

**ANNEX G
DIVIDEND CALCULATIONS
UPDATED JANUARY 2010**

**WORKED EXAMPLES OF DIVIDEND CALCULATIONS FOR SHARES IN ISSUE PRIOR TO
6 April 2010**

Example 1

Facts

A CIC has a number of shareholders, all of them individuals who have invested in the company in order to acquire shares. The size of the different shareholders' holdings varies, but between them, they hold 1,000 shares.

Each share has a paid up value of £5, and all the shareholders are entitled to receive a dividend, in proportion to the number of shares they hold, when a dividend is declared.

The company's shares were all issued when the share dividend cap was Bank of England base lending rate plus 5 per cent, and on the first day of the CIC's first financial year (Year 1), Bank of England base lending rate was 4.5 per cent.

In Year 1, the CIC makes distributable profits of £12,000. On the first day of Year 1, the statutory aggregate dividend cap was 35 per cent.

Calculation

The maximum dividend per share is the applicable share dividend cap multiplied by the paid up value of each share.

The applicable share dividend cap is the share dividend cap in force at the beginning of the first day of Year 1, which was 9.5 per cent (i.e. 4.5 per cent + 5 per cent). The paid up value of each share is £5.

The maximum dividend per share is therefore £5 x 9.5 per cent, or 47.5 pence. Given a total of 1,000 shares in issue, a dividend paid at this rate would result in an aggregate dividend (i.e. the total dividend to all shareholders) of £475 (i.e. 1,000 x 47.5 pence).

This is well within the maximum aggregate dividend of £4,200 (i.e. £12,000 x 35 per cent).

The £475 can therefore be distributed among the shareholders by way of dividend according to the number of shares which each of them holds if the directors decide to recommend such a dividend and the shareholders approve their recommendation.

Example 2

Facts

All the facts are as for Example 1, except that the distributable profits for Year 1 are only £1,000.

Calculation

The maximum dividend per share is still 47.5 pence, but the maximum aggregate dividend is now only £350 (i.e. £1,000 x 35 per cent).

If the maximum dividend per share is declared on all 1,000 shares, the aggregate dividend would be £475, which is £125 more than the maximum aggregate dividend. This is not permitted under the Regulations.

Since the maximum aggregate dividend is £350, the largest dividend which can be declared on each share is 35 pence (i.e. £350 divided by 1,000 (the total number of shares)).

Example 3

Facts

At the end of Year 1, the CIC in Example 1 decides that it wishes, in future, to give half of its distributable profits to charity each year. It amends its articles to give effect to this policy and issues the charity which is to benefit from this distribution with a special share. The distribution will take the form of a dividend on the special share and the amended articles refer to the charity by name.

In the next financial year (Year 2), the CIC has distributable profits of £2,000. At the start of Year 2, Bank of England base lending rate is 5 per cent.

The other facts are as for Example 1.

Calculation

Under the articles, an "exempt dividend" of £1,000 is paid to the named charity. There is no need to consider either the maximum dividend per share or the maximum aggregate dividend before paying this dividend (see Regulation 17(2) to (5)).

However, dividends payable to the individual investors are still subject to the dividend capping rules in the Regulations.

The applicable share dividend cap is the share dividend cap in force at the beginning of the first day of Year 2, which was 10 per cent (i.e. 5 per cent + 5 per cent). The paid up value of each share is £5.

The maximum dividend per share on the individual investors' shares is therefore £5 x 10 per cent, or 50 pence. Given a total of 1,000 shares in issue, a dividend paid at this rate would result in an aggregate dividend (i.e. the total dividend to all shareholders) of £500 (i.e. 1,000 x 50 pence).

The maximum aggregate dividend for Year 2 is £700 (i.e. £2,000 x 35 per cent), which is more than £500, so the maximum dividend per share can be paid to the individual investors if the

directors decide to recommend such a dividend and the shareholders approve it. (Note that the £1,000 dividend paid to the charity is not included in the calculation of the maximum aggregate dividend and that, taking account of both the capped and the uncapped dividends, the company has paid out considerably more than 35 per cent (in fact, 75 per cent) of its distributable profits in dividends: before recommending such payments, the directors must satisfy themselves that such a recommendation is consistent with their duties to the company.)

Example 4

Facts

A CIC has 5,000 shares in issue, each with a paid up value of £4. It makes the following distributable profits:

Year 1	£2,000
Year 2	£5,000
Year 3	£1,000
Year 4	£15,000
Year 5	£10,000

In each of Years 1 to 5, the applicable share dividend cap is 10 per cent (so the maximum dividend per share is 40 pence) and the aggregate dividend cap is 35 per cent.

The application of the aggregate dividend cap means that the maximum aggregate dividends for each year are:

Year 1	£700
Year 2	£1,750
Year 3	£350
Year 4	£5,250
Year 5	£3,500

Suppose that the company pays no dividend in Year 1. This means that there is 40 pence per share of unused dividend capacity in respect of Year 1.

In Year 2, the company pays a dividend of 25 pence per share (in aggregate, £1,250). This means that there is a further 15 pence per share of unused dividend capacity in respect of Year 2.

In Year 3, the company pays no dividend. This means that there is a further 40 pence per share of unused dividend capacity in respect of Year 3.

In Year 4, if the company paid the maximum dividend per share, the total amount of dividend paid would be £2,000. However, the directors and members decide that a larger dividend is

justified, and would like to make use of some of the company's unused dividend capacity to pay as much as possible (i.e. up to the maximum aggregate dividend for of £5,250 for the year).

$$£5,250 - £2,000 = £3,250$$

The dividend per share which the company wants to pay in excess of the maximum dividend per share for Year 4 is 65 pence (£3,250 divided by 5,000 shares). This will use up all the unused dividend capacity from Years 1 and 2 and 10 pence per share of the unused dividend capacity from Year 3 .

In Year 5, a dividend of 70 pence per share is declared (maximum dividend per share of 40 pence for Year 5 plus 30 pence per share of unused dividend capacity from Year 3, which equals, but does not exceed, the maximum aggregated dividend of £3,500).

Note, however, that even if profits for Year 6 continue at levels similar to those of Years 4 and 5, there will be no possibility of paying a dividend of more than 40 pence per share, because all the unused dividend capacity has been used up. Please see the following:

	Dividend paid	Unused	Carried forward	Remaining to be carried forward to year 6
Year 1	Nil	40p	40p (see year 4)	Nil
Year 2	25p	15p	15p (see year 4)	Nil
Year 3	Nil	40p	40p (see year 4 & 5)	Nil
Year 4	105p (40p from year 1; 15p from year 2; 10p from year 3; and 40p from year 4)	Nil	Nil	Nil
Year 5	70p (30p from year 3; and 40p year 5)	Nil	Nil	Nil

WORKED EXAMPLES OF DIVIDEND CALCULATIONS FOR SHARES IN ISSUE ON OR AFTER 6 April 2010

Example 1

Facts

A CIC has a number of shareholders, all of them individuals who have invested in the company in order to acquire shares. The size of the different shareholders' holdings varies, but between them, they hold 1,000 shares.

Each share has a paid up value of £5, and all the shareholders are entitled to receive a dividend, in proportion to the number of shares they hold, when a dividend is declared.

The company's shares were all issued ON OR AFTER 6 April 2010 when the share dividend cap was 20 percent.

In Year 1, the CIC makes distributable profits of £12,000. On the first day of Year 1, the statutory aggregate dividend cap was 35 per cent.

Calculation

The maximum dividend per share is the applicable share dividend cap multiplied by the paid up value of each share.

The applicable share dividend cap is the share dividend cap in force at the beginning of the first day of Year 1, which was 20 percent. The paid up value of each share is £5.

The maximum dividend per share is therefore £5 x 20 percent, or £1.00. Given a total of 1,000 shares in issue, a dividend paid at this rate would result in an aggregate dividend (i.e. the total dividend to all shareholders) of £1,000 (i.e. 1,000 x £1.00).

This is well within the maximum aggregate dividend of £4,200 (i.e. £12,000 x 35 per cent).

The £1,000 can therefore be distributed among the shareholders by way of dividend according to the number of shares which each of them holds if the directors decide to recommend such a dividend and the shareholders approve their recommendation.

Example 2

Facts

All the facts are as for Example 1, except that the distributable profits for Year 1 are only £1,000.

Calculation

The maximum dividend per share is still £1.00, but the maximum aggregate dividend is now only £350 (i.e. £1,000 x 35 per cent).

If the maximum dividend per share is declared on all 1,000 shares, the aggregate dividend would be £1,000, which is £650 more than the maximum aggregate dividend. This is not permitted under the Regulations.

Since the maximum aggregate dividend is £350, the largest dividend which can be declared on each share is 35 pence (i.e. £350 divided by 1,000 the total number of shares).

Example 3

Facts

At the end of Year 1, the CIC in Example 1 decides that it wishes, in future, to give half of its distributable profits to charity each year. It amends its articles to give effect to this policy and issues the charity which is to benefit from this distribution with a special share. The distribution will take the form of a dividend on the special share and the amended articles refer to the charity by name.

In the next financial year (Year 2), the CIC has distributable profits of £2,000.

The other facts are as for Example 1.

Calculation

Under the articles, an "exempt dividend" of £1,000 is paid to the named charity. There is no need to consider either the maximum dividend per share or the maximum aggregate dividend before paying this dividend (see Regulation 17(2) to (5)).

However, dividends payable to the individual investors are still subject to the dividend capping rules in the Regulations.

The applicable share dividend cap is the share dividend cap in force when the share was issued or the company became a community interest company (whichever is the later), which was 20 percent. The paid up value of each share is £5.

The maximum dividend per share on the individual investors' shares is therefore £5 x 20 percent, or £1.00. Given a total of 1,000 shares in issue (excluding the special share for the charity), a dividend paid at this rate would result in an aggregate dividend (i.e. the total dividend to all shareholders) of £1,000 (i.e. 1,000 x £1.00).

If the maximum dividend per share is declared on all 1,000 shares, the aggregated dividend would be £1,000, which is £300 more than the maximum aggregated dividend. The maximum aggregate dividend for Year 2 is £700 (i.e. £2,000 x 35 per cent). This is not permitted.

Since the maximum aggregated dividend is £700, the largest dividend that which can be declared on each share is 70 pence

(Note that the £1,000 dividend paid to the charity is not included in the calculation of the maximum aggregate dividend and that, taking account of both the capped and the uncapped dividends, the company has paid out considerably more than 35 per cent (in fact, 85 per cent) of its distributable profits in dividends: before recommending such payments, the directors must satisfy themselves that such a recommendation is consistent with their duties to the company.)

Example 4

Facts

A CIC has 5,000 shares in issue, each with a paid up value of £4. It makes the following distributable profits:

Year 1	£2,000
Year 2	£10,000
Year 3	£1,000
Year 4	£30,000
Year 5	£40,000

In each of Years 1 to 5, the applicable share dividend cap is 20 percent (so the maximum dividend per share is 80 pence) and the aggregate dividend cap is 35 per cent.

The application of the aggregate dividend cap means that the maximum aggregate dividends for each year are:

Year 1	£700
Year 2	£3,500
Year 3	£350
Year 4	£10,500
Year 5	£14,000

Suppose that the company pays no dividend in Year 1. This means that there is 80 pence per share of unused dividend capacity in respect of Year 1 (paid up value of £4 x 20%).

In Year 2, the company pays a dividend of 50 pence per share (in aggregate, 5,000 shares x 0.50p = £2,500). This means that there is a further 30 pence per share of unused dividend capacity in respect of Year 2.

In Year 3, the company pays no dividend. This means that there is a further 80 pence per share of unused dividend capacity in respect of Year 3.

In Year 4, if the company paid the maximum dividend per share of 80 pence, the total amount of dividend paid would be 5,000 x 80p = £4,000. However, the directors and members decide that a larger dividend is justified, and would like to make use of some of the company's unused dividend capacity to pay as much as possible (i.e. up to the maximum aggregate dividend of £10,500 for the year).

£10,500 maximum aggregated dividend – £4,000 dividend for year 4, which leaves £6,500 to distribute i.e. £6,500 / 5,000 shares = a further £1.30 dividend per share.

The dividend per share which the company wants to pay in excess of the maximum dividend per share for Year 4 is 130 pence (£6,500 divided by 5,000 shares). This will use up all the unused dividend capacity from Years 1 and 2 and 20 pence per share of the unused dividend capacity from Year 3.

In Year 5, a dividend of 140 pence per share is declared (maximum dividend per share of 80 pence for Year 5 plus 60 pence per share of unused dividend capacity from Year 3, which equals, but does not exceed, the maximum aggregated dividend of £14,000).

Note, however, that even if profits for Year 6 continue at levels similar to those of Years 4 and 5, there will be no possibility of paying a dividend of more than 80 pence per share, because all the unused dividend capacity has been used up. Please see the following:

	Dividend paid	Unused	Carried forward	Remaining to be carried forward to year 6
Year 1	Nil	80p	80p (see year 4)	Nil
Year 2	50p	30p	30p (see year 4)	Nil
Year 3	Nil	80p	80p (see years 4 & 5)	Nil
Year 4	210p (80p from year 1; 30p from year 2; 20p from year 3; and 80p from year 4)	Nil	Nil	Nil
Year 5	140p (60p carried forward from year 3; and 80p from year 5)	Nil	Nil	Nil

PROCESS FOR A CIC PAYING A DIVIDEND

