

The
Director's
Choice.com[®]



How do I close a Limited Company?



Find out how



Introduction



There are 4 ways to close a company

01

Voluntary Liquidation (insolvent)

02

Compulsory Liquidation (insolvent)

03

Members Voluntary Liquidation (solvent)

04

Dissolution / strike off

Is your company Solvent or Insolvent?

There are 2 tests of insolvency.

- > **Cashflow** – Can the company pay its creditors as and when they fall due
- > **Balance Sheet** – Do the company's creditors exceed the assets

- > If either of the above applies please go to section **01** and **02**
- > If neither of the above is applicable then skip to section **03**
- > If the company has no debts or assets and isn't trading go to section **04**



01 Creditors Voluntary Liquidation



In short, a creditors voluntary liquidation is when the director engages a licensed Insolvency Practitioner on behalf of the company to begin the process of placing the company into liquidation.

All creditors are contacted and a liquidation date is set once all information is gathered from the director that make up a “Statement of Affairs”. The Insolvency Practitioner is appointed the Liquidator of the company and their main duties are to realise any assets, report to the creditors of the company and investigate the director and their conduct.

This is by far the most common way that directors choose as they have an element of control over the process and who they engage, plus they are doing the responsible duty as a director of the company.

Fees range from 2.5k – 6k for liquidations dependent on firm and complexity (i.e. how many creditors etc) however you need to be aware of some pitfalls. Fees can come from the ASSETS of the company. If there are no assets of the company then it would fall on the director to raise the funds. In some instances the director will have a redundancy claim against the company (if on payroll) – this can then be used to pay the liquidation fees as the claim is protected and is paid directly from the Redundancy Payments Service.

- > Don't forget, the fee is just to put the company into liquidation, there may be other fees once in liquidation
- > The Liquidator represents the CREDITORS not YOU the director, so will look into the conduct and drawings from the directors etc

- > Overdrawn Directors Loans are ASSETS and the liquidator has a duty to call these in and pursue on behalf of creditors
- > DIVIDENDS may be classed as illegal if insufficient reserves were not there at the time, again these will be chased to pay back from the director
- > Payments made to creditors in the lead up to insolvency will be looked at to see if any were classed as preferential (i.e. the director decided to pay one creditor over another) – These can be pursued by the liquidator to pay back as they are deemed a preference payment
- > Some liquidators have varying experience in Directors Redundancy Claims, so best to speak to a specialist or independent who works with Insolvency Practitioners that allow you to defer the fees until the claim comes through
- > Make sure you do your research on the Insolvency Practitioner you engage OR go through an independent FREE company that has a panel of verified and trusted Insolvency Practitioners, so they can hold your hand through the process

02 Compulsory Liquidation



Compulsory Liquidation is when a creditor petitions itself against the company to wind it up. Anyone can petition, however HMRC are usually the ones to do so as the process costs the creditor money. The petition is heard in the court and if granted, the company is wound up and an Official Receiver is appointed (OR). The first task of the OR is to contact the directors of the company and understand what assets there are for creditors etc.

Although, what might look like an attractive option for a director due to the fact that the creditor pays for the petition (wind up), it is not advised and should only be a last resort. The reason for this is the director will come under criticism for allowing a creditor to essentially pay to wind the company up. Although the director doesn't owe the debts personally (the company does), they are responsible for the company and by doing nothing doesn't reflect well on the director certainly as winding up can take months.

Things to be aware of if compulsory liquidation is the only option:

- > You will lose control of the process as you are waiting for a creditor to petition
- > It is a court appointment and an official receiver will be appointed on behalf of the creditors
- > The official receiver WILL carry out the same duties as the liquidators and realise any assets and investigate directors
- > ALL directors Loan accounts that are overdrawn will be pursued and in some instances will result in the director being made personally bankrupt if unable to pay
- > Drawings and Dividends from the director will be scrutinised along with other payments
- > Antecedent transactions (creditors that have been preferred to others) can be pursued (preference payments in the lead up to insolvency)
- > Any assets that have been sold prior to liquidation will be investigated to see if market value was achieved etc and funds were used accordingly



03 Members Voluntary Liquidation (MVL)



This is a way of closing a company that is solvent, i.e. it has Assets and essentially no debts. The directors can apply for entrepreneurs relief (which allows them to pay 10% tax on the funds that go to them rather than the standard rate of income and dividend tax).

A licensed Insolvency Practitioner needs to be engaged and appointed to conduct the MVL and all accounts, corporation tax has to be up to date and paid so an accountant is needed in the process.

Fees range from 1k-5k dependent on Insolvency Practitioner and these are paid from the assets of the company.

Things to be aware of:

- > Speak to your accountant to see if you will be eligible for entrepreneurs relief
- > Speed on how quickly it can be done will vary on each case and firm you appoint
- > Ask your accountant to explore other alternative ways and tax implications so you can compare against an MVL



04 Dissolution / Strike off



This is where a company has no assets or debts and has ceased to trade and is no longer needed. A DS01 form is an online application through companies house that allows a director to apply for the dissolution. It will cost £10 and take up to 2 months.

The application is lodged in the London gazette which is a publication. HMRC and the Bank have automated alerts to when a company is applying for dissolution. If there are outstanding debts to HMRC / the Bank or other creditors then there can be an objection to the process. This is anonymous and easy to do. If this happens, the company is back to square 1 again.

Sometimes, if companies house have not had confirmation statements or filed accounts then they can strike the company off themselves so you need to keep up to date records to avoid this happening as if it did then any money would go to the crown.

If a company gets struck off the register by accident or it has debts that HMRC / other creditors didn't pick up then it can be reinstated so be aware and consider other options if the company has debts.

Things to consider:

- > Does the company have any outstanding creditors or assets
- > A Dissolution can be objected by anybody
- > It is a criminal offence not to inform your creditors of your intent to dissolve a company within 5 days
- > If there is outstanding Bounce Back Loans then you will not be able to strike off the company, it will need to be liquidated
- > Take free advice before you try strike off as you could be back to where you started in 2 month



Frequently Asked Questions



What is the roll of the insolvency practitioner/liquidator?

The insolvency practitioner gathers all information from the director to place the company into liquidation. Once the company is in liquidation the insolvency practitioner is appointed as the liquidator. The liquidator's role is to represent the creditors of the company / realise any assets for the benefit of the creditors and investigate the director's conduct.

Will a liquidation have an adverse effect my personal credit?

Short answer: No

There are circumstances however where you may have taken on personal guarantees which, if left, could have an impact on your personal credit, if unsure you can speak to us and we can assist in dealing with them. Rest assured we will give you a full explanation of the implications to you.

Will I be able to be a director of another limited company?

In most circumstances yes. Just because you are the director of a limited company that goes through the process of liquidating, it does not mean your directorship will be in jeopardy moving forward. Be it with a company you already own or a new company.

How long does it take?

Depending on how quickly you can gather information the process can take as little as a few weeks.

What happens to my bounce back loan?

We will look at the bounce back loan, and the situation surrounding the use of the bounce back loan with you when we discuss your options.

Should I speak to my accountant?

There is no need to, however we will usually speak to your accountant to inform them of the process and to gather information that you may not have. However, this is only done with your consent.

What am I eligible for as a director?

If you are on the PAYE with your limited company, it is possible that you might be able to claim director's redundancy. In some circumstances this is sufficient to cover the costs of liquidating.

How much does it cost to liquidate a company?

Each liquidation is different as there may be other implications such as overdrawn director's loans. We will give you an indication during the consultation as to what the costs are likely to be.