Ministry of Economic Development Manatū Ōhanga | New Zealand Companies Office

Shares and shareholders

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What is a shareholder?

Shareholders are investors in the company. They pay money into the company in return for shares. The number of shares they own determines the level of control they have over the company. For example, if a shareholder owns 750 shares out of a total of 1,000 company shares, that shareholder owns 75% of the company since each share represents a vote in the company.

Shareholders vote on the appointment of directors that manage (provide direction for) the company. Shareholders do not make decisions on running the company unless they are also directors. In small businesses it is common for the major shareholder to be the managing director of the company. Every company must have at least one shareholder.

Case study: number of shares

These comments from an experienced business person may be of help:

> "When I set up my first company, I was the sole director of the company and I set up the share capital as one share of $1.
>
> Later on, however, I wanted to pass on some shares to my children. This meant increasing the number of company shares. It is perfectly possible to do this, but I could have avoided the administrative steps involved simply by giving a bit more thought to the future structure of my company.
>
> So when I set up my second company, I chose 1200 shares of 10 cents each, or $120 in total. I chose a multiple of 12, because 12 is divisible by 2, by 3, by 4 and by 6. That will make it easy for me to divide the shares later between my four children.
>
> Also bear in mind that you may wish to issue some shares at a later stage to another director (such as an employee), so it pays to think ahead."

What value should I set for my company shares?

When you register your company, you can set any value you choose for your company shares. The value of a share when it is first issued is called its Nominal value.

You then assign them in any proportion agreed by the company director(s).

For example, 500 shares at .50 cents each, (total company capital: $250) split between two directors:

- Director A: 400 shares ($200)
- Director B: 50 shares ($50)

What are company shares worth?

When you form your company, you decide how many shares should be issued for that company, and what their value will be. The shares at the start are worth the issue value you set on them (for example, 1 cent, 25 cents or $1 per share). This is called the nominal value of the share.

However, as your business grows, becomes more profitable and acquires more assets, the real or market value of the shares is also likely to grow. When it comes time to sell or pass on your business, you can negotiate the sale value of the shares based on an agreed valuation for each share. Calling in an expert outside opinion in the form of a registered valuer can help you determine the current worth of the shares. For example, a share originally valued at 25 cents (the Nominal value) may now be worth far more.

What is the difference between the nominal and paid up capital of a company?

When you form your company, you choose the number of shares and their value, for example, 10,000 shares at $1 each. The nominal capital of the company's shares is therefore $10,000.
In most cases, the shareholders allotted these shares pay for them immediately by cash or cheque into the new company, so these shares become fully 'Paid Up'.

However, shareholders may decide only to pay up only a portion of these shares at the beginning, for instance, only 10% or $1,000, intending to pay up the balance later. The Balance Sheet will continue to show that the shareholders owe the company the balance of $9,000 for the unpaid portion of their allotted shares.

Any lenders who ask to see your company Balance Sheet before advancing funds will note that the nominal capital of the company looks impressive at $10,000, but that the shareholder(s) have only paid up $1,000 of this. They will take this in account when advancing funds to you. For instance, they may require the shareholders to invest more money in the business before they will offer more funding.

What are shareholders liable for if the company goes into liquidation?

The limited liability structure of a company limits the liability of shareholders to the capital they own in the company.

Shareholders are liable for any unpaid portion of this capital.
Take the situation of a company that is put into liquidation owing more to creditors than the company owns in net assets. The liability of shareholders in such a liquidation position is limited to the fully paid up portion of shares they own.

For example, if a shareholder owns 1,000 shares in a company with a value of $1 each, the shareholder is liable for the full $1,000. However, if the shareholder has only paid up $250 towards the 1,000 shares issued to that shareholder (value $1 each), then the shareholder remains liable to creditors for the balance of $750 in unpaid capital.

Exception to limited liability

If a shareholder is also a director (as is often the case) then as a director that person has special obligations under the Companies Act to trade responsibly.

This means making sure that at all times the company is solvent and can meet its debts. If the director has been guilty of reckless trading then the director can be held financially liable for any debts incurred while the company was trading recklessly. This can put privately owned assets at risk (such as a house or car).