

COMPANIES ACT 2006

EXPLANATORY NOTES

COMMENTARY

Part 17: a Company's Share Capital

Chapter 7: Share Premiums

883. Under section 130 of the 1985 Act, where shares in a company are issued at a premium, (that is, at a price which is greater than their nominal value), an amount equal to the premium paid on those shares must be transferred to a non-distributable reserve: the share premium account. This account can only be used in a limited number of circumstances described in section 130.

Section 610: Application of share premiums

884. In line with the recommendations of the CLR (Completing the Structure, paragraph 7.8), this section further restricts the application of the share premium account and in the future, companies will not be able to use the share premium account to write off preliminary expenses (that is, expenses incurred in connection with the company's formation). Companies will continue to be able to use the share premium account to write off any expenses incurred, or commission paid, in connection with an issue of shares but the application of the share premium account in these circumstances will be limited so that the company will only be able to use the share premium account arising on a particular issue of shares to write off expenses incurred or commission paid in respect of that issue. As now, companies will also be able to use the share premium account to pay up new shares to be allotted to existing members as fully paid bonus shares.
885. A further change is that in future companies will not be able to use the share premium account to write off any expenses incurred, commission paid or discount allowed in respect of an issue of debentures or in providing for the premium payable on a redemption of debentures.