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Quick comparison guide to CICs and CIOs

In addition to the information in our Legal Structures Chart we are often asked about the benefits and disadvantages of Community Interest Companies (CICs) and Charitable Incorporated Organisations (CIOs)

Both give limited liability and both have asset locks. Here are other aspects to consider:

Ability to trade: charities may only trade in limited circumstances, whereas a CIC is designed to trade and generate its own income. This is a benefit of a CIC if you plan to trade to raise funds, but if you are going to be grant dependent, funders are likely to ask lots of questions and may assume that you have chosen CIC because you don't want to meet the governance requirements expected of a charity.

Access to funding: Some grant funders and business donors will only fund charities. This is because charities can only use funds for stated purposes and/or because giving to a charity is tax effective. On the other hand, from time to time there may be some business grants and loans that are accessible to CICs that charities can't access.

Ability to pay decision-makers: trustees of a charity can only be paid in very limited circumstances whereas directors of a CIC can be paid members of staff. However, most grant funders want the balance of power in a CIC to rest with unconflicted individuals and directors that are paid are considered "conflicted". In a charity, those wishing to be paid for their work must hand over control of the organisation to a board made up of volunteers, which many founders will not wish to do.

Flexibility: a community interest company can be converted into a charity – you can't convert a charity into a CIC.

Speed of setting up: a community interest company is quicker to form than a charity, with an online application to form the company made to Companies House, which they and the CIC Regulator separately review. This normally takes around 10 days. Charity registration takes at least 2 to 3 months and requires a lot more work before the application is submitted.

Governance requirements: There is also a lower level of ongoing governance for a community interest company than a charity. While CICs are regulated by the CIC Regulator, this is comparatively 'light touch', with the main requirement being the submission of the annual Community Interest Report. Charities, by contrast, are more strictly regulated by the Charity Commission (in England and Wales) or the Office of the Scottish Charity Regulator (in Scotland). The reporting requirements, in financial and other areas, are more stringent for charities than CICs.

Activities: The social aims that are permitted and the activities that can be carried out to further those aims are wider for a CIC than a charity. The definition of community interest in the 'Community Interest Test' which applies to CICs is wider than the equivalent 'Public Benefit Test' which applies for charities. This means that many aims which would not qualify for charitable status can legitimately be pursued by a CIC.

Tax effectiveness: Charities are able to claim a number of tax reliefs on most income, capital gains and profits, with various schemes available – such as reclaiming gift aid on donations – which can make an important difference to the amount of money they can raise for their cause. CICs don't receive the same tax breaks, even if their objects are wholly charitable. This makes donations from businesses to CICs less attractive to the donor. If business rates apply to your premises, then the charitable rate relief could be a saving that at CIC won't be able to access – although CICs may qualify for other relief such as Small Business Rate Relief.