Does your company have a Shareholders Agreement?

For limited companies, when it comes to making decisions, Company Law states shareholders who own more than 50% can pass a motion at a company meeting regardless of the views of other shareholders and if a shareholder(s) owns 75% or more of the shares they control the company outright and can veto the decisions of all other shareholders.

This may not suit all business situations, especially where you have two or more founders holding equal share capital or a group of owners with varying amounts of capital, some of whom are directors and some who are not, but who are all working together for the company's success.

A shareholders' agreement is entered into between all or some of the shareholders in a company. It regulates the relationship between the shareholders, the management of the company, ownership of the shares and the protection of the shareholders. They also govern the way in which the company is run.

A shareholders' agreement can help define how a business makes decisions to the benefit of all owners and is recommended where:

- A small number of owners want to reach collective and fair decisions for the benefit of all;
- Some owners may want to be able to influence decisions that are particularly relevant to them; or
- Some shareholders may not be directors and cannot influence operations on a day-to-day basis.

Typically, it is seeking to deal with the three "D's" of death, disability and disagreement. It may also cover a variety of other significant areas for example, retirement and buy back of shares.

Our view is that a shareholders' agreement is an essential document for any limited company and an equitably drafted agreement should provide comfort to all parties to the agreement.

Please talk to your accountant if you need help in planning for an agreement, especially where there are several shareholders, a new company is being formed, a shareholder wants to sell their shares or pass them to their children, someone is nearing retirement, or the company has borrowed money from a shareholder. Your accountant can help with share and company valuations and putting the shareholders wishes into an agreement with a solicitor.

Published in the Wigan Observer 15th August 2023.