

Contractor guide to new model articles of association

Contractors [incorporating a limited company](#) for the first time after 1 October 2009 can benefit from new [model articles of association](#) introduced by the [Companies Act 2006](#). These have been specifically designed to reflect the behaviour of smaller limited companies, including those typically run by contractors.

The new model articles were devised according to the principle of 'think small first' and govern the relationship between company directors, shareholders and the legal entity, which is the limited company itself. The model articles apply by default to all new companies incorporated after 1 October 2009, unless the company registers its own articles with [Companies House](#).

In addition to brand new companies, the new model articles can also be adopted by contractors with existing contractor limited companies, although it is not a legal requirement to do so. The benefits of updating the articles for existing companies can be to remove the need for a memorandum of association, to take advantage of many of the modernising provisions and to ensure the articles are in-line with all the new provisions of the Companies Act 2006.

Changes brought in through the new model articles of association

The key changes introduced by the new model articles include:

- o There is no requirement to hold annual or other general meetings
- o Directors can use 'any means' to reach a decision, which includes telephone, email or even text messages
- o Memorandum of association are no longer required
- o Companies can be incorporated with a single person (member)
- o There is no longer 'authorised share capital', which greatly increases the flexibility of the number and type of share that can be issued.

For [contractor limited companies](#) with only one contractor-director and shareholder, the changes will have little impact on the day-to-day running of the contractor's business, except that the contractor may find their existing articles in conflict with some provisions of the Companies Act 2006, and should check with their accountant about any action they should take.

Why articles of association are important

The articles of association of a company are the set of rules that govern the relationship between the limited company, its directors and its shareholders. They are the key instrument of 'corporate governance', which require those running a company to do so within the law and in the best interests of that business and its shareholders.

Many contractor limited companies that start-off as one-person businesses will have little recourse to the articles of association, as the contractor is the board of directors and shareholder combined. Indeed, many contractor limited companies may never have recourse to the articles throughout the life of the company and the contractor's career.

However, the articles are of vital importance when something goes wrong and when there is a dispute between shareholders and directors. It is particularly important when a contractor limited company grows to have more directors and shareholders and/or it evolves into something bigger, such as a multi-person consultancy, a software house or a contractor-staffing agency.

There are two versions of the new model articles:

1. Articles for private companies limited by shares – virtually all contractor limited companies will use this model
2. Articles for private companies limited by guarantee, intended for social enterprises and charities, and therefore much less likely to be used by the vast majority of contractors.

Why contractors with 'old' articles should adopt the model ones

The main reason for contractors who created articles prior to 1 October 2009 to consider changing to the new ones is that they may well find that some provisions of the older articles are in conflict with the new legislation.

Contractors who incorporated their limited company before 1 October 2009 and wish to adopt the model articles of association can easily do so by amending the existing articles by a special resolution.

“ The articles are of vital importance when something goes wrong and when there is a dispute between shareholders and directors ”

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