

Community Interest Companies (CICs)

- New species of limited company available from 2005
- Intended for 'social enterprises' but suitable for many arts and cultural organizations
- Cannot be a charity but can be formed as a subsidiary of an existing charity
- Suitable for organizations who want the benefits of corporate status and who wish to use any profits/surplus for community benefit
- Can take two different forms:
 - either a **Company Limited by Guarantee (CLG)** or
 - or a **Company limited by shares** ('trading company')
- Can have wide or narrow memberships
- Can be used as a vehicle for issuing share or loan capital to investors and paying dividends
- Directors can be paid reasonable fees
- Modest set-up costs (£35/25)

Formation Requirements:

- Name must include 'Community Interest Company' or 'CIC'
- Must pass 'community interest' test
 - Must benefit a genuine section of the community
 - Cannot just be for the benefit of members or staff but staff and members can also benefit provided there is sufficient benefit to the community
 - Cannot carry on political activities
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- Constitution must contain an 'asset lock' preventing dilution of assets and is achieved by:
 - A dividend cap (set annually)
 - Restriction on transfer of assets for less than market value; salaries and payments for services cannot be excessive
 - Cap on interest payable on loans
 - Restriction on transfer of assets to non asset-locked entities
- Can be formed by new incorporation as CIC or by converting an existing company

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- Relatively simple forms to be completed and submitted to the CIC Regulator:
 - Mem and Arts complying with the new CIC Regulations and Companies Acts
 - Community Interest statement
 - Exempt company declaration re political activities
 - Forms 10 and 12 as usual
 - For conversions company must in addition pass a Special Resolutions to change name and Mem and Arts and allow for objections by minority shareholders

Advantages over companies limited by guarantee

- CIC badge/brand: 'endorsement' by Regulator
- In-built asset-lock (CLGs can have this but need special drafting)
- Can attract share and loan capital and pay dividends

Drawbacks

- Annual reporting
- New tier of Regulation but no sign that this will be more than light-touch
- Unfamiliarity in the visual arts.

This note is for general guidance only and is not intended as specific advice for any particular circumstances.

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