

# Journey of a Group: Legal Structures

## Overview

If you are thinking about setting up a charitable organisation, consider carefully what legal form you choose. Your legal structure can impact any future activities, such as fundraising, trading or contracting because your legal status is closely linked with how you are governed and regulated. It can also affect your legal rights as an organisation.

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### Types of structures for voluntary and community groups

#### 1) Voluntary and community groups

If you are a community group, local club, or association that is not registered with the Charity Commission, your type of organisation is known in legal terms as an 'unincorporated association'. This means that even if you have your own name as a group, you are simply a group of people coming together under a shared interest or activity and you have no separate legal identity. Since your organisation is not a separate legal entity in the eyes of the law, individuals take personal liability for any risk or debts, and you cannot enter into any legally-binding contracts in the organisation's name.

"Choosing the right legal structure goes a long way towards making an organisation run more effectively"  
Co-operatives UK

## 2) Registered charity

If your organisation has charitable aims (as outlined in the Charities Act 2006) and is for the benefit of the public and you are generating an income beyond £5000 Per Annum (pa) then you will need to register as a charity. The Charity Commission regulates and administers all registered charities in the UK, offering more guidance through their website.

## 3) Charitable Incorporated Organisation

Charitable Incorporated Organisations (CIOs) are a legal structure, regulated by the Charity Commission. CIOs were introduced through the Charities Act 2006 and they simplify the process for setting up a charity, because you only need to register with the Charity Commission (rather than having to register with Companies House as well). The CIO structure is most suitable for small to medium-sized organisations that employ staff or enter into contracts.

There are two constitution models available for a CIO:

- The foundation model, which is for charities who's only voting members will be the charity trustees; and
- The association model, which is for charities that will have a wider membership, including voting members other than the trustees.

You can access model constitutions for the foundation and association models on the Charity Commission's website. Registering as a CIO can be done via the Charity Commission website.

## 4) Company Limited by Guarantee (CLG)

Many charities choose to become a Company Limited by Guarantee (CLG) because it is relatively straightforward to set up with non-profitable aims. A CLG is essentially a private company that reinvests any profits back into the company. It has its own members but does not have shareholders or shares – because of this they can apply for charitable status. A CLG means that an organisation becomes incorporated as a legal entity in its own right.

In order to become a CLG you will need to register with Companies House as well as the Charity Commission (this is often done at the same time). In this circumstance you will be subject to company law but will need to comply with the Charities Act and Charity Commission regulations as well.

## 5) Charitable Trust or Foundation

In legal terms, a charitable trust or foundation must be registered with the Charity Commission, but they are un-incorporated (so any trustees carry personal liability for any debt)

Most charitable trusts and foundations in the UK focus primarily on grant-making. They do not engage in other activities or provide direct support to the sector itself. A charitable trust must be for the benefit of the public, though it can be set up to benefit a specific cause. Greggs Foundation and Garfield Weston Foundation are examples of charitable trusts

## 6) Community Benefit Organisations

A charitable community benefit society is a community benefit society with exclusively charitable purposes. It must only undertake activities that further its exclusively charitable objects. This means that it intends to

engage in trading activities that are neither in pursuit of its primary purpose nor ancillary to that purpose, may have to establish a trading subsidiary to carry out this trade. A charitable community benefit society must have an asset lock. This must take the form of a rule stating that if the society is dissolved, any residual assets must be transferred to another charity with the same or similar charitable purposes.

## 7) Community Interest Company (CIC)

CICs are fundamentally a business, and they have a social benefit or work to support a community / set of people. A CIC cannot be registered as a charity. CICs are regulated by the CIC regulator that registers, monitors and regulates them.

### Further Sources:

The Charity Commission

<https://www.gov.uk/government/organisations/charity-commission>

<https://www.gov.uk/guidance/charity-types-how-to-choose-a-structure>

Co-operatives

<https://www.uk.coop/start-new-co-op>

Companies House

<https://www.gov.uk/government/organisations/companies-house>

Community Interest Companies

<https://www.gov.uk/government/publications/community-interest-companies-business-activities>

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