

How to close your company and extract the profits – paying only 10% tax



If you're looking to close your contractor limited company and you have cash reserves over £35,000, you could extract the profits whilst paying tax at a marginal rate of just 10%.

A Members' Voluntary Liquidation (MVL) allows you to extract the reserved funds of your business in cash, and means you get your hands on your money in a matter of weeks.

Our [contractor MVL services](#) could save you thousands of pounds in tax.

Why are contractors closing their limited companies?

Contractors typically use an MVL to close their companies for one of the following reasons:

- They are caught inside IR35 and no longer wish to use a company vehicle
- They are taking on a permanent role as an employee.
- They have decided to retire

With many public sector clients seeking to engage contractors via umbrella companies in response to the IR35 reforms, you may no longer need your limited company.

If you are engaged in the public sector and looking to extract money from your limited company before HMRC comes calling, an MVL could prove the most swift and efficient solution.

How does a Members Voluntary Liquidation work?

Usually, when closing down a limited company, a contractor will draw any remaining profit as a dividend, paying income tax on the dividend amount.

Having your limited company liquidated by a licenced insolvency practitioner means your reserves can be distributed as capital, meaning they are subject to capital gains tax (CGT) at either 18% or 28%.

But one of the major benefits of using an MVL is that it utilises [Entrepreneurs' Relief](#). Providing you qualify, this could mean you pay CGT at a rate of just 10% on qualifying assets.

Likewise, each shareholder could benefit from a tax-free allowance of £11,100 – also known as the Annual Exempt Amount. Where there are multiple shareholders this can be highly efficient.

Do you qualify for a Members Voluntary Liquidation?

If you meet the criteria below, you may want to consider making use of an MVL:

- Company reserves are over £35,000 – after paying all final liabilities
- The company has been trading for at least 12 months
- You are at least a 5% shareholder and employee of the company
- You aren't intending on trading via a limited company for at least two years following the MVL.

MVLs and the Targeted Anti-Avoidance Rule (TAAR)

Be warned though, MVLs are only to be used if you genuinely don't intend to be trading via a limited company for a prolonged period of time. They are not to be used as a tax avoidance measure.

A [Targeted Anti-Avoidance Rule \(TAAR\)](#) was introduced in April 2016 preventing contractors from winding up companies to distribute profits before setting up new companies immediately afterwards - also known as 'phoenixing'.

If you're found to be involved in a similar trade within two years of an MVL, you may be caught by the TAAR and it may undermine the tax treatment you benefited from.

Is an MVL right for you?

MVLs can present huge financial benefits, and can be very advantageous. There are a lot of things to consider, including your profit, your personal circumstances and the liquidator's fee.

It's compulsory for company reserves to be above £25,000 after all liabilities have been paid, but experts agree that £35,000 is the rough benchmark where an MVL starts to prove cost-effective.

Make sure you seek professional advice to find out whether an MVL is the best option for you.

Find out how much you could save with an MVL

With the public sector in a state of flux over the IR35 reforms, an MVL could offer substantial savings and some welcome relief for contractors switching to an umbrella company.

Whatever the reason for your winding up, we have the necessary expertise to help you close your company as quickly and cost-effectively as possible. Our chosen partner specialises in the contract sector, and can ensure you have access to the retained funds in as little as a few weeks.

[Fill out an enquiry form now](#) to speak to one of our experts about your MVL.

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