Legal Structures

VAL FACTSHEET

This is an information sheet on Legal Structures. For support please contact Voluntary Action LeicesterShire on 0116 2575050 or helpline@valonline.org.uk

Choosing the right legal structure is one of the most important decisions you will make when setting up a charity or community organisation, as it shapes how your organisation operates, is governed, and achieves its aims.

Choosing a legal structures

What is the difference between a charity and a social enterprise?

In general, Charities often fund their good work through donations and fundraising. Whereas Social Enterprises often sell products or services, in order to reinvest their profits.

When to set up a Social Enterprise:

If you want to tackle social issues whilst earning an income as the owner or shareholder of a VCSE organisation, then primarily the organisation will be classed as a Social Enterprise.

1. Charitable Company (Limited by Guarantee)

- Incorporated structure with separate legal identity
- Members' liability limited to a nominal amount
- Regulated by both Companies House and the Charity Commission (if charitable)
- More formal governance and reporting requirements

Good for groups wanting official charity status and access to tax relief

2. Community Interest Companies (CICs)

- Designed for social enterprises that benefit the community and can be limited by guarantee or shares.
- Regulated by Companies House and the CIC Regulator, with a required social purpose in their governing document.
- Have an asset lock to keep assets for community benefit and a cap on dividend and interest payments

A business structure that trades while supporting community benefit.

3. Private Company Limited by Guarantee without Share Capital (CLG)

- A CLG is a business whereby directors benefit from limited liability and give a nominal guarantee to cover the company's liability in the event of winding up.
- There is no share capital and there are no shareholders.

Must register with Companies House.

4. Community Benefit Society (CBS)

- Businesses that operate for the benefit of the wider community and reinvest profits locally.
- Often used by communities to own local assets (e.g. pubs or piers).
- Can raise capital from the public and include features like member control, withdrawable shares, and an asset lock.

A community-owned business that reinvests profits for community benefit.

5. Co-operative Society

- Owned and controlled by its members, (staff, customers, suppliers, local residents)
- Members have an equal say in how the business is run and choose what to do with profits, whether reinvesting in the business, distributing among members, or giving to the community.

Best for: Member-led enterprises.

See next page for Community Groups and Charity Structures

Community Groups and Charity Structures

When to set up a charity or community group:

If you want to set up an organisation whereby your colleagues and you will volunteer your time, then a type of community group or charity would be the most appropriate. Here is a clear summary of the main legal structures typically available for charities, and community groups in the UK:

1. Unincorporated Association

- Simple structure, often used by small community or volunteer groups
- No separate legal identity from its members
- Committee members can be personally liable for debts
- Low setup and reporting requirements

Best for: Small, informal volunteer-led groups.

2. Trust

- Managed by trustees who hold assets for charitable purposes
- No separate legal identity (unless structured as a CIO)
- Trustees can be personally liable and Governed by a trust deed

Best for: Grant-making charities or organisations managing funds or property.

3. Registered Charity

- Must have at least £5,000 annual income
- Usually unincorporated (trustees can be personally liable)
- Must register with the Charity Commission
- Often uses the Charity Commission's model constitution

Good for groups wanting official charity status and access to tax relief

4. Charitable Incorporated Organisation (CIO)

- Incorporated structure designed specifically for charities and Separate legal identity
- Limited liability for trustees
- Regulated only by the Charity Commission (not Companies House) you must register with the Charity Commission.

Foundation CIO

The Foundation model is for charities where the only voting members are the trustees. The trustees run the organisation, decide how money is spent, and appoint new trustees.

Association CIO

The Association model is for charities with a wider membership, including voting members who are not trustees. Members can vote on important decisions, usually at an Annual General Meeting.

Best for: Charities wanting legal protection with simpler reporting than a company.

5. Community Amateur Sports Club (CASC)

- Designed for sports clubs
- Offers tax benefits like a charity but with less regulation
- Must meet specific criteria set by HMRC

Good for volunteer-led sports clubs

Legal Structures and Governing Documents

The table below outlines the governing documents that are needed for each type of legal structure.

Legal Structure of Organisation	Governing Document Required
Unincorporated Association	Constitution
Trust	Trust Deed
Company Limited by Guarantee	Memorandum and Articles of Association
Charitable Incorporated Organisation (CIO)	Constitution
Community Interest Company (CIC)	Memorandum and Articles of Association
Registered Society	Rules