

Increase in the authorized capital (by capitalization of debts, from the company's funds or by issuing new shares). Reduction of authorized capital and taxes

UAB Adisanda will quickly and easily help to increase or decrease the authorized capital of the company, i.e. carry out the necessary preparatory work for this, prepare drafts of the necessary documents (new articles of association, minutes of the general meeting of shareholders, decision, interim financial statements, make entries in personal securities accounts, submit documents to the registrar, etc.).

The authorized capital is most often an increase for the following reasons:

- The desire to inject more funds in the company
- Ensuring the fulfillment of financial obligations of the enterprise.

The capital increase can take place in several ways, e.g. including additional contributions from shareholders and the conversion of the company's funds (profit not distributed to shareholders and the increase of the number of shares. If a company has unallocated losses (financial obligations that have not yet been fulfilled) increasing the capital is possible only from the revaluation reserves of tangible assets.

If you decide to increase the authorized capital at the expense of the company, the simplest solution is to simply increase the nominal value of the shares.

The authorized capital is most often reduced for the following reasons:

- To reduce financial liabilities
- In order to disburse the funds of the company to shareholders
- In order to reduce the shareholding of the company
- Correct errors in the formation of the authorized capital.

A decrease in the authorized capital is possible only by reducing the nominal value of shares or reducing the amount of shares. The decision on the reduction of capital is made only in the presence of at least 2/3 of all members at the meeting of shareholders.

The increase in the authorized capital is governed by Article 49 of the Law on Joint-Stock Companies:

The authorized capital of the company is increased by a decision of the general meeting of shareholders (hereinafter referred to as the Decision), by issuing new shares or increasing the nominal value of the issued shares (when its authorized capital has been fully paid up, i.e. the issue price of the shares of the last release.

The shareholders of the company may acquire shares issued by the company on a pre-emptive basis in proportion to the nominal value of the shares that they own at the end of the day of the general meeting of shareholders that adopted the Decision by means of additional contributions.

The decision must be submitted to the registrar of legal entities within 10 days. The authorized capital is considered increased only after registration of the amended articles of association of the company in the register of legal entities. If the shares are intangible, the new shares are recorded by entries in the personal securities accounts of the shareholders.

Capitalization of the company's debts (Conversion of the company's debts to equity)

Capitalization is one of the ways in which a company's financial indicators can be significantly improved – by reducing creditor indebtedness, at the same time, increasing equity capital. In principle, this is nothing more than an increase in the authorized capital of the company by additional contributions from shareholders or other persons, which can be carried out only by issuing new shares.

No matter in what way the capitalized debt arose, it can be considered a cash contribution of the creditor of the enterprise. In the share subscription agreement concluded between the company and the creditor of the company, the company undertakes to provide a certain number of shares, and the company's creditor undertakes to pay the full issue price of the subscribed shares.

Since the company owes money to the creditor, the obligation of the creditor of the company to pay for the shares of the company may be by offsetting, including the obligation of the creditor of the company to pay the shares to the company's obligation to repay the debt to the creditor. However, the repayment term which is specified in the loan agreement (if any) has not yet come to an end, cannot be capitalized.

When the debt is being considered by the shareholders' meeting on the issue of increasing the authorized capital of the company, it is necessary to revoke the pre-emptive right of shareholders to acquire the shares issued by the company, so that these shares can be acquired by the person to whom the debt is being capitalized.

The decision on the withdrawal of the pre-emptive right of shareholders to acquire shares issued by the company can be made by the meeting of shareholders only by a qualified majority, at least 3/4 of all shareholders present at the general meeting of shareholders and having the right to vote on this issue.

It should be noted that this issue can be considered only when a person or persons are known (as already mentioned, such persons can also be shareholders) who are given the right to acquire shares in the company. The decision of the general meeting of shareholders must be submitted to the registrar of legal entities within ten days.

The authorized capital is reduced if it does not pay to risk a larger investment in the company.
The significant result of the reduction in the authorized capital may not be less than that prescribed by law:

UAB – 2500 Eur, AB – 25000 Eur.

The reduction of the authorized capital is regulated by Article 52 of the Law on Companies:
The authorized capital may be reduced by decision of the general meeting of shareholders or by a court decision. The decision of the general meeting of shareholders to reduce the authorized capital must indicate the purpose of reducing the authorized capital.

The authorized capital may be reduced only for the following purposes:

1. solely for the purpose of eliminating the losses recorded in the company's balance sheet;
- (2) for the purpose of cancelling the shares acquired by the company;
- (3) for the purpose of disbursing the company's funds to shareholders;
- 4) to correct errors made during the formation or increase of the authorized capital.

The authorized capital may be reduced only in the following ways:

- 1) reducing the nominal values of shares;
- (2) by cancelling shares.

The decision of the shareholders to reduce the authorized capital must be submitted to the registrar of legal entities within 10 days after the decision is made. The authorized capital is considered to be reduced only after the amended articles of association are registered in the register of legal entities.

Tax issues

Shares issued free of charge to the participants of the enterprise or as a result of an increase in the value of assets to the participants of the enterprise in proportion to the number of shares held by them, or the nominal values of previously issued shares, or the amounts of the increase in the value of shares are not considered as dividends or distributed profits, i.e. such income from increases in the value of assets is not taxed as dividends.

However, if, after an increase in the authorized capital, it is subsequently reduced and funds are paid to the participants of the enterprise, then in this case it is considered that first of all, the part of the authorized capital that was formed not from the contributions of the participants of the enterprise, but from the funds of the enterprise (profit, reserves and share supplements) with an increase in the authorized capital is considered to be paid to the participants of the enterprise.

The funds paid to the participants of the enterprise, or part thereof, which are part of the reduction in the authorized capital formed not from the contributions of the participants of the enterprise, are considered as dividends and are taxed at the rate of 15% of income tax on

dividends, or are not taxed under the exemption from the exemption from taxation on dividends set out in Article 33(2) of the WCO. and 34(2).

If the authorized capital arose from the cash contributions of the participants of the enterprise, is reduced and funds are paid to the participants, they are considered as a withdrawn contribution and do not lead to the consequences of income tax.

The difference, received by the participants in the enterprise, between the benefits received and the purchase price of the shares is considered to be the sale of securities and:

- increased income – taxed in accordance with the general procedure of the WCO, **without the application of** the exemption of Art. 12(15) of the WCO;
- the loss may be covered by the income of securities, and the unaccounted amount of such a loss is **transferred** to the next tax year in accordance with the procedure established by Art. 30 of the WCO.