

COMPANY LIMITED BY GUARANTEE (Without a Share Capital)

Companies Limited by guarantee not having a share capital are used for various purposes including clubs, charities, community activities, property management and co-operative ventures. They have the following essential differences to companies limited by shares:

1. Members' liability

Members of a company limited by shares are required to pay the agreed price for their shares, In a company limited by guarantee the Memorandum of Association states:

"Every member of the company undertakes to contribute to the assets of the company in the event of its being wound up while he is a member, or within one year after he ceases to be a member for payment of the debts and liabilities of the company contracted before he ceases to be a member and of the costs, charges and expenses of winding up, and for adjustment of the rights of the contributories among themselves, such amount as may be required not exceeding a specified amount"

In other words, the members guarantee to contribute to the payment of the company's debts up to this fixed sum. The guaranteed sum is usually €1.

2. No share capital

No share capital, no shareholders. The members of the company will be the subscribers to the memorandum, together with such other persons who become members under the provisions of the memorandum and articles and whose names are entered in the register of members.

As the members have no shares, they cannot transfer their interests in the company to others. When they wish to leave the company, they resign their membership. All though the members cannot be said to have individual proprietary interests in the company the members collectively control the company by voting at general meetings. A company limited by guarantee may have different classes of membership, which may involve differences as to voting and other membership rights.

3. Distribution of profits

Most companies limited by guarantee are not set up for the purpose of making profits and, not having a share capital, they lack any ready mechanism for the distribution of profits among the members. Many such companies include in their memorandum a clause prohibiting the distribution of profits or capital, and this will be essential if the company wishes to be regarded by the Revenue as being incorporated for charitable purposes.