



The Community Interest Company (CIC)

The Community Interest Company is a legal structure designed for Social Enterprises.

Company legislation was never designed for community and voluntary sector organisations whose ethos is 'not-for-profit' (or more precisely 'non-profit-distributing'). Social enterprises, in particular, have no legal structure designed specifically for them and tend to register as a 'Company Limited by Guarantee without Share Capital', sometimes as a 'Company Limited by Shares', or go down the co-operative route to incorporate as an 'Industrial and Provident Society'.

The 'Community Interest Company' was initially proposed September 2002 by the UK Government's Strategy Unit and the idea became a part of the 'Companies (Audit, Investigations and Community Enterprise) Act' which became law in October 2004. Its main provisions will come into force in July 2005 and the first CICs were registered soon afterwards.

The new legal entity is designed for small scale social enterprises, which are established for community benefit, and which use their assets for community purposes (in perpetuity). In addition, CICs will have the ability to raise funds by issuing shares.

A Community Interest Company is primarily a registered company but with additional features. The company can be a Company Limited by Shares, a Company Limited by Guarantee without Share Capital or even a Public Limited Company. CIC status can be regarded as an additional 'wrapper' around the basic company constitution and structure. (This is similar to charitable organisations first registering as companies limited by guarantee and then seeking additional charitable status 'on top'.)

This structure enables organisations to work within the well-established company framework without having either charitable status or the commercial motive of profit distribution.

Key Features of the Community Interest Company

1. The 'Asset Lock'. This is a restriction on distributing profits or assets to members. Importantly, this asset lock applies in perpetuity. (In the case of a company limited by guarantee without share capital, though there are no shares through which to distribute dividends, the constitution can be changed at a later date to distribute profits to members). If the organisation ceases to be a CIC, remaining assets cannot be distributed to members but must be used for community benefit.
2. The 'Dividend Cap'. A CIC which is incorporated as a company with shares is able to raise funds by issuing shares, but the dividend payable on shares will be subject to a cap, set by the Regulator, in order to protect the company's assets. The Regulator will set the dividend cap as a percentage of the amount paid up on the relevant share.
3. The 'Community Interest' test. The CIC must satisfy the regulator that the company's activities are in the interests of the community. (The legislation states that "a company shall satisfy the community interest test if a reasonable person might consider that its activities are being carried out for the benefit of the community".)
4. The Community Interest Annual Report. A CIC is obliged to publish an annual report which demonstrates how its activities have been for the community benefit and how it has involved stakeholders in its decisions. The report must contain details of any shareholders, dividends paid, and directors' remuneration. The report is submitted annually to Companies House and is held on the public record.

There are no particular tax benefits for CICs (such as those given to charities).

Charities. A company cannot be both a CIC and a Registered Charity. However charities in England and Wales will be allowed to convert into CICs with the permission of the Charities Commission. Charities will also be able to establish CICs as subsidiaries.