Douglas-Jones Mercer's corporate team consider the implications of the issue of bonus shares instead of paying dividends

Bonus issue of shares can be made as long as you have authority to do so (such as through a shareholder resolution) and sufficient profits.

In short bonus shares can be issued by a company by using its profits (rather than using such profits to pay shareholders dividends), to pay for new shares and to offer them to the shareholders. It should be noted that it is also possible to utilise a company's share premium account, or any revaluation reserve, in the company's balance sheet to fund a bonus issue, despite such methods not being available for the purposes of funding dividends.

A bonus issue is sometimes used to increase a private company's issued share capital to £50,000 (or its euro equivalent) so it can satisfy the requirement imposed on re-registration as a public company.

The effect of a bonus issue in the company's balance sheet is to transfer the amount equal to the nominal value of the bonus issue shares from "profits" (and, if used as a source of funds, any share premium account or revaluation reserve) to "share capital" therefore allowing the company to retain such an amount for the purposes of its business rather than paying dividends. For the company, paying a bonus issue can help to maintain cash balances.