HMRC - CTM81060 - Limited Rights

ICTA88/SCH18/PARA4

This page describes shares or securities with limited rights - rights limited by reference to a specified amount or amounts. The guidance in CTM81065 tells you how such shares and securities are dealt with in determining:

the percentage of the profits available for distribution to equity holders to which the parent company is beneficially entitled, and

the percentage of the amount of the assets available for distribution to the equity holders on a winding-up to which the parent company is beneficially entitled.

Shares or securities with limited rights are any shares or securities carrying rights in respect of:

dividend or interest, or

assets on a winding-up,

which are wholly or partly limited by reference to a specified amount or amounts. The limitation may be in the form of the capital to which the calculation of a distribution refers. Or the limitation may operate by reference to an amount of profits, or assets, or otherwise.

Examples of limitations by reference to a specified amount or amounts are:

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Shares

Dividend rights

Company C’s share capital is divided into 100 A ordinary shares and 500 B ordinary shares. The A ordinaries participate fully in Company C’s profits. But the B ordinaries participate only in profits up to a maximum of £1,000. The B Ordinary shares are shares with limited rights.

Winding-up rights

Company R’s share capital is divided into 500 ordinary shares and 500 participating preference shares. On a winding-up, there is no restriction to the entitlement of the holders of the ordinary shares. But the participating preference shareholders are entitled only to repayment at par. The participating preference shares are shares with limited rights.

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Securities

Interest rights

Company B makes a loan to Company C of £10,000 at 8%. The terms of the loan allow it to be converted into ordinary shares in Company C at par. This is not a normal commercial loan (CTM81010 ‘normal commercial loan’), so Company B is an equity holder (CTM81010 ‘equity holder’) in respect of it. But the share of the profits to which Company B is entitled is limited to 8% of the amount of the loan. The loan is a security with limited rights.

Winding-up rights

Company J makes a loan of £100,000 to Company H at 20%. This rate exceeds a reasonable commercial return. This is not a normal commercial loan (CTM81010 ‘normal commercial loan’), so Company J is an equity holder (CTM81010 ‘equity holder’) in respect of it. But the share of the Company H’s assets to which Company J is entitled on a winding-up is limited to £100,000, the amount of the loan. The loan is a security with limited rights.

You will notice that it would be very unusual for a loan not to be a security with limited rights.

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