



Should I give my Spouse or Partner Shares in my Company?

Shares in your company can be issued to anyone you choose as long as they are over 18 years old. All shareholders will be entitled to receive dividend income from post-tax profits of the company in the same ratio as the shares are owned. Since dividends represent a tax efficient way to withdraw funds from the company the government have been keen to review "husband and wife" companies whereby they have suspected that the share structure has been put in place in order to settle income on another party that pays tax at a lower rate.

What are the Implications for "Husband and Wife" Companies?

Legislation known as Section 660 was originally created specifically to prevent a high earner from 'settling' income onto a family member, usually, for the purposes of avoiding tax. In practical terms if the company is investigated and your spouse or partner is taking half the dividend income and is clearly not involved in the business HMRC will create an assessment on you the fee-earning shareholder for the full amount of income at your highest rate of tax.

Are there any Circumstances when it will be Acceptable to Issue Shares to a Spouse?

If your spouse or partner is a director of the company and they play a significant role in the business, or better still generate turnover themselves, then their status as shareholders is going to attract far less cause for concern.

The shareholder and director who is not the main fee earner should hold a clearly identifiable role in the business to

justify earning the dividends. This could be managing administration, so that you are completely free to focus on fee earning, or doing some marketing. Any share allocation should reflect the work undertaken by you as individuals so it is rare to see a 50:50 split in these circumstances.

Are there any Risks in issuing Shares to a 3rd Party other than a Spouse or Partner?

At the outset of any new venture, relationships are positive and hopes are high. Whilst issuing shares to a third party appears to be perfectly reasonable at this stage ensure that if you do a shareholders agreement is drawn up. Fall outs do happen and arguments will ensue as to who is entitled to what share of any assets in the company should one of you wish to leave.

Remember, dividends are paid out in the ratio of your shareholdings but income generated for the company may not be in the same ratio. How will you feel if your fellow shareholder is entitled to the same level of dividend as you but has contributed less to company profits?