ChantreyVellacottDFK

Tax

Case studies

The following case study sets out an example of previous work by the Tax team and the benefits to our clients.

Mike Cooper
Partner
M: 07976 709 910
E: mcooper@cvdfk.com

Gareth Jones
Partner
M: 07989 605 866
E: gjones@cvdfk.com

Mark Baycroft
Manager
M: 07985 338 262
E: mbaycroft@cvdfk.com

Reduction of ordinary share capital

Our client is a company whose key business is a hotel and conference centre. In 2010, we identified a "reduction in capital" opportunity that reduced the company's share capital by over £1 million.

In 2000 the company received a capital injection in order to boost a weak balance sheet which tied up an additional £1,545,000 in equity share capital. As at 30 September 2010 the company had cumulative losses totalling £1,190,000.
An assessment of the company's balance sheet resulted in the identification of a "reduction in capital" opportunity. The large amount of capital invested by the shareholders had shown little return in the way of dividends for some years as there were negative distributable funds.

How we helped

The documentation was raised to reduce the share capital by way of a special resolution and solvency statement by the Company Secretarial team. The directors of the company signed a solvency statement declaring that they could pay their creditors as they become due with within twelve months of the reduction of capital. Cash flow forecasts to support this statement were produced by the Corporate Commercial Group.
The documentation was filed at Companies House to reduce the share capital from £1,545,000 to £10,000 leaving distributable reserves of £345,000.

	Before	**After**
	£	£
Called up share capital	1,545,000	10,000
Profit and loss account	(1,190,000)	345,000
	355,000	355,000

Benefits

- Access to credit as a result of improved balance sheet.
- Option to pay dividends to shareholders.