Article Side

The importance of share capital by John Bregar

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With Company Formations it is important to consider the amount of share capital that you select at the time of incorporation. Share capital is the nominal value of the shares within a company, calculated by the number of shares multiplied by the value of each share. There is some variation within the types of share capital, in addition to the types of share. It is important to understand the difference between terms when you initially set up the company, to avoid costly changes at a later date.

Share capital can be divided into authorised share capital and issued share capital. Authorised share capital refers to the maximum amount that the company can issue, without going to the shareholders for further approval by resolution. Prior to 1st October 2009, it was a legal requirement for private limited companies to set a level of authorised share capital. With this legislation no longer in place, the term has become less common. Issued share capital, on the other hand, is the actual value of shares which have been issued to shareholders. With new company formations, it is important to ensure you issue the right amount of shares from the beginning. Although possible, it is more difficult to alter the level of share capital after incorporation. In addition to considering the companyâ€™s current position, it may be useful to also consider the potential share position in the future. If the company is looking to bring in shareholders at a later date, the amount of share capital issued should be an easily divisible number. The benefit of this is that bringing additional shareholders can occur through a transfer, as opposed to there being a need to issue new shares.

The second important consideration with regards to share decisions is whether all of your shareholders will receive the same rights and dividends. A company may decide to delegate particular share benefits to different groups of shareholders through a system of share classes. Common share classes are â€˜ordinary sharesâ€™, â€˜preference sharesâ€™ and â€˜redeemable shares shares are the most common type, and describe shares which have standard rights and dividend entitlement attached to them. Preference shareholders, on the other hand, are entitled to receive their dividend payment ahead of other classes of share. It is often the case that this preference is in lieu of other share rights, such as the right to vote on company decisions.

As previously stated, although it is possible to alter a companyâ€™s level of share capital after incorporation, the procedure can be difficult. To increase the share capital, the company would be required to issue new shares. In order to decrease it, the company would need to purchase its own shares, or undertake a share redemption programme. There are other ways in which a company can amend or reduce share capital, though it is advisable to form the company with the desired amount.

When setting up a company, whether directly or through a company formations agent the legal requirement is to issue at least one share to one shareholder. Although this is the minimum legal requirement, it is recommended to consider the potential benefits of a greater level of share capital, and the possibility of varying share rights.

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