

# Closing a Company



**There may come a time when you need to close down a limited company and this Quick Guide sets out the steps you will need to take in order to do this.**



## **Closing a Company**

To close a company you usually need to have the agreement of your company's directors and shareholders.

The way in which you close the company is dependent upon whether the company is solvent or insolvent.

## **Solvent Companies**

If the company is solvent there are two options as to how the company can be closed:

### **Being 'Struck Off' at Companies House**

You can get the company struck off the Companies House register but only if the company:

- Has not traded or sold off any stock in the last 3 months;
- Has not changed names in the last 3 months;
- Is not threatened with liquidation; and
- Has no agreements with creditors, e.g. a Company Voluntary Arrangement.

If your company does not meet these conditions, you will have to voluntarily liquidate your company instead.

Before applying to strike off your limited company, you must close it down legally. This involves:

- Announcing your plans to interested parties and HM Revenue and Customs (HMRC);
- Making sure your employees are treated according to the rules; and
- Dealing with your business assets and accounts.

You will have to fill in an application to strike off and send a copy within 7 days to anyone who could be affected.

This includes:

- Members (usually the shareholders);
- Creditors;
- Employees;
- Managers or trustees of any employee pension fund; and
- Any directors who didn't sign the application form.

## Striking Off

To apply to strike off your limited company, you must send Companies House form DSO1 signed by a majority of the company's directors. It costs £10 to strike off a company and payment cannot come from an account that belongs to the company you are striking off.

You should deal with any of the assets of the company before applying, e.g. close any bank accounts and transfer any domain names.

## What Happens Next?

Companies House will inform you by letter if you have filled in the form correctly and whether your request for the company to be struck off will be published as a notice in your local Gazette.

If nobody objects, the company will be struck off the register upon expiration of the period set out in the abovementioned notice and a second notice will be published in the Gazette. At this stage the company will be formally dissolved.

## Staff:

If your company employs staff, you must:

- Follow any employment rules if you make staff redundant;
- Pay their final wages or salary; and
- Tell HMRC that your company has stopped employing people.

## Business Assets

You should make sure that any business assets are shared among the shareholders before the company is struck off. Anything that is left will go to the Crown and to get anything back you will have to restore the company.

## Final Accounts

You must send final statutory accounts and a Company Tax Return to HMRC. Although you do not have to file final accounts with Companies House you must:

- Prepare your final accounts and company tax return;
- File your accounts and company tax return, stating that these are the final trading accounts and that the company will soon be dissolved; and
- Pay all Corporation Tax and any other outstanding tax liabilities.

If you've made a loss in your final year of trading, you might be able to offset the tax against profits from previous years - this is known as 'terminal loss relief'. You can claim this on your final tax return.

## Capital Gains Tax on Personal Profits

If you take assets out of the company before it is struck off, you might have to pay Capital Gains Tax on the amount.

Business Asset disposal relief may be available but this will work out on your personal Self-Assessment Tax Return. If the amount is worth more than £25,000, it will be treated as income and you'll have to pay Income Tax on it.

## Keeping Records

You must keep business documents for 7 years after the company is struck off, e.g. bank statements, invoices and receipts. If the company employed people, you must keep copies of its employers' liability insurance policy and schedule for 40 years from the date the company was dissolved.

## Withdrawal of Application

You can withdraw your application if your company is no longer eligible to be struck off (e.g. trading or insolvent) or you change your mind provided the company is still on the Companies Register. Only one director is required to sign the withdrawal form.

## Members' Voluntary Liquidation

You can choose to liquidate your limited company (also called 'winding up' a company). The company will stop doing business and employing people.

Although Members' Voluntary Liquidation is more cumbersome, the advantage of this process is that a liquidator is formally appointed and notices are given that the company is closing. Any creditors or persons with claims against the company then have a period of time in which to come forward before the company is liquidated and state their claim. Once liquidation is complete there is very limited possibility of any claim being made by any creditors or other persons against the former directors of the company.

### Key Steps To Voluntary Liquidation:

- A declaration of solvency must be signed by the majority of directors.
- The shareholders must pass a resolution for voluntary winding up.
- The resolution must be published in The Gazette within 14 days.
- An authorised insolvency practitioner will need to be appointed as a liquidator who will take charge of winding up the company.
- Companies House also needs to be notified within 15 days of passing the resolution.

When the liquidator is appointed, he takes control of the company and the responsibilities of the directors will change.

## Insolvent Companies

There is only one voluntary option to wind down an insolvent company and that is the creditors' voluntary liquidation.

A director can propose a creditors' voluntary liquidation if:

- The company cannot pay its debts (it is 'insolvent'); and
- Enough shareholders agree.

The directors will need to obtain shareholders' consent in order to liquidate the company. To do this the directors must call a meeting of shareholders in which 75% (by value of shares) of shareholders must agree to the winding-up and pass a 'winding-up resolution'. Once the resolution is made there are 3 steps that must be followed by the directors:

- Appoint an authorised insolvency practitioner as liquidator to take charge of liquidating the company;
- Send the resolution to Companies House within 15 days; and
- Advertise the resolution in The Gazette.

The director must deliver two notices to creditors to seek their decision on the nomination of a liquidator and seek their decision on the establishment of a liquidating committee. In order to do these at the same time a decision procedure such as the following should be used:

- Virtual meeting
- Notice by correspondence

Directors must notify the creditors about the decision procedure date no earlier than 7 business days after the notice has been delivered and a maximum of 14 days after the Resolution to Wind Up has been passed.

A physical meeting will be held if 10% in value of all creditors' claims, a collective group of 10 creditors or 10% of total number of creditors request a meeting within 5 business days of the notice being sent. Through the decision procedure or, if a meeting is held, creditors may:

- Suggest an alternative liquidator
- Form a liquidation committee

## Vote of liquidators remuneration

Directors must present a Statement of Affairs no later than 3 business days before the decision date which details the company situation including assets and liabilities. This must be provided to the liquidator to forward to Companies House.

## Dormant Companies

The third option would be to keep the company open as a dormant vehicle. You can notify HM Revenue & Customs that the company has ceased to trade and close the PAYE scheme and then you just keep the company and submit dormant accounts each year along with an annual return form. This option is attractive if there is any chance that activities may be resumed in the future, but obviously it does have an ongoing cost associated with it.

To make your company dormant, ensure that all clients and any agents doing business on its behalf are aware that you are ceasing trading and any agreements or contracts are to be terminated.

You will need to prepare final accounts and ensure that your corporation tax is paid in full. You must empty and close any interest-generating bank accounts – if a dormant company undertakes even a single transaction, for example an interest payment or bank charge, you will become liable for a full set of trading accounts and corporation tax for the relevant period. You must also close your payroll and notify your accountant that trading has ceased.

## Deregister for VAT

You must cancel your registration if the company stops trading or when a company is closed.

You must cancel within 30 days if you stop being eligible or you may be charged a penalty.

How to Cancel;

- You can cancel your VAT registration online; or
- Fill in and send form VAT7 to deregister for VAT by post.

## What Happens Next?

It usually takes 3 weeks for HMRC to confirm your de-registration and the official de-registration date. This is either the date when the reason for your cancellation took effect (eg when you stopped trading), or the date you asked to deregister if it's voluntary.

HMRC will send confirmation to your VAT online account (or through the post if you don't apply online). From the date of de-registration you must stop charging VAT and keep your VAT records for 6 years.

## VAT After You Cancel:

You'll have to submit a final VAT Return for the period up to and including the de-registration date. You must account for any stock and other assets you have on this date if:

- You could reclaim VAT when you bought them; or
- The total VAT due on these assets is over £1,000.

Don't wait until you've received all your invoices before submitting your final return. You'll still be able to reclaim VAT on anything you bought for your business while still registered once you get the invoices.

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