

## Community Interest Companies – are they of interest to you?

### Background

Over 9,000 Community Interest Companies (CICs) have been formed since their introduction in 2005 with 195 incorporated in February 2015 alone. The recent increase in popularity may be because a CIC is the ideal vehicle for a business to use to provide community services previously offered by the public sector.

### Key characteristics

Essentially a CIC is a limited company like any other. However, a CIC is unique in that:

- its principal purpose is to benefit the community, rather than its members, directors or employees;
- it uses its income, assets and profit primarily to benefit the community;
- it only undertakes activities which will contribute, at least in some way, to benefitting the community;
- it is subject to an "asset-lock" which requires a CIC to ensure all assets are transferred to third parties at market rate unless the recipient meets certain requirements. This restriction covers remuneration of directors and employees and payments to service providers; and
- if limited by shares, it is subject to a "dividend cap", restricting the amount of any dividend that can be declared in any one year.

### Would a CIC suit your business?

Whether a CIC is the appropriate structure

for your business depends on the primary purpose of your business and whom you intend to benefit from any profit generated by its activities.

### Community

A CIC cannot be, or be a subsidiary of, a political party or political campaigning organisation.

A CIC is also not appropriate where an enterprise seeks to benefit only members of a club or employees of a specific employer. There must also be a benefit to the wider community.

Where the primary purpose of a business is to provide a community benefit, a CIC is ideal. Example communities include:

- individuals with social, physical or learning difficulties;
- primary school teachers and pupils within two geographical regions;
- disabled people; and
- "young people and adults who have faced barriers and/or who need additional support or skills to access College apprenticeships, further training or employment".

### Charity or CIC?

Traditionally social enterprise has been carried out through registered charities.

Charities are heavily regulated and most are not permitted to pay their Trustees. In contrast, CICs benefit from lighter-touch

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## Community Interest Companies – are they of interest to you?

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regulation and are permitted to pay their directors reasonable remuneration.

### Further advantages of a CIC

Entrepreneurs may be more willing to be involved in a CIC than a charity. They are able to retain strategic control by sitting on the board as paid directors and may be entitled to receive a return on their investment by way of dividend payments.

A CIC is on an equal footing with other corporate entities when negotiating and entering into commercial contracts.

Since a CIC's income, assets and profit are protected by its constitution, a CIC may be able to access sources of funding which a normal limited company cannot.

### Formation and administration

It is relatively straightforward to form a CIC and the incorporation fee is only £35. The process is similar to the formation of any private limited company.

A community interest statement must be included, setting out the intended activities and identifying the community.

Like all limited companies, a CIC and its directors are subject to the Companies Act 2006. In addition to submitting an annual return and accounts, a CIC must submit an annual community interest report. The report includes: a summary of the activities of the CIC; details of how these activities have benefitted the relevant community and the amount of remuneration and dividends paid during the year.

### The CIC Regulator

The CIC Regulator regulates all CICs. She assesses all applications for the formation of CICs and provides general guidance.

The Regulator has wide powers of intervention where there is suspected mismanagement, a need to protect assets or where a CIC no longer satisfies the community interest test. She can remove, appoint or suspend management, transfer CIC property or shares, take action in the name of the CIC and even petition for the winding-up of a CIC.

### Looking ahead

A growing number of businesses are finding that CICs combine the best of the corporate and social enterprise worlds. It will be interesting to see whether any CICs are formed as public companies and, going forwards, whether any CICs will seek a flotation.

For further information, please refer to your usual contact at Thomson Snell & Passmore. Alternatively, please contact Harriet Serpis, a Solicitor in our Corporate and Commercial team, on 01892 701162 or email at:

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This briefing paper summarises and comments on the legislation applicable to CICs. It is not intended to be comprehensive or to provide legal advice, which should be sought on particular matters. Reviewed March 2015

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