



A guide to

# legal structures for impact-led organisations

Are you at a stage where it makes sense to register your organisation as its own legal entity? If so, you'll need to consider what is the most appropriate structure for your organisation.

# A guide to legal structures for impact-led organisations

**Please note:** This is intended as general guidance only, not specific advice for you in your circumstances or as a substitute for professional advice. For advice on choosing the right option for you, talk to a lawyer and an accountant.

There is no particular recommended legal structure for an impact-led organisation or social enterprise. Some common structures they may use are:

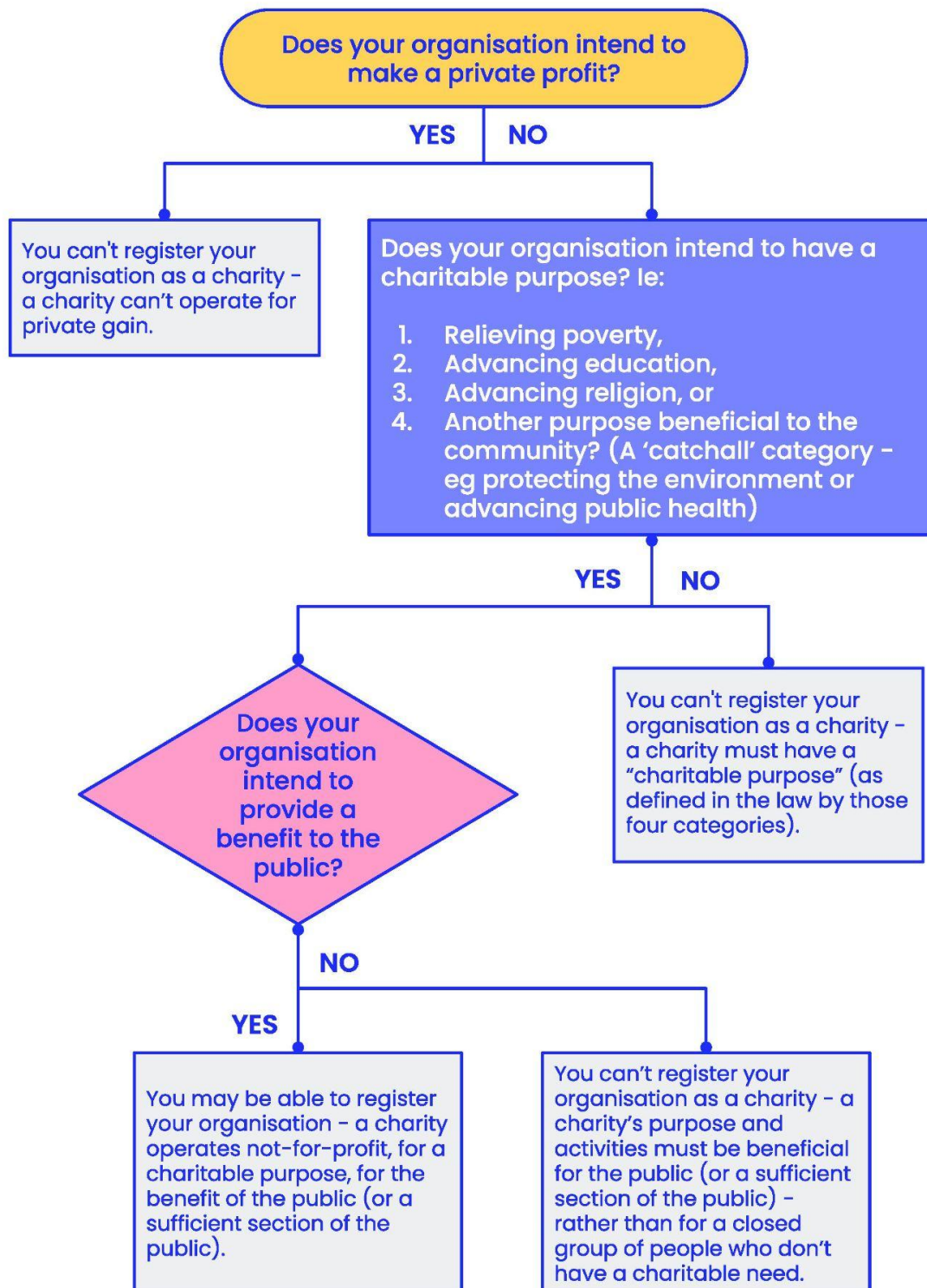
- Limited liability company (with or without charitable status)
- Charitable trust
- Multiple entities (both a company and a charitable trust)

## As a general guide, we suggest that:

- If your organisation is intended to be a not-for-profit organisation with a charitable purpose that will rely primarily on grants for funding, it may be best to structure it as a charitable trust. The social, cultural or environmental purpose will be protected by the requirements for obtaining and maintaining charitable status.
- Otherwise, if you are not primarily relying on grant funding, a limited liability company is a common and efficient structure for an organisation. With this structure, the social, cultural or environmental purpose can be protected by setting it out in the company's governing documents (for example in a company constitution and a shareholders' agreement).
- Some organisations with particularly complex needs have both a limited liability company and a charitable trust. If it sounds like this could be useful for you, seek legal advice.

This tool sets out some more information on these options.

# Can I register as a charity?



Check out the [Charities Services website](#) for more information on the [requirements](#), [benefits and obligations](#) of registering as a charity.

## What are some different features of a company vs a charitable entity?

Features	Company	Charitable trust or charitable company
<b>Mission-locking</b>		
<b>What is the purpose of the business?</b>	Your business can have a dual purpose of making positive social, cultural or environmental impact and private profit.	The purpose of your business must be "charitable" (as defined in the law). See the <a href="#">Charities Services website</a> for more information on what is a "charitable purpose".
<b>How can I protect the purpose?</b>  <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>For more information on protecting the purpose of your organisation see this free tool from The Impact Initiative:  <a href="#">How to protect the purpose of your business: also known as 'Mission Lock'</a></p> </div>	You can protect the social, cultural or environmental purpose by setting it out in a company constitution, and other governing documents of the company. (A company constitution is an optional document that your company can create to set out the rights, powers and duties of your company, your directors and your shareholders.)	The charitable purpose will be protected by the legal requirements for obtaining and maintaining charitable status.  A charity must have rules that set out and protect the charitable purpose (eg in the constitution of a charitable company, or in the trust deed of a charitable trust. A trust deed is a document that sets out the purpose of the trust and the rights, powers and duties of the trustees.)
<b>Funding</b>		
<b>Can my business seek equity funding (i.e. sell shares to investors)?</b>	Yes.	No – trusts don't have shareholders. In a charitable trust, the assets of the business are held and used for the benefit of the charitable purpose, not for private profit.  A company with charitable status can't distribute dividends to private shareholders.
<b>Can my business seek debt funding (i.e. borrow funds from lenders)</b>	Yes – traditional lenders are familiar with the company structure and may be willing to lend.	In some circumstances – this can be challenging because the assets must be used for charitable purpose, making them difficult to lend against.

<p><b>Can my business seek philanthropic funding (i.e. grants)?</b></p>	<p>Sometimes – many philanthropic funders may be unable or unwilling to fund organisations that are not registered charities due to concerns about possible “private gain”.</p>	<p>Yes – including from funders who only fund registered charities.</p> <div data-bbox="1323 304 2067 443" style="border: 1px solid black; padding: 5px;"> <p><b>Charity pro: Philanthropic funders may perceive the mission as front and centre if your business is registered as a charity.</b></p> </div>
<p><b>Can my business be funded by its trading activities (i.e. selling goods or services)?</b></p>	<p>Yes – it's common for the majority of income to come from trading a product or service.</p>	<p>Yes – it's common for the majority of income to come from trading a product or service.</p>
<p><b>Income</b></p>		
<p><b>What can my business do with any profit it makes?</b></p>	<p>A company can operate for-profit. Profits may be reinvested in the company's mission and/or distributed to shareholders as dividends.</p>	<p>Profits generated by a charity must be reinvested in the charitable purpose (private profit is not allowed).</p>
<p><b>How would my business be taxed?</b></p>	<p>Companies aren't eligible for certain tax exemptions that apply to charities, and therefore pay normal business tax. Check out the <a href="#">Inland Revenue website</a> for more information on the tax obligations of companies and other businesses.</p>	<p>Charities are eligible for certain tax exemptions. Check out the <a href="#">Inland Revenue website</a> and <a href="#">Charities Services website</a> for more information.</p>