

Fact Sheet 4 – Legal Structures

There are a number of different types of legal structure available, and choosing the right legal structure for your organisation is an important step. It will affect what you can and can't do, and could affect your degree of financial risk, the control you retain over your activities, how you can raise money, as well as the amount of administration involved.

A legal structure may include one or more legal forms and types of status, depending on the circumstances and activities delivered. A number of legal structures exist and each has its own relative advantages and disadvantages and will be suitable for different types of organisations.

Commonplace Legal Structures

Legal structures often found in the sector include the following:

- **Unincorporated Association (Society).** A group of people joined together for a common purpose, governed by a written constitution. While it can be set up quickly, individuals have unlimited liability and are personally responsible for any debts.
- **Charitable Trust.** Two or more individuals declare in a deed to hold property upon trust to be used for defined charitable purposes. An advantage is that it is autonomous, although a disadvantage is that Trustees are personally liable for contracts they enter into.
- **Company.** Considered in law to be an individual with its own legal identity, and as such it can enter into contracts in its own name, sue, and be sued. There are two main types of Company; Private Company Limited by Share (owned by shareholders), and Private Company Limited by Guarantee (owned by members). Greatest advantage is that owners are not personally liable for debts, unless negligent, however legal requirements can be time consuming.
- **Community Interest Company.** Includes a 'community interest test' and an 'asset lock' to ensure the CIC is established for community purposes and the assets and profits are dedicated to these purposes. Dividends may be paid to members and directors may be paid for their role, although a CIC cannot have charitable status.
- **Industrial and Provident Society (IPS).** Have own legal identity and members have limited liability. There are two types; Bona Fide Co-operatives (services for members), and Bencom (services for the benefit of the community). All IPSs may distribute a surplus annually through dividends to members, although they are relatively inflexible and must operate on a 'one member one vote' basis.

Charitable Status

Not a legal form in itself, but a status applied to certain legal forms. The concept of a charity is far wider than many realise, and charities are not confined to helping the poor or destitute. All charities must always act for the public good, must have charitable objects, and the primary purpose cannot be to make money. Charities have very specific rules on trading and are not generally allowed to undertake activities designed solely to generate funds. Many organisations form a dual structure to enable trading activities, for example operating a company limited by guarantee with charitable status (to undertake solely charitable work) and incorporating a wholly-owned trading subsidiary as a company limited by share (to generate income).

For further details about how Pulse Regeneration can help, please contact us.

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