

David Venus & Company Practice Note

Reduction of Capital - Practical Considerations

A private company can now reduce its share capital, without having to apply to the Court, provided its shareholders approve a special resolution supported by a solvency statement.

There are several reasons why a company may choose to reduce its share capital including:

- The positive effect on distributable profits;
- The ability to distribute the reserve created by a reduction;
- Returning surplus capital to the shareholders;
- To assist buyback or redemption of shares; and
- To distribute assets to the shareholders.

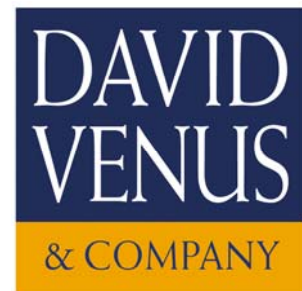
Prior to asking for shareholder approval for a reduction of capital the company's articles of association must be checked. A private company does not need specific authorisation in its articles to reduce its share capital by way of solvency statement but the company must ensure they contain no prohibitions or restrictions.

The following documents will need to be submitted to Companies House within 15 days of the passing of the members' special resolution in order to effect the reduction:

- The special resolution of the members approving the reduction in capital - this can be passed at a general meeting or by written resolution;
- A copy of the solvency statement - the directors need to consider, taking account of projections for at least the next twelve months, the financial position of the company and the effect of the capital reduction before signing it;
- A statement of capital on Form SH19; and
- A statement by the directors confirming that the solvency statement was made not more than 15 days before the date on which the resolution was passed.

Although creditors have no right to object to a reduction of capital carried out in this way, you may choose to notify them of the reduction for commercial and communication reasons. A list of creditors is also not required for filing at Companies House.

From 6 April 2010 a new fee applies when filing Form SH19. The fee is £10 where the documents



are submitted under the standard Companies House service and £50 for a same day service. The appropriate sum should be attached to the Form SH19 on submission.

The reduction of capital takes effect on registration of the documents by Companies House.

For more information, please contact Chloe Kerr-Peterson by email (chloe.kerrpeterson@davidvenus.com) or by telephone on 01372 465330.

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