Department for Business, Energy & Industrial Strategy

Office of the Regulator of Community Interest Companies: Information and guidance notes

Annex A: Worked examples of the dividend and performance related interest calculation

MAY 2016

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Worked examples of the dividend calculations

Example 1- dividend payments to private investors only

A CIC has 5 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 50 shares. The breakdown is as follows:

Shareholder 1	20 shares
Shareholder 2	15 shares
Shareholder 3	10 shares
Shareholder 4	3 shares
Shareholder 5	2 shares

At the close of Year 1, the CIC has distributable profits[1] of £100,000 which are subject to the maximum dividend aggregate cap[2]. This allows a maximum of £35,000 to be used for share dividends. There is no requirement on the CIC to declare the maximum dividend. In this example the CIC has opted to pay the maximum and a dividend of £700 is declared for each share. Each shareholder receives the following amounts:

			£
Shareholder 1	20 shares @ £700 a share	=	14,000
Shareholder 2	15 shares @ £700 a share	=	10,500
Shareholder 3	10 shares @ £700 a share	=	7,000
Shareholder 4	3 shares @ £700 a share	=	2,100
Shareholder 5	2 shares @ £700 a share	=	1,400

			35,000

To note

The dividend per share cap and the capacity to carry forward unused dividend payments was removed by the Regulator on 01 October 2014. The single cap in place is the maximum aggregate cap which is held at 35%. More detailed information on dividend payments and the dividend cap can be found in Chapters 6 and Chapter 7.

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[1] Distributable profits are profits after tax available for distribution as defined in section 830 of the Companies Act 2006

[2] The maximum aggregate dividend cap ensures that 65% of the profits are reinvested back into the company or used for the benefit of the community it was set up to serve.

Example 2 - dividend payments to private investors and an asset locked body

At the end of Year 1, the CIC in Example 1 decides that it wishes, in future, to give 50% 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 £150,000. As the charity is an asset locked body it is not subject to the dividend cap and will receive an uncapped dividend of £75,000. The remaining £75,000 will be subject to the maximum dividend aggregate cap. This allows a maximum of £26,250 to be used for share dividends i.e. 35% of distributable profits. There is no requirement on the CIC to declare the maximum dividend. In this example the CIC has opted to pay the maximum and a dividend of £525 is declared for each share. Each shareholder receives the following amounts:

			£
Shareholder 1	20 shares @ £525 a share	=	10,500
Shareholder 2	15 shares @ £525 a share	=	7,875
Shareholder 3	10 shares @ £525 a share	=	5,250
Shareholder 4	3 shares @ £525 a share	=	1,575
Shareholder 5	2 shares @ £525 a share	=	1,050

			26,250

To note

Under the articles, an exempt dividend [3] of £75,000 is paid to the named charity. There is no need to consider the maximum aggregate dividend cap before paying this dividend (see Regulation 17(2) to (5)).

However, dividends payable to the individual investors are still subject to the maximum aggregate dividend cap. This type of dividend payments can only feature in a CIC which has adopted the Schedule 3 [4] constitution for limited by shares. More detailed information on dividend payments and the dividend cap can be found in Chapters 6 and Chapter 7.

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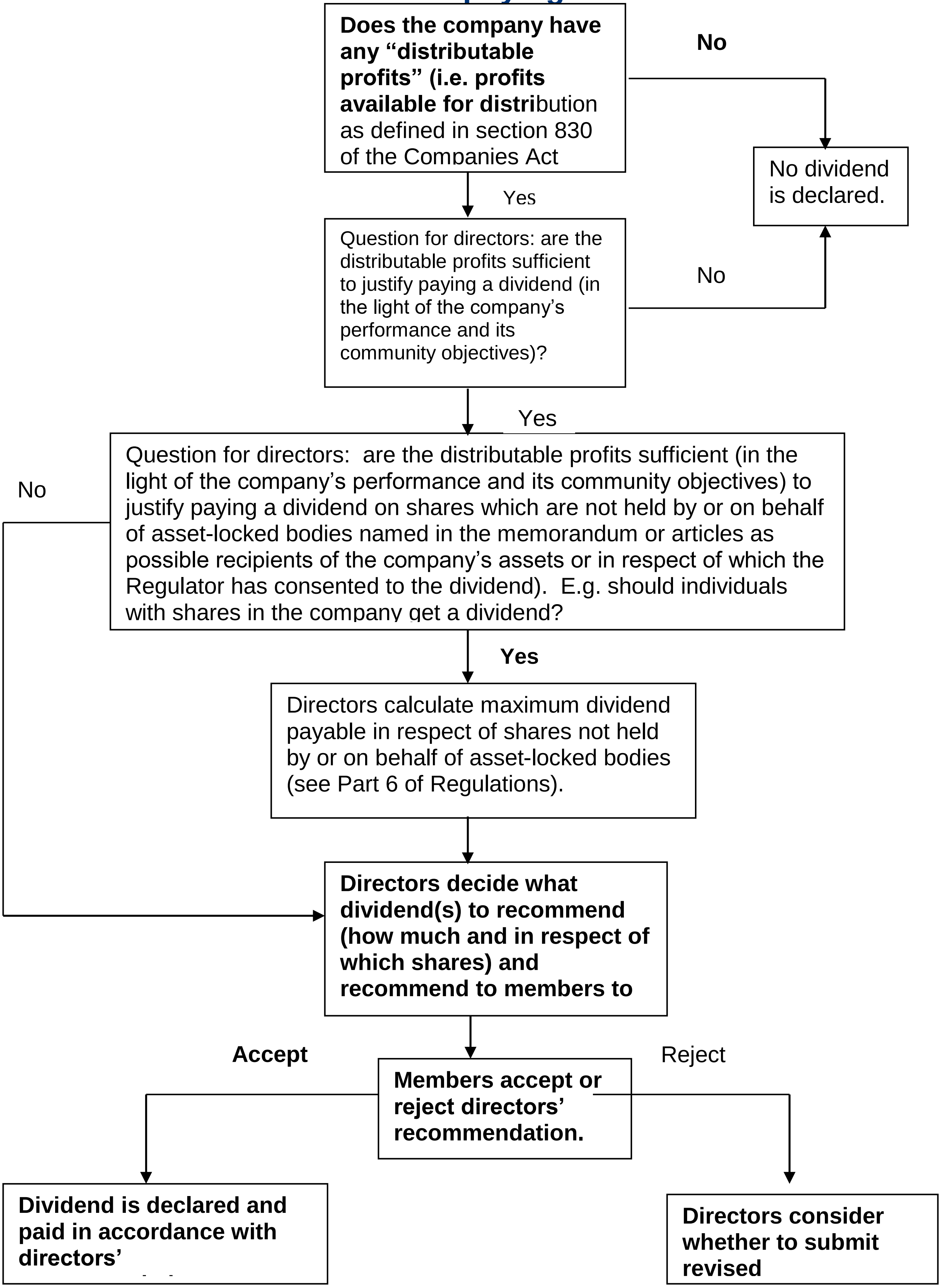
[3] An exempt dividend is a dividend payment which is not subject to the dividend cap. This applies to shares held by asset locked bodies.

[4] The Schedule 3 model allows the payment of dividends to private investors and asset locked bodies.

Process for a CIC paying a dividend flowchart



Process for a CIC paying a dividend

1. Does the company have any "distributable profits" (i.e. profits available for distribution as defined in section 830 of the Companies Act 2006)?

   No: No dividend is declared.
   Yes: If yes, the following question needs to be considered by the directors

2. Are the distributable profits sufficient to justify paying a dividend (in the light of the company's performance and its community objectives)?

   No: No dividend is declared.
   Yes: If yes, the following question needs to be considered by the directors

3. Are the distributable profits sufficient (in the light of the company's performance and its community objectives) to justify paying a dividend on shares which are not held by or on behalf of asset-locked bodies named in the memorandum or articles as possible recipients of the company's assets or in respect of which the Regulator has consented to the dividend). E.g. should individuals with shares in the company get a dividend?

   No: Directors decide what dividend(s) to recommend (how much and in respect of which shares) and recommend to members to vote on.
   Yes: Directors calculate maximum dividend payable in respect of shares not held by or on behalf of asset-locked bodies (see Part 6 of Regulations).

4. Directors decide what dividend(s) to recommend (how much and in respect of which shares) and recommend to members to vote on.

5. Members accept or reject directors' recommendation.

   Accept: Dividend is declared and paid in accordance with directors' recommendation.
   Reject: Directors consider whether to submit revised recommendation.

Worked examples of the performance related interest calculations

1. Agreement Post - 01 October 2014

On 01 October 2014 the level of interest payable on performance related interest loans was increased from 10% to 20%.

It should be noted that as the level of debt outstanding on the loan reduces the maximum interest payable also reduces.

The following calculation relates to loan agreements under the performance related interest that have taken place on or after 01 October 2014.

Example 1

A CIC borrows £50,000 over 10 years and agrees repayment terms of one tenth of the loan each year. The directors agree to pay the lender 25% of the turnover. To determine how much the lender will receive, as the turnover increases and the debt decreases, we need to make the following calculation:

(a) Maximum Interest payable

The maximum interest payable is the amount allowed under the regulations i.e. the cap ensures that no more than 20% of the loan outstanding can be paid in interest.

Period of Loan	Loan Outstanding £	Maximum Interest Payable £
1	50,000	10,000
2	45,000	9,000
3	40,000	8,000
4	35,000	7,000
5	30,000	6,000
6	25,000	5,000
7	20,000	4,000
8	15,000	3,000
9	10,000	2,000
10	5,000	1,000

From this calculation we have determined the maximum payable under the regulations. As the CIC has agreed to pay the lender 25% of turnover, the actual amount that the lender will receive will depend on the success of the company. This is illustrated as follows:

(b) **Actual Interest paid**

Period of Loan	Turnover £	Agreed 25% of turnover	Maximum Interest Payable £	Actual Interest Paid £
1	0	0	10,000	0
2	5,000	1,250	9,000	1,250
3	10,000	2,500	8,000	2,500
4	25,000	6,250	7,000	6,250
5	30,000	7,500	6,000	6,000*
6	30,000	7,500	5,000	5,000*
7	50,000	12,500	4,000	4,000*
8	60,000	15,000	3,000	3,000*
9	60,000	25,000	2,000	2,000*
10	80,000	20,000	1,000	1,000*

* subject to the 20% cap on performance related interest payments.

2. Agreement 06 April 2010 to 30 September 2014

On 06 April 2010 the link to the Bank of England base rate when determining the level of interest payable on performance related interest loans was removed. The new interest rate set by the Regulator was 10%.

It should be noted that as the level of debt outstanding on the loan reduces the maximum interest payable also reduces.

The following calculation relates to loan agreements under the performance related interest that have taken place prior to 01 October 2014 and after 6 April 2010.

Example 2

A CIC borrows £150,000 over 10 years and agrees repayment terms of one tenth of the loan each year. The directors agree to pay the lender 15% of the turnover. To determine how much the lender will receive, as the turnover increases and the debt decreases, we need to make the following calculation:

(a) Maximum Interest payable

The maximum interest payable is the amount is the amount allowed under the regulations i.e. the cap ensures that no more than 10% of the loan outstanding can be paid in interest.

Period of Loan	Loan Outstanding £	Maximum Interest Payable £
1	150,000	15,000
2	135,000	13,500
3	120,000	12,000
4	105,000	10,500
5	90,000	9,000
6	75,000	7,500
7	60,000	6,000
8	45,000	4,500
9	30,000	3,000
10	15,000	1,500

From this calculation we have determined the maximum interest payable. As the CIC has agreed to pay the lender 15% of turnover, the actual amount that the lender will receive will depend on the success of the company. This is illustrated as follows:

(b) **Actual Interest paid**

Period of Loan	Turnover £	Agreed 15% of turnover	Maximum Interest Payable £	Actual Interest Paid £
1	0	0	15,000	0
2	5,000	750	13,500	750
3	10,000	1,500	12,000	1,500
4	25,000	3,750	10,500	3,750
5	30,000	4,500	9,000	4,500
6	30,000	4,500	7,500	4,500
7	50,000	7,500	6,000	6,000*
8	60,000	9,000	4,500	4,500*
9	60,000	9,000	3,000	3,000*
10	80,000	12,000	1,500	1,500*

* subject to the 20% cap on performance related interest payments.

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