

## **How Many Shares Should You Authorize For Your Delaware Corporation?**

When forming a corporation in Delaware you will need to indicate on the certificate of incorporation the total amount of stock the corporation is authorized to issue. There are two schools of thought on how best to make this decision:

### **1. Only Authorize 5,000 Shares of Stock.**

By March 1st of each year you will have to file an annual report and pay a franchise tax in Delaware. The tax is calculated based on the authorized shares for the company by using either the Authorized Shares Method or the Assumed Par Value Capital Method, whichever is less expensive.

The Authorized Shares Method is based on the number of authorized shares and is calculated as follows:

(i) If the company is authorized to issue 5,000 shares or less the annual franchise tax is \$75;

(ii) If the company is authorized to issue 5,001 to 10,000 shares the annual franchise tax is \$150; and

(iii) for each additional 10,000 authorized shares the annual franchise tax is increased by an additional \$75. The maximum annual tax under the Authorized Shares Method is \$180,000.

You may, therefore, decide to authorize the company to only issue 5,000 shares so you pay the minimum amount of Delaware franchise tax each year (\$75).

### **2. Authorize Millions of Shares.**

The second school of thought is to authorize millions of shares, typically 10,000,000 shares.

The rationale is individuals who receive 1,000,000 shares feel like they are receiving something of greater value and may be more motivated than individuals who receive 500 shares, even if the shares represent the same percentage of ownership in the company.

In addition, having more shares provides a bit more flexibility in allocating shares on vesting schedules.

The drawback is in Delaware having more than 5,000 authorized shares results in a higher annual franchise tax.

If you authorize millions of shares, you will most likely calculate the Delaware annual franchise tax using the Assumed Par Value Capital Method. The calculations under this method can be complicated, but the Delaware Secretary of State's Office provides a good explanation and examples of how to determine the tax [here](#). The franchise tax will vary, but if you authorize at least 5,001 shares the minimum amount will be \$350 each year. You should keep the par value of these shares low to avoid even higher annual fees to the state.

If you have any questions regarding how many shares you should authorize for your Delaware corporation, please contact me at [Doug@BendLawOffice.com](mailto:Doug@BendLawOffice.com).

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