

# Legal forms for co-operatives



## Common legal forms for different types of co-ops

This table shows legal forms that are commonly adopted by different types of co-ops.

NB These are the most common choices – you may choose a different form for your co-op than shown here.

	Workers' co-op	Housing co-op	Consumer Co-op	Co-operative consortium	Secondary co-op	Food co-op	Social centre/club	Community co-op	Multi-stakeholder co-op	Name of governing document
Co-operative Society	✓	✓	✓	✓	✓	✓	✓	✓	✓	Rules
Company ltd by guarantee	✓		✓	✓	✓	✓		✓	✓	Articles of association
Company limited by shares	✓		✓	✓		✓		✓	✓	Articles of association
Limited Liability Partnership	✓			✓	✓			✓		Partnership agreement
Partnership	✓				✓					Partnership agreement
Association					✓	✓				Constitution

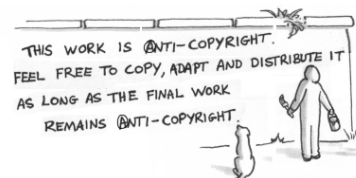
## Common ownership, or co-ownership?

A big question for your co-op when deciding on a legal form is *who owns the assets?* Many co-ops decide that the means of production as well as any other capital and assets should be owned not by individuals or corporations, but by society generally. This is called *common ownership*. If your co-op is in common ownership, then as a member you are a trustee of the co-op and its assets, benefiting from it but also looking after it for future generations. Practically, this means that if your co-op is wound up, any assets left over are passed on to other co-ops or similar organisations, and not divided up among the members. If you want to ensure that your co-op is in common ownership then you'll need to choose a legal form that doesn't permit the issue of shares.

## And finally

Choosing a legal form for your co-op can be confusing, but since you'll probably only do it once you don't necessarily need to understand all the technical details. Get advice from people who like thinking about this kind of thing, for example Radical Routes and Co-operatives UK, and similar existing co-ops why they chose their legal form and how well it works for them.

For more briefings and training workshops see:  
[www.seedsforchange.org.uk](http://www.seedsforchange.org.uk)



All organisations (including co-operatives) have a legal form – what sort of body it is in the eyes of the law, e.g. a Company Limited by Guarantee, a Co-operative Society or a Limited Liability Partnership.

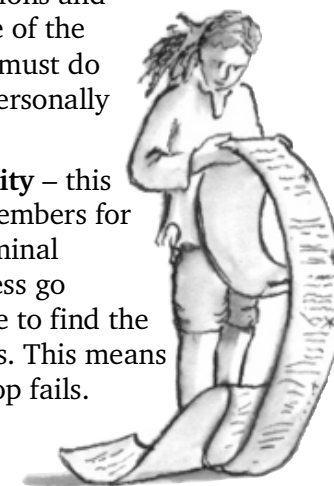
Here in the UK there is no one legal form that is always used by co-ops. Instead co-ops choose a basic legal form, then they define how they are going to operate co-operatively in what's known as a governing document, or constitution.

This guide provides a brief comparison of legal forms available to common types of co-op. For more information on choosing a legal form for your co-op see the "How to set up ..." series by Radical Routes ([www.radicalroutes.org.uk](http://www.radicalroutes.org.uk)), and "Simply Legal" by Co-operatives UK ([www.uk.coop](http://www.uk.coop)).

## Incorporation and liability

Legal forms can either be *incorporated* or *unincorporated*. If your co-op is **incorporated** the organisation is seen as a *person* by the law, meaning it can enter into contracts in its own right. For example, an incorporated co-op can employ people and buy or rent property in the name of the co-op. **Unincorporated** groups, such as associations and partnerships, can't sign contracts in the name of the organisation. Instead, one or more members must do this on behalf of the co-op and they will be personally liable if the contract is breached.

Most incorporated bodies have **limited liability** – this means that the responsibility of individual members for the co-op's debts is restricted – often to a nominal amount such as £1 or £10. Should the business go bankrupt, the individuals involved won't have to find the money themselves to pay all the co-op's debts. This means your savings should be safe, even if your co-op fails.



# Legal forms comparison table

	Co-operative Society	Company Limited by Guarantee	Company Limited by Shares	Limited Liability Partnership	Unlimited Partnership	Association
<b>Liability</b>		Limited		Limited	Unlimited	Unlimited
<b>Common Ownership</b>	Yes, if the constitution stipulates that the assets on dissolution cannot be distributed amongst members but must be passed on to another non-profit organisation. (companies Ltd by Shares rarely in common ownership).			Partnerships are legally defined as profit-making businesses, and many believe they cannot be in common ownership.		N/A: association doesn't own property.
<b>Min. no of directors / members</b>	3	Legally you only need one director, but as a co-op you will obviously need at least two members!	Legally you only need one director, but as a co-op you will obviously need at least two members!	2		N/A
<b>Registration and regulation</b>	Financial Conduct Authority (FCA). Usually via sponsoring organisation e.g. Cooperatives UK. Takes up to 3 weeks. £40 to £950.	Companies House Takes up to 2 weeks (cost £40). Same day registration possible for £100.	Companies House Takes up to 2 weeks (cost £40). Same day registration possible for £100.		No registration, since not incorporated.	None
<b>Admin and paperwork</b>	Annual return (form to fill in letting regulator know of any changes of directors or secretary plus the Periodic Fee. Due every year: £50-£100). Annual accounts	Annual Return (form to fill in every year, cost: £13-£40). Annual accounts. Inform Companies House of any changes of directors and/or secretary.	Annual return (form to fill in every year, cost: £13-£40). Annual accounts. Each partner does an income tax self-assessment return. Inform Companies House of any changes of membership.		No Annual Return or accounts to file. Each partner does an income tax self-assessment return. Partnership accounts needed to support that.	Management accounts.
<b>Constitution</b>	Choose from various models. Adaptations possible, but expensive to make big changes.	Edit standard "Articles of Association" (Examples available from some co-op development advisers, Co-operatives UK and Seeds for Change website.)	Articles of (Examples available from some co-op development advisers, Co-operatives UK and Seeds for Change website.)	Partnership Agreement – written by members so can include anything they want. (Examples available from some co-op development advisers and LLP co-ops.)		Constitution (Examples available from co-op advisers and Co-operatives UK.)
<b>Tax and Finance</b>	Corporation tax paid on profits. Income Tax (PAYE) and NI paid for employed members. Can give share dividends.	Corporation tax paid on profits. Income Tax (PAYE) and NI paid for employed members.	Corporation tax paid on profits. Income Tax (PAYE) and NI paid for employed members. Can give share dividends.	No corporation tax on profits – these are taxed when distributed to members. Members are self-employed, so do an annual self-assessment return for income tax and NI.		Corporation Tax return.
<b>Limits on what co-op can do?</b>	Can't engage in business in order to deliver financial returns to investors – only to members.	No	No	These legal forms require the co-op to be profit-making (or aim to be!).		No
<b>Other Notes</b>	Best form if you want to raise capital from the public (through loanstock).	Preferred by most grant givers.	Might be difficult to get some grants, as shareholders assumed to be profiting.	Probably more difficult to get grants. LLPs are specifically for 'profit-making' businesses.	Probably more difficult to get grants.	Not suitable if carrying out any trade or business.