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What is a Community Benefit Society FAQ
produced by Community Shares Wales Resilience Project

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What is a CBS? What are the advantages of this structure, and the disadvantages?

A CBS is a type of legal organisation that's registered with the Financial Conduct Authority, rather than with Companies House. Like companies, it has limited liability – this is a technical phrase with a very important meaning: liability for making good the business's financial commitments to its creditors and staff is limited, meaning that members and shareholders are protected if things go badly wrong (and the directors are too, providing they haven't acted contrary to their legal responsibilities).

It's legally impossible to distribute profits to a CBS's members so it's permanently not-for-profit, which makes it very attractive to charitable foundations and public bodies which make grants and set aside land and assets for not-for-profit bodies.

By default, membership is organised on the principle of one-member, one-vote, so it's a great structure where there's a fundamental equality between members which needs to be baked into the business. That's a big reason why it's so popular for community ownership of local assets which have meaning and importance for the whole community, such as pubs, shops, football clubs, leisure facilities and so on.

It also benefits from an exemption from the regulations governing raising capital from the public, which makes it much the cheapest way to quickly and easily raise significant sums from the community to buy things like pubs which are on the open market and where there's a deadline coming up by which time the money has to be raised (see below for more on this).

Amidst these many advantages, the main disadvantage some see with it is that democratic accountability structures don't fit with their visions of how organisations are best run. It's not a suitable structure for private businesses where there is a dominant founder who wants to have the final say on decision-making.

There's also an issue with the awareness of the structure with bigger banks which can sometimes struggle to get their heads around the structure, though there is a range of smaller banks who don't have these problems. Generally, the more staff a bank has, the less likely the person you'll speak to will have the in-depth knowledge of the range of organisational and legal forms that you need in order to have awareness of the CBS form, so small 'boutique' banks that focus on the third sector tend to be better here (Unity Trust, Triodos etc).

What is a co-operative? What are the advantages and disadvantages?

A co-operative is a business that meets the economic, social, and cultural needs of its members. That might be consumers who own a co-operative retail shop (like the Co-op), tenants who want to own the homes they live in collectively, or workers who own their factory (such as Dulas renewable energy technology company in Machynlleth) or a group of independent businesses who group together to share costs or to punch above their individual with, such as an agricultural co-op (eg Arla Dairies).

The members of the co-op are key. The co-operative is set up to make their lives better, usually financially. Members are most often drawn from one of users or workers, but increasingly multi-stakeholder co-operatives blend the two. Co-operatives all adhere to a globally-promoted set of values – the Rochdale Principles – which inform what they do and how they do it.

Their involvement as members provides 'the co-operative difference' – a benefit to the business' performance that makes it more sustainable, or resilient or competitive. Customers who own a business give it greater loyalty and might provide market information in ways that make the business more agile and aware of key trends. When the workers in a business get the profits they created through their labour there's a demonstratable increase in productivity over 'normal' companies where people get their salary shareholders take the profits. A worker co-op will also typically have happier workers, so they have lower costs associated with staff turnover, like recruitment and training.

Co-operatives work brilliantly at putting a group of people in the box seat. It puts the workers who understand a business in position of power which leads to a richer understanding of the operating environment. Co-operatives are more resilient businesses than non-co-ops because everyone involved is able to guide the business and steer it to seek opportunities and away from trouble, and can pull together to make the sacrifices to get through the tough times any business will inevitably go through.

But because of their ownership structure, co-operatives suffer from a difficulty in attracting capital to grow. They tend to have to bootstrap and grow by reinvesting profits. That can be fine in a retail consumer co-op growing slowly over 50 years, but in fast-moving economic sectors, it can be a big problem. Investors can't secure their investment in the underlying assets of the business because those are owned by the co-operative on behalf all the members, and can't have get shares beyond a minority stake capped at 25% by the FCA in the case of societies.

Even so, the biggest drawback facing the growth of co-ops is simply that the most important reason people start businesses is to see if they can meet a market need and become wealthier as a result, and co-operatives just don't fit into that picture. If you want a business where the founders drive things forward without reference to anyone else and take the profits from the good times, then a co-operative isn't going to work for you.

What is the difference between a co-op and an employee-owned business like Waitrose?

In the broadest terms, not much! John Lewis Partnership (which owns Waitrose and John Lewis) is a member of Co-operatives UK, the trade body for the UK's co-ops, and JLP is owned by its 64,000 employee partners. There's a view amongst some in the UK co-op community that in addition to being owned by its members, a co-op should be controlled by them too so the fact that JLP has a minority of representatives elected by employees makes them less co-operative than, say, Dulas.

Others argue that the constitution of the Partnership makes the ever-increasing happiness of the employees the 'point' of the business as it is with a co-op, and that although the employees might have less day-to-day input on strategy than would be the case in a smaller co-op, they have very important powers to change the direction of the business if they feel things need to change, such as removing the Chair of the board.

What's the difference between a CBS and a Co-op?

In many respects the day to day running of a CBS and a Co-op will be similar because the legal framework governing them is the same. The key difference is about the members and what they get.

For example, some community pubs are co-ops, but more are CBSs. The co-op pubs get to the year-end and can pay a share of the profits to their members, but not regular customers, because they don't own the business. The members might believe the pub benefits the whole community, but they are also incentivised to have a stake in its success on a personal level.

The CBS owned community-pub meanwhile isn't paying any member a dividend because all profits get reinvested. The point of the pub is the benefit the whole community, so any benefit the members of the CBS get is because they are part of the community the pub serves, not because they get the benefit because they are members of the society.

Obviously, this gets blurry at the edges; a community pub might give some benefit to its members, such as a discount on food, while a co-op's members might decide to not take a dividend and plough all the profits back into the business. But the issue is that the co-op has a choice about how much it wants to benefit the wider community and how much it wants to benefit its members whereas the CBS's stance is laid down in law.

Is a CBS a social enterprise?

On any sensible definition, yes. Definitions of what a social enterprise is or isn't continue to vary, but pretty much every definition has at its heart a social purpose for the business beyond profit for their shareholders, and a legal structure that means the majority of those profits should be reinvested into the business or some other activity for the common good. A CBS is legally required to operate for the benefit of the community and cannot distribute any surplus to shareholders.

What's the difference between a CBS and CIC? Which is better for the community?

Although they have similar names and operate in many respects in very similar way, they have subtle but important differences.

Both are required in law to operate for some wider purpose; the benefit of the community and the community's interest are getting at the same thing despite the slightly different language.

A CIC must have a Statutory asset lock which governs how it uses its assets and what happens if the business comes to an end. CBSs can also have a Statutory Asset Lock, but it isn't compulsory.

Both are required to report to a registrar each year on what they've done in pursuit of their legal requirement to operate for the benefit of the community. A CIC is regulated by the Community Interest Company registrar who requires a report each year on the CICs activities which have delivered its community interest. A CBS must equally report to the FCA each year that it continues to meet the requirement to provide community benefit.

However, a CIC can have a similar type of ownership and governance structure to a CBS, it can also have a self-perpetuating board who aren't accountable to the wider community or can even be controlled by a single person like many a 'regular' profit-making company and can distribute one-third of their annual profits in dividends to shareholders.

So, whereas every CBS will be run on a not-for-profit basis, not every CIC will be. While every CBS will be run and governed by a group of people concerned about the mission of the CBS, not every CIC needs a similarly accountable structure.

CICs then are more often run by solo or small groups of entrepreneurs who are passionately pursing their goal of tackling some social issue through a business structure. However, these are very much 'their' businesses, often with little or no accountability to the immediate community the CIC is ostensibly trying to benefit, much less the wider community. Whether this is a good thing or not tends to come down to whether you think democratic structures tend to lead to better more community-driven outcomes, or whether you think they get in the way of people driving a vision forward and delivering impact!

What's the difference between a Charity and a CBS?

A 'vanilla' CBS must operate for the benefit of the community and can do anything it likes to achieve this, as long as it is legal. A CBS could be created to provide social space for the people of a particular community, and might sell food and drink to the public as part of that as its main trade. That's solely a matter for the Directors and members to figure it all out, about how much benefit it can provide, and what it does to earn the money to enable the society to keep on trading. If they want to run a high-end restaurant which doesn't provide as much benefit to the majority of people in their community, then that's their choice, as long as there's a plausible path where that activity (or the money it generates) in some way ultimately benefits that community.

Charities are governed by a wholly different body of law, which restrict what a charity does and why it does it. A charity has a legal requirement to benefit the public exclusively, and to do so undertaking activities that are exclusively or mostly charitable. So, a charity could run a social space, but wouldn't be able to trade by running a bar or café at the same time. It wouldn't be able to rent out the space to high-value clients because that wouldn't be accessible to the general public, and so wouldn't be in pursuit of its charitable objects.

Charities can set up subsidiary companies to undertake whatever other activities they engage in which fall outside their charitable activities and while this is a normal path for charities to take, it does make things a little more complicated for the directors of the charities (often also called trustees) who are legally responsible for ensuring that the charity doesn't do things it's not allowed to do.

Can a CBS be a charity?

A CBS can be created with wholly charitable objects, and so become a charity. It's still a CBS governed in accordance with the 2014 Act but is also subject to charity law so the Directors have additional legal responsibilities.

Currently, societies with charitable objects registered in England and Wales aren't able to register with the Charity Commission, so they don't have to file anything with the Commission, and so are known as 'exempt charities' (because they're exempt from registering with the Commission).

That can affect how 'visible' their charity status is, because you won't be able to be searched on the Charity Commission website nor get a charity number (there are a small number of mostly private charitable grant-making foundations which only allow funding to be given to charities registered with the Commission, so this might be an issue).

In all respects though a charitable CBS is a charity in law the same as every other type of charity. So, it can register with HMRC and get all the tax benefits charities get such as Gift Aid on donations, no Corporation Tax to be paid and – depending on what it does on a day-to-day basis – get statutory rate relief and stamp duty exemption on asset purchases.

Are CBSs as good as BCorp Businesses?

There's generally no such thing as a legal form which is 'better' than another. It's all about how well a particular structure fits what the people creating it and operating it need it to do.

So, if your goal is to have the benefits of the company structure and the flexibility that brings along with a badge of being purpose-driven that is global in scope, then a B-Corp could tick your boxes. If the organisation needs to raise lots of money in grant funding, then the B-Corp is of less use, and if it needs to raise capital cheaply and easily from the general public it's positively unhelpful.

Conversely, while CBSs are great at raising money from the public to own assets collectively, or where there is a very clear and well-defined social purpose which won't change, they're probably not so good for businesses which are currently owned by an individual or small group of people and are run by those people with an eye to making a living from the business, or earning a big cash pot when the business is sold on to new owners at a premium because they've made the business more successful - and so more attractive - over time.

What does the FCA do?

The FCA is a regulatory body based in London that oversees various aspects of the UK financial system. When it was created in 2001, it took over some offices and function including the Registrar of Friendly Societies, which is the office which registers all societies, from CBSs, Co-ops, and Credit Unions, Building Societies, and mutual insurers.

So, when people talk about the FCA in connection with societies and community shares, they're almost always talking about the FCA in its role as Registrar of Friendly Societies.

Every time a group proposes to register a new society, or an existing society wants to change its name, its rules, it applies to the FCA for permission. The FCA check that the changes are in line with the legal requirements as laid down in the 2014 Co-operatives and Community Benefit Societies Act and the FCA's own guidance to societies. Each year, every society must send the FCA a copy of its annual accounts each year and an annual return. All of these documents are publicly available at the Mutuals Register.

Are there any other CBSs that have lots of members, create long term jobs and have a sustainable long-term business?

There's hundreds of CBSs, ranging from local businesses with a handful of members, through to societies with thousands of members all over the world – the Independent Manchester United Supporters Trust has 34,000 members, while New Internationalist magazine has over 4,000 members in 32 countries.

Many are new, having been registered in the last 10 years as part of a flourishing of community ownership and community business, but many have been going for many decades. The largest CBS in the country has assets of over £7Billion, while a good many councils have outsourced their leisure centres to be run by charitable CBSs.

How do you create a CBS or CBS charity?

Societies are registered by the FCA, and their registration system works most easily if you use a template produced by one of the sponsoring bodies which work to register societies. Support with legal structures, registration and business development is also provided by Cwmpas through Social Business Wales and the Community Shares Wales Resilience Project. Cwmpas can offer extensive business support to new start-up businesses and existing ones looking to grow.

The process costs somewhere in the region of £200-£600 depending on which organisation you use, and how many amendments you make to the sponsoring body's template - the more changes you make, the greater the cost. Most groups make as few changes as possible and leave any changes they need to make for the future when they've got some experience of using those rules under their belt.

You'll need some basic details such as the name and business address, as well as at least three people or organisations to act as Founder Members. You'll also need to describe who you'll be seeking to benefit and how, and what your trading activities will be.

If you wanted to register a charitable CBS, you're best using Co-operatives UK's template for a charitable society, and you'll need to have a set of charitable objects at this point. In other words, while a 'normal' CBS can tell a story in the registration document about how its activities will be a good thing in the world for a certain group, a charitable society's objects need to reference the UK's charitable objects as laid down in charity law – you might want to seek some advice to help you draft these!

Shares

What are withdrawable shares, and how do they differ from shares you can buy in companies? What are the advantages of this type of share capital?

Withdrawable shares – the official and 'old' name for community shares is a specific type of share only available in societies.

They were used very successfully by the co-operative movement in the 19th and early 20th centuries to fund their amazing expansion into becoming the UK's leading retailers. It worked by enabling ordinary shoppers and members of retail co-ops in communities up and down the UK to store their dividends and other savings (for funerals, or as insurance against ill-health) in the business, at a time when bank accounts for working class people were unheard of.

The co-ops were able to fund their expansion, buying or building new shops, factories, and industrial capacity without resorting to bank lending because they took small amounts of money from a large number of people. Those people were paid interest for the use of their money which came in useful for rainy days all the way up to and including their funeral costs.

Withdrawable shares fell out of favour in the post-war era as societies prioritised paying dividends to members than funding expansion and capital investment (much to their regret, as the co-operative sector of the UK economy has continued to shrink as a result). A new wave of community-based co-operatives started using them again in the 2000s to fund things like wind turbines and solar arrays, before yet more sectors started using them, most notably the community pubs and shops movements.

There are 3 big differences between withdrawable shares and 'normal' shares:

- Withdrawable shares can't be transferred to someone else (except on death) or sold to anyone else, so the only way to get you money back is through the business having enough cash to return funds to you – you can't find a greater fool than you to ill-advisedly buy them off you.
- No matter how many shares you own, you only get one vote in the business' meetings and elections, not one share one vote which is dominated by bigger and wealthier shareholders.

- Withdrawable shares can't increase in value. Normal shares are a proportional claim on the underlying value of the business, so if you buy £100 of shares in a business with £1,000 of shares, if someone wants to buy the business for £100,000, you get £10,000 as you own 10% of the business. However, a withdrawable share is a claim against the face-value of that share itself. If the value of the business rises through things like retained profits held as cash reserves, you don't have a claim on those assets – just your own portion of the issues share capital plus any interest you might be owed on that.

The advantages of this type of capital is two-fold. Firstly, it's a great way of owning and funding a business where the point is to meet people's needs, rather than make shareholders richer. The democratic structure is like that in wider society where, regardless of how much tax we might pay in, we still have one vote for the government. That's because regardless of our ability to contribute financially we all share equal rights as citizens. And it's the same in societies.

Secondly, because the value of community shares doesn't increase speculatively, it drives out nonsense valuations, farfetched revenue projections and the like. The business is worth what it is able to demonstrate it is worth through its trading performance. The value flows from the activities of the business, not some potentially-fictious assessment of what it may or may not be worth in the future. As a result, it is a great way to fund businesses which you want to keep tethered to reality and human need, not speculative capitalism.

Finally, because the only way to be paid a return on share capital is from the proceeds of the business, they're actually a really neat way to reward investors in start-up businesses without risking the transformation of the business by a trade slae. Many start-up businesses work on the idea that although they don't generate serious profits, they eventually generate significant revenues to be attractive to competitors, who then buy out the shareholders giving everyone a big payday. The fact that the business gets gobbled up and loses whatever made is special and different is neither here nor there. But with community shares, investors can get money returned to them as long as the business is doing well, without the need to throw the baby out with the bathwater by selling the business.

What if the local community isn't wealthy?

Most share offers tend to have a mix of wealthy and not-so wealthy people. The former provide a large part of the investment and bring the a large membership who will support the business as it begins to trade. Without the bigger investors, the share offer will be unlikely to succeed, but without the members, the business won't thrive after the share offer.

That certainly how it worked at Swansea Community Energy and Enterprise Scheme, where they raised £467,000 from over 140 people. It was important that the project reinvested any surpluses into the community to fund local energy, skills ad enterprise projects in some of the poorest parts of Swansea. An important part of the scheme was to ensure that it was mainly owned by local people. In order for it be accessible to local people the minimum investment was £50. In doing so, 66% of their investors were local, providing 33% of the total investment. By contrast, just 33% of members provide 66% of the £467,000.

Not every community is lucky enough to have a good mix of wealth in it, but community share issues can still work to support a community business. Y Ty Gwyrdd in Gwynedd for example, did a community share issue to open a community hub and zero waste shop. The minimum investment was only £30 because lots of people didn't have much to invest and they had more than 52 investors. Although the total raised was around £7,000, the support from so many people convinced some grant and loan providers to support the society seeing how it clearly had strong support and buy-in from their community and they managed to lever in an additional £156,000.

How does a community share issue compare with a business going public and accepting investment?

It's exactly the same thing with two significant differences. In both cases, a business idea is going out to be financed by people who like what the business is proposing to do and think it's worth putting their own money into the business to help it achieve its goals.

But, unlike public offers of shares in companies, Community Shares offers in societies are overwhelmingly drawn from a cross section of ordinary people who have been motivated to invest as much on the social purpose the business has been set up to address.

Community share issues are exempt from the financial regulations that govern companies, meaning it's much easier and cheaper for organisations to solicit and get investment from the public. The offer documentation is much more accessible and down-to-earth, meaning the kind of people who invest are often investing in something for the first time in their lives.

Community share issues are usually undertaken by businesses for whom a social purpose is at the very heart of what they do and why they've been formed. As a result, the returns they offer investors are at the lower end of the spectrum, and so most share offers appeal to a local audience of people living in the community where the business will be trading, and who want to support the creation of that business – be it a shop or pub or leisure facility or whatever else – because they recognise that the community will be made the richer for the business getting up and running.

Public share issues, by contrast, are invested in by an overwhelmingly wealthy subset of the wider population drawn from all over the country and who are comfortable reading the documents provided which have been made compliant with the financial regulations (and so made very off-putting and somewhat scary to ordinary people) and if that wasn't bad enough, you have to pay anything upwards of £15,000 upfront to get your documents to be made compliant.

What about community-funded debt?

Community-funded debt can work in much the same way as a share issue – you invest a certain sum of money and the organisation spends it to develop their business and as a reward for letting them use your money, they pay a certain rate of interest to you each year (which can be paid as cash or rolled up into the initial debt and compound).

The big difference is that as a debt, lenders have a degree of protection in law which equity shareholders don't. If the organisation misses payments to the lender, then the lender has certain rights over the business, up to and including appointing liquidators to recover the money owed to them. Debt payments owed to the community can be rescheduled, but it needs consent from lenders to any change which may or may not be forthcoming.

In general, the more reliable and predictable a society's revenues and surpluses will be, the more they might offer community-funded debt (often called loan notes) because the risk to them of not having the money to make the repayments they need to make when they need to make them is a risk they're think is worth taking because they have certainty over their own finances.

What are the risks of investing in withdrawable shares?

The main risk in any community share investment is that the society's trading performance isn't as initially hoped, and the society aren't able to make the interest payments or enable you to withdraw your money. Good share offers lay out these risks in their offer documentation so you can come to your own conclusion as to how risky you think the business is and how likely or not you'll get those returns.

In the most extreme scenario, the society goes bust and you lose the value of your investment, but even here, because the society enjoys limited liability protection, your loss is solely restricted to the value of your initial investment and no more. And, even if a society doesn't hit its financial targets, it still might manage to trade sustainably enough to carry on and deliver the social benefits.

What are my rights as an investor? Is it protected?

Investment in community shares isn't like a banking deposit, and so if the society goes bust, you aren't protected by the Financial Services Compensation Scheme and so won't get your money repaid by the government.

As an investor though, you become a member of the society which gives you the right to go to the AGM, and vote on important decisions, and elect the board of Directors and maybe stand for the board yourself. Elections and votes in a society take place on a one-member, one vote structure, so you have equal power in the society with every other investor regardless of whether they've invested £500 or £50,000.

What is the logic for investing in a share offer as opposed to leaving my money safely in the bank?

If your main concern is protecting the value of the investment, then you're better off keeping your money in a building society or bank, as savings and deposits are protected by the government's scheme to protect savers in the event of the bank or building society's failure.

Think of it like a triangle. In one corner, you've got bank deposits – these will be pretty safe, and the money is there whenever you want it. It won't make much, if any, social change in the world and you'll get a tiny rate of interest.

In another corner, you've got a charity you donate to. You'll never see the money again, but you get some social benefit provided by the charity to the people it works to help.

And in the final corner, you've got investing the money in some profit-making private enterprise. It might promise you a great rate of return but the price paid for that is that it's risky and you might lose everything, and the business probably won't use your money in any meaningful way to make a difference in the world.

You might look at this differently if you had different sums to place in different parts of the triangle. Your life savings or your rainy-day cash might be in the Bank in an ISA, because you might need access to that money in a moment's notice and want to know it's safe and secure.

You might donate £50, because you believe in the charity and are happy to lose the £50 forever.

But where do you put £500? That's more than you're prepared to simply give away, but equally, you've got enough left in your savings accounts and want it work a bit harder than it would in the bank.

So now you're down to the high-return, high-risk, low benefit private investment, or the medium risk, medium-return high benefit. And where you put it now depends on your personal attitude to risk and reward and the importance you place on benefits to the community versus benefits to you as an investor.

	Risk of losing money	**Financial return to you**	**Social Return to you/community**
Cash Savings	Low	Low	Low
Charity Donation	High	Low	High
Private Investment	High	High	Low
Community Shares	Medium	Medium	Medium/High

There are probably better places to put your money than community shares if you want to get maximum social impact. There are better places to put your money if you want to turn a small sum into a nest egg. And there are better places to put your money if you want to be able to access it when you want to.

But if you'd like to get a small return, from a patient investment which will make the things you care about in your community better, community shares are a great way to use money you can afford to invest.

How should I decide whether or not to invest? Would my money be better donated to a charity, instead?

Community shares are primarily social investments, so if you can afford to invest, the main reason to do so is that you strongly support what the society is proposing to do and you want to see the benefits the society hopes to deliver. In that respect, it's very similar to a charity in that you're giving your money to an organisation in the hope that they can bring about some benefit into the world that you care about.

A donation to a charity is not an investment though and you'll never see the money again, and you have no real oversight of how they spend it (though that might not bother you, because you know the charity well and trust it's staff and trustees).

Community shares are an investment, which means there are two clear differences. Firstly, you become a member of the business and have a say in how it operates, including the right to hold directors to account and put yourself forward to join their board too.

Secondly, if the society hits its financial projections, it can pay interest to you as a thank you for use of your capital, and you can get the money back in full at some point in the future. As a result, people tend to invest much more than they donate – the average donation to a charity is £50, while the average community share investment is £400.

Can I make a profit from investing in community shares?

Community Benefit Societies can't distribute profits to any members, and Co-operative Societies pay profits to members who have directly traded with the co-operative to generate those profits. However, withdrawable Shares don't get shares of profits but instead have interest paid on them. That interest is a payment to the investor as a compensation to the investor for allowing the society to use that capital.

Interest is paid before tax is calculated in much the same way that a business pays loan interest as a tax-deductible cost of doing business. In general, the riskier the investment, the greater the interest might be, but that needs to be balanced by the business having the trading performance to justify it.

Some share offers give the Board the flexibility to determine an interest rate in the light of trading performance, whereas others will have a headline rate which they stick to come rain or shine. Boards can lower the rate of interest from the headline rate proposed in the share offer document, but can never raise it.

Sometimes interest is paid as cash, sometimes in vouchers to be used in the society's day-to-day trading and sometimes as new share capital (which in effect means your original investment compounds).

The FCA have a guideline that any interest paid to investors should be 'no more than that required to sustain the investment' which have usually meant somewhere between zero and 8%, depending on how risky the business is going to be.

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These allowable interest-rate bands have developed in the last 15 years in an era of historically low interest rates set by the Bank of England, which are projected to rise in coming years, so what counts as the rate necessary to attract capital will doubtless increase if savers can get 2.5% with no risk by keeping money in cash ISAs and the like.

Can I get my money back when I invest in community shares?

Yes, provided the society is trading profitably!

Most societies put a delay on allowing anyone to make a withdrawal for the first 3 years so the business can find its feet (and if tax relief is claimed, it cannot be withdrawn for 3 years as a condition of eligibility). Thereafter, each year the society decides how much – if any - capital it can make available to allow withdrawals to investors who want to cash out.

The board will usually decide an amount and invite requests from people who wish to withdraw to submit applications. They usually honour these on a first-come first-served basis.

The board have to be satisfied that two crucial tests have been met before it can make funds available to be withdrawn:

1. The society is legally able to allow withdrawals – societies can only allow members to get their money back if it is a healthy business, which is defined as trading in surplus over time. A business making losses can't be leeching cash out to pay investors at the expense of its suppliers, creditors and staff.
2. That allowing the withdrawals is a prudent decision for the society – the board might be aware that some urgent maintenance is needed in a few years, and that's a better use of the cash than refunding investors, but equally, they might balance that with the positive impact of demonstrating to prospective investors that the society is regularly funding withdrawals, because that will make those prospective investors more confident about putting money in if they stand a good chance getting it out later on.

In either case, the Board's decision is final. If you don't like the Board's decision or think the board have been making bad decisions about the business which has impacted on the ability to pay withdrawals out, then the society's democratic structures are there to enable you to hold them to account and if needs be, replace them.

I would like to leave some money to a Society in my will, how do I do this?

Very easily. You can just notify the society that you wish to donate your shares on your death, and they will be cancelled at that point.

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I will invest in a share offer if I get tax relief. What kind of the share offers offer tax relief and which ones don't?

There are three investment tax reliefs, and many share offers enable you to claim at least one of these.

Seed Enterprise Investment Scheme relief gives investors 50% of the value of their investment off their income tax liability and can reduce by 50% the value of Capital Gains Tax (CGT) due to be paid on a capital gain if the gain is used to make the investment. This is available to new businesses in their first two years of trading.

So, let's say you make £1,000 from selling shares in a business, and invest this cash in a community share issue for which SEOS is available. You'd be able to reduce the CGT from 28% to 14% on the £1000, and then also reduce your income tax due by £1,000.

Societies with SEIS eligibility can only give it to people investing the first £150,000 into a share offer. Thereafter, people will get Enterprise Investment Scheme relief, which offer a 30% of the investment as a reduction in income tax due. You can't reduce the CGT due, but you can defer any CGT due until the shares are withdrawn and the money is back in your hands.

Community Benefit Societies with a statutory asset lock (a legal device that prevents members from ever changing the rules of the society to allow them to take out more than they have invested) can, until April 5th 2023, offer Social Investment Tax Relief, which like EIS offers a 30% of your investment as a reduction in income tax, and CGT deferral.

All of the tax reliefs require the business in which you're investing to actively trade and bear economic risk itself, and one that isn't on a list of excluded activities. If you're buying or developing an asset which you'll then rent on to someone to use – housing, or a tenanted pub for example – then the society will not be able to offer it because HMRC don't consider renting or leasing to be a trade. Community energy and community supported agriculture are also excluded.

SEIS and EIS are quite tricky to claim, as the societies must meet two tests. Firstly, they need to be growing businesses, and many community share-issuing societies often have limited plans to expand; a community rescuing its pub might have no plans to ever do anything else. This will ultimately come down to the judgement of the HMRC inspectors – some have viewed the fact that the business is forecasting increases over time in turnover, staffing and range of products or services as sufficient to meet this test, but other have taken a harder line and refused to grant the tax relief.

The second test is that investors have a good chance of losing as much money as they might gain from the tax relief. For example, if you plan to offer SEIS, you need to demonstrate to HMRC that there's a good chance that investors will lose at least 50% of their investment if things go wrong. If the investment will be used to buy property, that's often difficult to envisage under normal economic circumstances, so it can be difficult to overcome this hurdle for asset-based share issues.

Finally, once you have claimed tax relief, any losses that later occur – if the society become insolvent or has to write down the value of the shares – can be claimed as part of your taxable allowances.

Tax reliefs can be claimed in the tax year the investment is made (AKA the date when the society formally admits you to membership), but they can also be claimed the previous tax year. You can't split the relief between two years, and your ability to claim the relief in full depends on you having a big enough tax liability. So, if you invest £1,000, you have the ability to claim £500 of relief, but if your income tax liability was only £360 that year, then the maximum relief you can claim is £360.

If you pay tax after completing a self-assessment, you just enter the details of the amount you have invested in your tax relief, along with a special tax relief number that the society will send to you. If you pay tax via PAYE, you will need to report the investment to the tax office which handles your payroll, and they will issue you with a new tax code which you then give to your employer.

If I invest, what happens to my investment when I die? Are there inheritance tax issues?

When you die, you can pass your shares onto whoever you wish. If your investment in community shares is less than £5000, then you can leave instructions with the society as to who you can transfer the shares to, and the society can do that without reference to your will or executors.

If your investment is greater than £5,000 though, any transfer of share will have to be done via your executors contacting the society and telling them who the shares should be transferred to. You can divide your shares between several individuals.

The people who inherit the shares can choose to become active members of the society in which you originally invested, but most societies will allow them to make exceptional requests to withdraw the investment, but that will depend firstly on whether the society's governing document allows it, and then also whether it is possible in light of the society's financial position and cash reserves.

As long as the shares haven't been invested in either a society that isn't charitable or a society that owns assets which it then rents/leases to 3rd parties to use them (such as is the case for most Community Land Trusts, or community-owned by tenant-run pub, for example) then you should be able to exempt the shares from the total value of the estate on which inheritance tax is paid.

(If tax relief eligibility is a factor when considering investing, you should discuss this with your accountant or some other financial professional with the expertise to advise you on your personal eligibility, as well as checking with the society in question as to what gives them confidence that their share issue is eligible.)