

Creating a charitable company

A 'charitable company' is an organisation that has first become an incorporated organisation and then has registered as a charity.

An incorporated organisation (usually referred to as a company) is recognised by law and has special functions, rights, duties and liabilities. There are several legal structures for a company, but the most common in the voluntary sector is a **private company limited by guarantee**.

A charitable company must have entirely charitable objects and may only undertake work that is compatible with those objects.

Why create a charitable company?

For most organisations, the main advantage of incorporation is limited liability. Limited liability means that all members agree to pay a small amount (usually £1) if the company becomes insolvent.

When an organisation incorporates it has a legal personality so it can enter into contracts, rent or own property, sue or be sued in its own right. It is considered to be a 'legal person' and within the bounds of common sense can do anything that a human person can do. There is no need to transfer leases, contracts or other legal agreements to new signatories whenever the person who signed them ceases to hold their position in the organisation.

An incorporated organisation is liable for its own debts. If it does not, or cannot, pay its bills, the people to whom it owes money can

take legal action against the organisation, Very occasionally legal action can also be taken against the members of the governing body, but not against the members of the organisation.

Members of a **private company limited by guarantee** make no contribution to the capital during the lifetime of the company because they do not purchase shares. Members' liability is limited to the amount that they each agree to contribute to the company's assets if it is wound up. This amount, known as their guarantee, is typically £1.

The process of creating a charitable company (in brief)

1. Prepare the memorandum and articles of association of the private company limited by guarantee
2. Register the organisation as a company with Companies House
3. Register the company as a charity with the Charity Commission

Support to set up a charitable company

Newcastle CVS:

www.cvsnewcastle.org.uk or
information@cvsnewcastle.org.uk

We discuss legal structure options with all proposed organisation including those thinking about being a charitable company.

Newcastle CVS, through its Specialist Services

can support groups and organisations to set up a charitable company. You can contact us using the information on the bottom of this page.

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