

Guide to closing your business



There are a **number of ways** to **close** or **suspend** a business which will be explored in this guide.



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Guide to closing a limited company

Conducting your business through a limited company gives you optimum control and is the preferred method of trading for many small and micro businesses.

Just as there are legal and statutory obligations of running a limited company, there are proper procedures when closing one. It is essential that these are followed to avoid penalties and risk damaging your future trading prospects and credit rating.

There are a number of ways to close or suspend a business which will be explored further in this guide. They include:

1. Striking off
2. Company Liquidation
 - a. Voluntary Liquidation
 - b. Compulsory Liquidation
3. Dormancy

Striking off

There may come a time when, for whatever reason, you don't want or need to retain your limited company. Common reasons why Directors decide to close their company include retirement and entering permanent employment.

A company can apply to be struck off the companies register and dissolved if it is no longer needed. (Note that this isn't an alternative to insolvency procedures. Even if a company is struck off and dissolved, creditors may apply for the company to be restored to the register).

There are also certain circumstances where a company is not allowed to voluntarily apply to be struck off. These are laid out in [section 1004 \(http://www.legislation.gov.uk/ukpga/2006/46/section/1004\)](http://www.legislation.gov.uk/ukpga/2006/46/section/1004) and [section 1005 \(http://www.legislation.gov.uk/ukpga/2006/46/section/1005\)](http://www.legislation.gov.uk/ukpga/2006/46/section/1005) of the Companies Act 2006.

Capital distribution vs Income distribution

If your retained profit is less than £25,000, you can withdraw funds as a capital distribution and then strike off your company. Certain conditions are met and you qualify for entrepreneurs relief, you could pay a rate of capital gains tax of 10%.

However, since 6th April 2016, dividends are taxed at 7.5% so if you are a basic rate taxpayer, it could be more tax efficient to withdraw the funds from the company as an income distribution i.e. paying a dividend.

Your accountant will be able to advise you on the most tax efficient option for your company.

The run up to striking off

There are a number of tasks which need to be completed before a company can apply to be struck off the companies register.

Here's a checklist:

1. Complete all outstanding transactions (e.g. invoices)
2. Set a closure date
3. De-register for VAT and PAYE (if appropriate)
4. Prepare final company accounts - note that while these must be sent to HMRC, along with a Company Tax Return, they do not have to be filed with Companies House (although they can be)
5. Calculate and pay Corporation Tax
6. Complete a Company Tax Return
7. Transfer any domain names
8. Empty and close company bank accounts
9. Notify creditors and any other interested parties
10. Notify HMRC

You should not resign as company Director before applying for striking off because you must be a Director at the time the Registrar receives the application. ➡

Striking off continued...

Strike off application - Form DS01

Three months after you cease trading, and only when the run up tasks have been completed, you can apply to have the company struck from the register and dissolved.

You can do this online at Companies House [here \(https://guidedfiling.companieshouse.gov.uk/start?t=DS01\)](https://guidedfiling.companieshouse.gov.uk/start?t=DS01) for a fee of £8.

Alternatively you can print off and complete a [DS01 form \(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/429544/DS01_V7.0.pdf\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/429544/DS01_V7.0.pdf) and post it to Companies House together with a £10 fee.

Who you need to inform

Within 7 days of making the application, the Director must send a copy of the application to the people associated with the company, which include:

- › Members (usually shareholders)
- › Any Directors who have not signed the DS01 form
- › Creditors
- › Banks
- › Suppliers
- › Employees (or former employees if the company owes them money)
- › Landlords or tenants
- › Guarantors
- › Personal injury claimants
- › HMRC
- › DWP (Department of Work and Pensions)
- › Managers or trustees of any employee pension fund

Companies House action

Once Companies House have received the application, they will verify it is genuine by sending an acknowledgement to the registered office address. They will also register the information and put it on the company's public record.

Thereafter they will publish notice of the proposed striking off in the [Gazette \(https://www.thegazette.co.uk/\)](https://www.thegazette.co.uk/), which is the official public record newspaper and website.

If there are no challenges or objections raised, or other delays, the Registrar will strike the limited company off the register. This will happen not less than 2 months after the date of the notice. The company will be dissolved on publication of a further notice.

Striking off continued...

Offences and penalties for getting it wrong

While the process of closing a limited company is rather drawn out, there are severe repercussions for failing to follow the proper steps.

It is an offence:

- › To apply for striking off when the company is not eligible
- › To provide false or misleading information in the application
- › Not to send copies of the application to all relevant parties within 7 days
- › Not to withdraw the application if the company becomes ineligible

Those found guilty of these offences can face unlimited fines and disqualification from being a Director for up to 15 years.

The most serious offence is a company Director failing to give a copy of the striking off application to relevant parties with the intention of concealing it.

This can carry a prison sentence of up to 7 years as well as an unlimited fine.

A word of warning

There is a specific TAAR (Targeted Anti-Avoidance Rule by HMRC) preventing the practice of “phoenixing”.

This is where a limited company is wound up so that its shareholders can receive a capital distribution to reduce tax liability. A new company is then formed shortly after, with the same trading activity.

Read more on this:

<https://www.boox.co.uk/hmrc-target-of-the-phoenix/>

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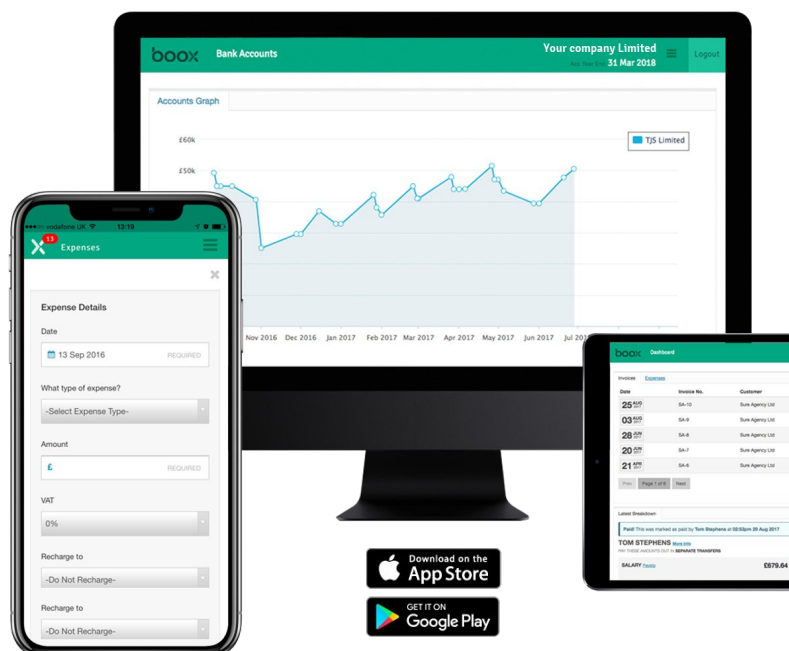
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Company Liquidation

This is where a limited company is closed by an appointed Insolvency Practitioner also known as a Liquidator. The company's assets are then sold and any revenue is distributed in order of priority. Finally the company is struck off the register and dissolved.

Liquidation can either be instigated on a voluntary basis by the Directors and shareholders of a company, or on a compulsory basis via court order by creditors such as HMRC.

Voluntary Liquidation

Member's Voluntary Liquidation - MVL

If your company is solvent, you may opt to formally liquidate your company.

A common reason for this may be if your retained profits exceed £25,000 and you wish to extract these funds as a capital distribution.

Creditor's Voluntary Liquidation - CVL

This is used by insolvent companies by resolution of the shareholders. The company is dissolved and its assets are redistributed to its creditors. This enables the Directors to write off unsecured company debts that are not personally guaranteed.

Compulsory Liquidation

This is usually initiated by a creditor to force a company into closure via court order, usually after stalled negotiations. The process is handled by the Official Receiver, or an appointed Insolvency Practitioner and is usually started with a winding up petition which is heard in court.

Boox tip



If you are having financial difficulties, it is best to speak to your creditors to agree a payment plan and avoid a creditor appointing a Liquidator. A good principle is - bad news travels fast, don't bury your head in the sand.

Company liquidation continued...

The liquidation timeline

Depending on the type of liquidation, the details may vary, but this is the basic process which applies to all.



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Dormant company

There are many reasons why, as a company Director, you might wish to cease or suspend trading. You should carefully consider your future intentions when it comes to winding up your limited company.

If you want to cease trading for now but feel you may want to resume trading in the future, a sensible option is to make your company dormant. This keeps your business ticking over and avoids the process of closing it down completely.

As well as being less “final”, this can be a more cost-effective way to cease trading. There is a small overhead attached to maintaining a dormant company, but you avoid the full expense of closing the company down, as well as re-incorporating if you want to start up again.

A dormant limited company is classed as having “no significant accounting transactions” during an accounting period. It can’t be active or liable for corporation tax.

The only activities that can be made while a company is dormant are the following:

- › Payments for share taken by subscribers to the Memorandum of Association
- › Fees to the Registrar of Companies
- › Settling a civil penalty

Any transactions other than these means that your company could be viewed as active and you may be liable for additional tax and have to comply with the usual Director’s obligations.

Dormancy checklist

- ✓ Inform your corporation tax office that you have ceased trading
- ✓ Inform your clients and agency
- ✓ Chase unpaid invoices
- ✓ Prepare accounts up to the usual financial year end
- ✓ If you had employees on your payroll, inform the tax office
- ✓ Consider whether you should deregister for VAT, PAYE etc.
- ✓ Close business bank accounts or arrange for any fees to be taken from a personal account
- ✓ Terminate contracts with service providers eg. telephone / broadband

While there isn’t a set time limit for keeping your company dormant, if you are not planning to resume trading within a couple of years, you could consider shutting it down completely.

Even if you are not trading, you will need to continue filing annual dormant accounts with Companies House.

Waking up your dormant company

When you decide to start up again, you must let HMRC know within the first 3 months of trading. You should send accounts to Companies House within nine months of your company’s year end and settle corporation tax within nine months and one day of the same period. You will also need to file a company tax return within 12 months of your year end.



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Striking off vs Liquidation

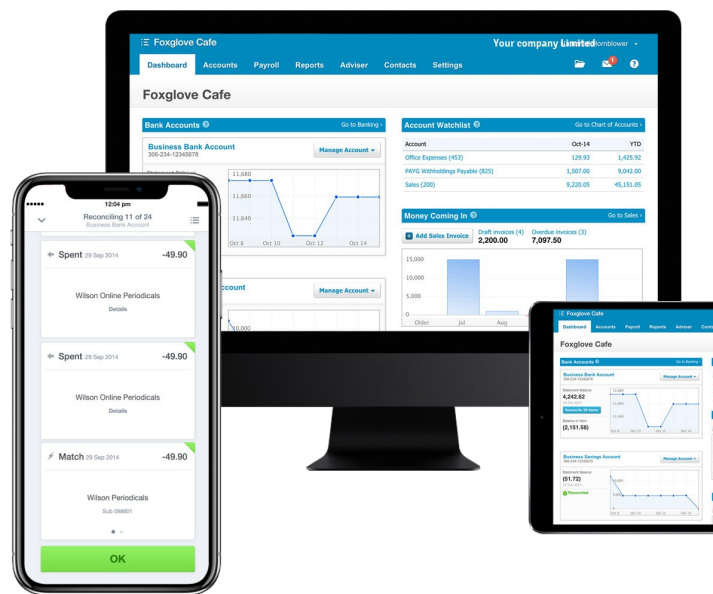
| | Pros | Cons |
|---|---|---|
| Striking off | <ul style="list-style-type: none"> › Cost - less expensive › Speed - 3 month minimum › Most appropriate if company has assets and has not traded for 3 months | <ul style="list-style-type: none"> › If the company has more than £25k to distribute this can't be done as a capital distribution › If there are outstanding liabilities, such as tax returns, HMRC or creditors may object. Creditors could apply to restore the company › Assets become the crown's on dissolution |
| Member's Voluntary Liquidation (MVL) | <ul style="list-style-type: none"> › Distributions of over £25k can be treated as capital gain › Creditors have 21 days to apply to the court to vary a decision made by the liquidator. Once the liquidation is complete, it is final. | <ul style="list-style-type: none"> › Cost - more expensive › Involves a licensed liquidator › Speed - once final accounts are approved HMRC clearance usually takes 2-4 months |

Other options for solvent company closure

- › Applying to the court for a reduction of capital
- › Obtaining Inland Revenue Sanction (under an Extra Statutory Concession) for a capital dividend followed by strike off.

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Help and support from Boox

If you are a **Boox** client and have made the decision to close your company, we will work with you to ensure the closure is handled fully and correctly so that you are not exposed to the consequences of getting it wrong.

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