Companies – Ceasing to trade

If you decide to just close down your business, you have 3 options for the company:

1. Striking Off
2. Liquidation (Compulsory or member's voluntary)
3. Leave it dormant

1. Striking off

If you just wish to close down your company and it is solvent, you can use voluntary striking off. This is the easiest and cheapest option to close down the company.

How to strike off a company

Complete form DS01 from the Companies House website. The directors should meet and make a board minute to confirm that the company is solvent, and has paid or will pay all its outstanding debts or obligations.

Once the form is submitted to Companies House, and provided all is in order, the registrar will put a notice in the Companies Gazette to publicize the striking off. If no response is made the company is struck off three months later.

The Registrar will not strike off a company which has outstanding debts or obligations to HMRC. If the company is insolvent, or becomes insolvent, its directors can be held personally accountable to its creditors. Once struck off, a company can be reinstated to the Register.

Beware in what order you do things:

1. The directors can be held to be personally accountable if the company is struck off without settling all its debts.
2. On the other hand, if the company is struck off and still has money in the bank, assets or share capital, they will become property of the Crown.

Potential Drawbacks

The maximum amount of a company's assets that can distributed as capital on striking off is capped at £25,000. This includes share capital. If there are higher assets and capital treatment is desired for tax then liquidation is necessary. The advantages of a capital treatment are:

- Capital Gains Annual Exemption
- Capital Gains are taxed at 18% or 28%, and if Entrepreneur's relief can be obtained, at 10%.

2. Liquidation

Liquidation is a process by which a company is wound up by a licenced insolvency practitioner under the Insolvency Act 1986.

How to liquidate a company

If your company is insolvent, the creditors can petition for compulsory liquidation.

If your company is solvent, the members can request a voluntary liquidation

Liquidation must be done by a licensed insolvency practitioner. Once wound up the company is removed from the register.

Advantages

If your company is insolvent you haven't got a choice. If a company continues to trade when it is insolvent, its directors can be held personally accountable if their actions cause financial loss to any of the company's creditors.

If your company is solvent, a member's voluntary liquidation can yield considerable tax savings – This depends on the amounts available for distribution, your marginal tax rate and whether the disposal would qualify for entrepreneur's relief.

Potential Drawbacks

Liquidation is generally more expensive than striking off because it must be conducted by a licenced insolvency practitioner.

Once wound up a company cannot be restored to the Register after more than two years.

3. Remaining dormant

A company may be left dormant with or without assets

Advantages

This is the least work to do in the short term, and is a good option if you are not sure whether your trading will resume or not

Potential Drawbacks

It will still be required to file accounts and complete an Annual Return with Companies House.You will need to notify HMRC that the company is dormant, otherwise the company will have to continue to file Corporation Tax Returns.

Once a company ceases trading and becomes dormant its shares may lose status as business assets this may affect Capital Gains tax (CGT) relief and Inheritance tax (IHT) reliefs for shareholders.