

How contractors can close down their limited companies

If a contractor decides they no longer need their **limited company**, for whatever reason, then they can close down their company and remove it from the **Companies House** register, which means it no longer exists.

Happily, this also means that there are no longer any administrative duties or costs associated with running the business, such as time spent checking paperwork and paying accountants.

Before you start, think again

But before starting the process of closing their company, contractors should ask themselves whether they will need it again, as closing a limited company can, under some circumstances, be costly and time consuming.

If they are planning generate their income via another route, such as through a permanent job or working through a **contractor umbrella company** for a short period, then it might be cheaper and less hassle to **make the company dormant**.

Should the contractor not need their limited company for three years or more, then it is generally more cost effective to close the company and re-incorporate in the future, as even dormant companies can cost up to £100 per year to maintain.

Voluntary striking off and dissolution

Assuming the contractor has no further need of their limited company, they can apply to Companies House for the company to be 'struck-off' the register, which means the company will cease to exist.

Contractors who are closing their company because it has fallen into financial difficulties cannot opt for the voluntary striking off route and should contact their professional adviser immediately, as there is a different process.

Assuming the company is not in financial difficulty, a contractor's limited company that has been used only to provide the services of the contractor can be struck off if, in the previous three months, it has not:

Traded; the contractor has issued no invoices and has only paid creditors

Changed its name

Engaged in any activity except those required to strike off the company.

Assuming the above conditions are satisfied, the contractor can start the process of closing the company.

Who to inform

Many limited companies with long and complex trading histories that have creditors and perhaps numerous shareholders and directors, have to inform a long list of people who have been associated with the company.

In practice, assuming they are the sole director and shareholder with no creditors or employees, contractors simply need to inform:

HMRC (for corporation tax, payroll and VAT purposes)

The company's business insurer

The company's banker

Accountants and other professional advisers.

Technically, if there is a co-director and additional shareholders, they must be informed in writing and be sent a copy of the application for striking off, **Form DS01**. Co-directors will also be required to sign the striking off request.

Closing accounts, payroll, VAT registration and tax return

Company accounts must be prepared for the period from the last annual accounts to the final date of trading. These accounts must be submitted to HMRC with a Company Tax Return for the period and a request to close down the corporation tax scheme for the company, explaining that the contractor's company will be dissolved.

The Inspector of Taxes for the company's payroll should be informed that the company has ceased trading and HMRC will issue a final P35 Employer's Annual Return, which the contractor will need to complete and return. Any **final balance of PAYE tax** and National Insurance Contributions should be paid.

The contractor should also inform HMRC that the company has ceased trading and that it should be **deregistered for VAT**. HMRC will send a questionnaire, which for most contractors should be fairly straightforward. If the company held stocks, or items like furniture and equipment, then the contractor might need assistance from their accountant to complete a final VAT return.

Corporation tax, payroll and VAT are all different departments within HMRC, so the contractor must contact all three and not assume that the change in the company's trading status will be passed on.

Final payments and closing the bank account

Any payments due to HMRC and other creditors should be made from the company bank account. None of these payments should be associated with trading; otherwise the company cannot be struck-off.

If there are any remaining assets in the business, such as cash in the bank account and tangible assets, such as computers or furniture, these should be paid to the shareholders as a final dividend, likely in practice to be the contractor.

There could be Capital Gains Tax (CGT) liabilities arising from the final payments to the shareholders/contractor; so the contractor should take advice from their accountant about the most tax efficient way of handling the final payments to shareholders.

Only when all the payments have been made should the bank account be closed. Note that any cash or assets left in the business after the company's date of dissolution automatically goes to The Crown – basically the accounts get frozen and the government gets it!

Applying to Companies House

Once the final accounts and tax return have been sent to HMRC, the final dividend paid and the bank account closed, plus other loose ends such as reassigning the ownership of domain names, then the contractor should submit Form DS01 to the Registrar at Companies House.

Assuming there are no complications, which will be the case for most contractors who are sole directors and shareholders of their own limited company, the Registrar at Companies House will advertise the dissolution of the company in the London Gazette.

This is likely to be a formality, as there should be no creditors, shareholders or directors to object; so within nine months the company will be struck off and cease to exist. Then, for many contractors, this will be the end of a major, and hopefully profitable and enjoyable, chapter in their lives.

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