must continue its community purpose from incorporation to dissolution, or if it converts to a charity. If a CIC were to dissolve, any surplus assets will be preserved for the community rather than distributed to members.

THE COMMUNITY

When a CIC is formed, it must express how it intends to benefit “the Community”. This term can be defined in several ways, but usually it refers to a distinct group of people, wider than the membership of the CIC itself, which the reasonable person might consider to be “a section of the community”.

As such, “the Community” might refer to the residents of a particular town, or a social group such as “the elderly” or “people with special needs”. However, a CIC may also have as its purpose a more general benefit to the community at large – hence “the preservation of the riverbank” or “the promotion and encouragement of sporting activities” may well be equally valid in fulfilling the Community Interest Test.

DIRECTORS RESPONSIBILITY AND ACCOUNTABILITY

- Serve the CIC’s community purpose
- Maintain financial and statutory records, including holding documented directors’ meetings
- Submit mandatory accounts and reports annually (beware of penalties!)
- Adhere to Companies House corporate governance guidance
- Balanced books with expectation to redistribute profits into community purpose

Notes:

- Directors, unlike charity trustees, can be paid for their work to manage the planning and day-to-day operations of a CIC. This is done as PAYE remuneration
- A CIC is subject to corporation tax in the same way as any other limited company

PERSON OF SIGNIFICANT CONTROL

A Person of Significant Control (PSC) is someone that holds more than 25% of shares or voting rights in a company, has the right to appoint or remove the majority of the board of directors or otherwise exercises significant influence or control.

There can be more than one PSC in a company. They can be appointed at time of registration with Companies House.

In the case of a CIC limited by guarantees with a number of directors, it can help ensure the key founders of the community enterprise retain main decision power to stir their initiative, while benefiting from the support and expertise of other appointed directors.

ASSET LOCK

The asset-lock is a fundamental feature of CICs.

"Asset Lock" is a general term used to cover all the provisions designed to ensure that the assets of the CIC (including any profits or other surpluses generated by its activities) are used for the benefit of the community.

The asset locked body, should the CIC fold, is defined in the articles of association.

MEMBERSHIP

A CIC can either be with small or with large membership. You'd need to decide whether it would be useful for your CIC to have members and, if so, what the criteria for membership would be, their voting rights, and how you would communicate with and keep records of your members.

Small membership: All directors are members of the CIC and the membership is limited to its directors. This means decision making resides solely with the CIC's directors.

Large membership: the CIC will have other members in addition to its directors. Members will be involved in decision making and vote at annual AGM, for example. This can work well for a cooperative model for example.

LIMITED STATUS

A CIC can be limited by guarantees or by shares.

Limited by guarantees

- No legal minimum number of directors
- Funding requirements: often minimum 3 directors, with 2 or 3 unrelated
- No dividends payable to directors
- Limited debt liability – usually £1

Limited by shares

- Hardly any funding available
- Dividend limitations (currently 65% community, 35% shareholders)
- Debt liability limited to shares value – often each share set to £1

INCORPORATION PROCESS

Online registration (Form IN01): 1 application - 3 government departments

<https://www.tax.service.gov.uk/register-your-company/setting-up-new-limited-company>

- Companies House
- HMRC
- The Office of the Regulator of CICs

Pre-requisites – prior to online process

- Memorandum of Association
- Articles of Association
- Form CIC36
- Registered address of the company
- Detail of your directors, names, DOB, nationality, address
- Person(s) of Significant Control

ARTICLES OF ASSOCIATION

Choose the articles of association relevant to your company, depending on whether you are a small membership company or a large membership company.

Small membership - articles of association

[Use the small membership articles if all of the following apply to your CIC:](#)

- it is limited by guarantee
- all the directors are also members of the CIC
- all the members are also directors of the CIC

Large membership - articles of association

[Use the large membership articles if all of the following apply to your CIC:](#)

- it is limited by guarantee
- the CIC will have more members than it has directors

BENEFITS AND CONSTRAINTS

CIC with small membership and limited by guarantee

Constraints

- Fewer grants but increasing
- Annual accounts and social report
- Lack of tax breaks
- Limited awareness of the CIC model
- Restrictions on asset use
- Restrictions of use of profits
- HMRC MTD mandates & costs

Benefits

- Clearly serving the community
- Remuneration of trustees/directors
- Simplicity of decision making
- Reduced governance requirements
- Online incorporation
- Online annual filling (some restrictions)
- Speed of incorporation
- Awareness of social impact increasing