

Introduction

To close a limited company cheaply, it can be voluntarily struck off at Companies House if it meets specific requirements.

Learn about the various methods of closing a company and the situations in which they are applicable.

Understanding the reasons for closing a limited company

Various factors can influence a company director's decision to close a limited company, ranging from financial difficulties to changes in personal circumstances.

Financial difficulties

A common reason for closing a limited company is financial; businesses face cash flow problems, mounting debts, or becoming unprofitable.

In such instances, it may be necessary to dissolve the company to mitigate further losses and protect stakeholders.

Company restructuring

Company restructuring can also lead to the closure of a limited company.

This may occur when businesses are merging, being acquired, or when owners decide to change the business's legal structure.

It's essential to follow the appropriate legal procedures during these transitions.

Personal circumstances

Sometimes, personal reasons drive the decision to close a limited company.

If owners want to retire or move on, dissolving the company is a good option for a clean break.

Choosing the right method to close your limited company

The method chosen for closing a limited company depends on various factors, such as the company's financial status and the owner's objectives.

Understanding the available options is vital for a successful and cost-effective closure.

Striking off

Striking off is the simplest and most affordable method for closing a solvent limited company, and it involves removing the company from the Companies House register.

Whilst striking off is a simple process, it is only suitable for businesses with no outstanding debts or legal disputes.

Members' Voluntary Liquidation (MVL)

Members' Voluntary Liquidation is when shareholders dissolve a solvent company and take out cash and assets with lower tax rates.

This method requires the appointment of a licensed insolvency practitioner to oversee the distribution of assets to shareholders.

While more costly than striking off, MVL can offer tax benefits.

Closing a limited company with an MVL is tax efficient if it has over £25,000 in cash or assets after paying creditors.

Shareholders will be taxed at a 10% rate for capital gains tax instead of up to 50% if they withdraw income as dividends.

Creditors' Voluntary Liquidation (CVL)

CVL is appropriate for insolvent companies unable to pay their debts.

The Creditors' Voluntary Liquidation process also involves appointing a licensed insolvency practitioner to manage the sale of assets and distribution of funds to creditors.

Although more expensive than striking off, CVL can protect directors from potential legal issues.

The cheapest method: Striking off a company

The cheap way to close a limited company is to have it struck off Companies House.

Understanding the legal requirements, application process, and costs involved is crucial to ensuring a smooth dissolution.

Legal requirements and eligibility

To be eligible for striking off, a company must meet certain criteria:

1. such as having no outstanding debts

2. no ongoing legal disputes
3. not having traded within the last three months, and
4. Obtain shareholder consent before proceeding.

How to apply for striking off

Applying for striking off involves completing form [DS01](#) and submitting it to Companies House, along with the appropriate fee.

Directors must also inform relevant parties, such as creditors, employees, and shareholders, within seven days of applying.

Costs and timeframes

The cost of striking off a limited company is relatively low, with a fee of around £10 payable to Companies House.

The process typically takes around three months, assuming interested parties raise no objections during the statutory notice period.

When to use an MVL or CVL

In some circumstances, striking off may not be the most suitable option for closing a limited company.

Assessing the financial situation of the business and weighing the costs and benefits of MVL or CVL can help determine the best course of action.

Assessing your company's financial situation

If the business has outstanding debts or other financial obligations, MVL or CVL may be more appropriate options.

Additionally, if the company has significant assets to distribute, MVL can provide tax benefits through [Entrepreneur's Relief](#).

Weighing the costs and benefits of each method

While striking off is the cheapest method, weigh up the advantages and disadvantages of each option.

- MVL may be more expensive, but it can offer tax benefits and a structured distribution of assets.
- CVL, though typically more costly, can protect directors from legal issues and ensure fair treatment of creditors.

Common mistakes to avoid when closing a limited company

To ensure a smooth closure, it's crucial to avoid common pitfalls. Incomplete paperwork, ignoring legal requirements, and not seeking professional advice can result in delays, penalties, and potential legal issues.

Incomplete paperwork

Submitting incomplete or inaccurate paperwork can delay the closure process and incur additional fees.

Double-check all documentation before submission and ensure that any required supporting documents are included.

Ignoring legal requirements

Failing to follow legal requirements when closing a limited company can lead to severe consequences, including fines and director disqualification.

Always adhere to the guidelines set by Companies House and consult with a legal advisor if you are unsure of any requirements.

Not seeking professional advice

Closing a limited company can be a complex process, especially involving liquidation.

Seeking the services of an insolvency practitioner is required to help you navigate the process and avoid costly mistakes.

Seeking expert advice to close your limited company

Professionals can help with a smooth and legal closure. Accountants and legal advisors are valuable.

Accountants and legal advisors

Accountants can help with finances, and legal advisors with procedures for closing a company.

Tips for choosing the right professional

When selecting a professional to assist with closing your limited company, look for individuals with experience in company closures and a solid understanding of UK company law.

Seek recommendations from trusted sources and compare fees to find the best fit for your needs.

Preparing your company for closure

Prepare your business for closure by settling debts, informing stakeholders, and organising company and financial records.

Settling outstanding debts

Clearing any outstanding debts is vital before closing a limited company.

Pay creditors, suppliers, and employees, and close any open accounts with banks or utility providers.

Informing employees and customers

It's important to inform employees and customers when closing the company so they can find alternatives and maintain goodwill.

Organising company records

Before closing a limited company, organise and retain company records, as required by law. Ensure that all financial records, contracts, and other documentation are appropriately stored and accessible for the legally mandated period.

Conclusion

Closing a limited company can be both time-consuming and costly.

Considering the information in this guide and seeking expert advice, you can ensure a smooth, legally compliant, and cost-effective process. Start exploring your options today.

Confidential, no obligation, no cost assessment

Your route to debt freedom starts with a confidential, no obligation and no cost assessment of your current financial position.