



CIC Dividend Cap to be Reviewed

Social Enterprise Magazine has revealed that Community Interest Company (CIC) regulator Sara Burgess is due to carry out a review of the dividend cap for CICs over the summer.

The review was first mentioned in the Third Sector Action Plan, announced by Cabinet Office minister Liam Byrne earlier this month, and follows much debate on whether the current cap of 35 per cent on shareholders' dividends was preventing potential investors from becoming involved with CICs.

A review, due to take about 12 weeks, will take place over the spring and summer, with the results analysed in the autumn and announced near Christmas.

Burgess commented that although there was no evidence on whether investors were being dissuaded by the current cap, one of the reasons behind the review was that she was 'picking up extremes from both sides, but it's anecdotal and I want formal evidence.'

Currently, investors can only receive five per cent above the Bank of England base rate (at present set at just 1%) on the paid up value of their shares, which may 'prevent them from investing', according to Burgess.

Performance-related investment, (e.g. through shareholder loans) is capped at four per cent above the Bank of England base rate, which also proves a problem.

However, although the review would focus on the current cap, it would also cover other aspects of CICs.

Since the launch of CICs in 2005, many would-be social investors have complained about the arbitrary nature of the dividend cap and the deterrent effect it has on investment. With increased interest in social and philanthropic investment, partly due to the current low interest rates on offer from traditional savings products, the review of the dividend cap could present some interesting opportunities to create a more vibrant market for social investment, particularly to provide more start-up capital for social enterprises. We will be watching developments with interest.

A consultation document is currently being prepared by the Department for Business, Enterprise & Regulatory Reform (BERR) as part of the review and will appear on their website as well as the CIC regulators website: <http://www.cicregulator.gov.uk/>. The deadline for responses is 6 April 2009.

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