

Making your contracting limited company dormant

If you plan to make your contractor limited company dormant then it's important you understand the steps you need to take so you don't run into any legal problems.

When to make your contractor limited company dormant

Limited company contractors might need to consider making their company dormant if their circumstances change. If you need to take a short break from contracting to take on fixed employment or to take an assignment that requires you to be paid in an alternative way then it is a good idea to make your contractor limited company dormant.

The process is straightforward and your limited company will stay dormant until they are ready to use it again, at which point you can simply restart trading on a new contract.

Should I close my contractor limited company completely?

If you are unlikely to contract via your limited company for more than a couple of years you should consider **closing your company**, and incorporating a new business when, or if, your contracting career restarts.

When a company is dormant

According to Companies House, a dormant limited company is one that has had no 'significant accounting transactions' during the accounting period. HMRC is only interested in a company's tax status and **considers a company dormant** if it has ceased trading and has no immediate plans to generate new business.

In practice, this means a contractor must not enter into any new contracts using their dormant contractor limited company. There should be no trading transactions, which includes any bank interest, as this would result in the company no longer being considered dormant by Companies House.

How to prepare a limited company for dormant status

Contractors should take the following steps to prepare their limited company for dormant status:

Chase outstanding invoices, which should be paid by agencies and clients before the company ceases trading

Prepare final trading accounts up to the usual financial year end, even if trading ceased many months before

File the final corporation tax return and pay any outstanding tax, then inform the corporation tax official at the relevant tax office that the company is dormant

Close payroll by notifying the relevant tax office that there are no employees and that trading has ceased. HMRC will issue a final P35 the following April, which must be completed and filed with any associated P11Ds and P14s

Close bank accounts, particularly interest bearing accounts, to avoid any interest being paid that would void the company's dormant status, and to prevent statements and correspondence being issued. If there is a large cash surplus in the company, contractors should consult their accountant about the most tax efficient way to extract the money

Terminate service providers' contracts, including those for mobile phones, broadband, insurances and professionals, such as accountants, ensuring any outstanding bills are paid in full.

As a courtesy, contractors may also wish to inform agencies and clients with whom they have regularly done business that their company has temporarily ceased trading.

Managing the company during dormancy

Even when the company is dormant, contractors must maintain a minimum level of company administration to stay within the law. This involves:

Submitting annual returns to Companies House each year: this can be completed online

Submitting abbreviated accounts to Companies House for each financial year that the company is dormant; again, this can be completed online. Contractors whose limited companies have previously traded cannot submit a Dormant Company Accounts form AA02, as this is only for companies that have never traded

“
A dormant company is one that has had no significant accounting transactions
”

Maintain a registered office address, which can be the contractor's home/home office, a rented service address or their accountant's address (although payments for rentals and accountants should not be made from the dormant company)

Not trading, which includes no revenue-generating transactions, including fee-earning work and bank interest. If the company generates a single transaction of this type, it is considered to be no longer dormant and must submit full accounts to Companies House and a corporation tax return to HMRC at year end.

Finally, contractors should also continue to inform Companies House of any changes to the company directors' circumstances.

Updated: Wednesday, February 4, 2015

© 2016 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#).



ABCe verified website - last audit confirmed *134,482 monthly unique visitors*

© Copyright 2016 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)