



# Ceasing to trade

**S·I·P·H·E·R**  
ACCOUNTING & TAX

1

### RESERVES < £6,000

File DS01 with Companies House  
No HMRC reporting

### RESERVES > £6,000

File DS01 with Companies House  
Capital gains tax calculation to be sent over to HMRC

2

3

### RESERVES > £25,000

Issue dividends to reduce reserves to £25,000 and pay tax or  
Voluntarily dissolve Company to claim ER to pay tax at 10%

### Entrepreneur's Relief:

- You own more than 5% of the share capital;
- You were an employee or officer of the company and;
- The shares are owned over a period of 24 months.

## **FOREGROUND**

This question has been asked by many of our clients. Our reply has been always been simple It depends. The company might have been trading for a while or it might be a new company without a trade.

If the company has been trading for a while then we need to look at the reserves. If the reserves are under £6,000, annual CGT exemption limit for 2023/24, then you can simply lodge the DS01 (dissolution of a company) form with Companies House and can withdraw the remaining funds from the company bank account after all liabilities have been cleared. You do not need to report this in your personal tax return, as the funds would be below the annual CGT exemption limit.

On the other hand, if the company has never traded, again DS01 form will do the trick. Due care must be taken when completing the dissolution form and it should be signed by all official directors and dated accordingly.

DS01 form can now be completed online together with fee payment.

However if the company has reserves which are over £6,000 in value then there are some conditions to adhere to before we can advise you any solution.

## **COMPANY DISSOLUTION**

In the normal course of business, funds are extracted from the company in the form of dividends, salaries or perhaps both.

If you or your fellow directors can meet certain conditions then we can distribute the reserves according to the shareholding proportions held. There are only few conditions and the important ones are as per below:

- You own more than 5% of the share capital;
- You were an employee or officer of the company and;
- The shares are owned over a period of 24 months.

If the above conditions are met then after all outstanding liabilities have been settled, the retained profit or the reserves in the company can be distributed to you and or other directors/ shareholders as Capital on company closure. You would pay Capital Gains Tax on the dissolution rather than be liable to the normal rate of Income Tax based on your tax status as either a basic rate or higher rate taxpayer.

Capital Gains Tax is more tax efficient since you would be entitled to Entrepreneur's Relief (ER). Under the ER the first £6,000 are exempt from capital gains tax and the rest will be taxed at 10%. Thus you will be paying less than 10% tax.

## **CLOSING A LIMITED COMPANY**

This relief is only applicable on company closures that have funds retained in the company less than £25,000 as at company cessation date.

### **MEMBERS VOLUNTARY LIQUIDATION (MVL)**

What happens if the reserves or the retained profit are in excess of £25,000?

The shareholders of the limited company adopt a winding up resolution and appoint a liquidator to realise the assets of the business in order to distribute the proceeds to the company members. A company is considered legally solvent when its assets exceed its liabilities. To enter into a MVL the shareholders of the company must draft a sworn Declaration of Solvency, which means that the shareholders have reviewed the company financial situation and they have concluded that it is solvent and able to repay its existing and potential liabilities within a period of 12 months.

A formal Members Voluntary Liquidation (MVL) is required through an Insolvency Practitioner (IP). Funds cannot be extracted from the reserves and the company cannot be dissolved until such procedure is complete.

IN A NUTSHELL... The process to close a limited company is not easy if you have plenty of cash sitting in the company. It is highly recommended that you should employ an accountant and an IP. Sipher Accounting & Tax can assist you all the way especially if your reserves are over £25,000. However with careful planning we can bring your reserves down to £25,000.

We do recommend that you should plan your exit strategy carefully. Speak to your accountant as soon as you decide when you will be closing down. Your accountant will guide you through the rest of the process including the introduction of IP's.

It is also recommended that you pay all your company's liabilities as soon as we close it down and approach the IP immediately. However if you will delays then there are more filing requirements from HMRC.

### **COMPANY BANK ACCOUNT**

Care should be taken when closing a limited company. You should formally close your company bank account once you have informed Companies House that you are intending to close the company. Companies House takes 2-3 months to close the company. As soon as an application is made to the Companies House you should pay all liabilities and transfer the monies elsewhere and close the company bank account.

Please note our fees on closing down your company.

**0207-490-5470 | [www.sipheraccounting.com](http://www.sipheraccounting.com)**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Designed by Freepik | Ceasing to trade | Jun 2023