

COMPANY OPTIONS WHEN NOT TRADING

It is common for a contractor to take break from contracting, whether to travel, in between contracts or when moving to a permanent role. We split the total yearly cost of our services into equal monthly amounts. These are invoiced after the month end and collected via Direct Debit, on or around the 25th of the month.

Were you to have a significant break in trade (three months or more) there would certainly be scope to adjust our fees accordingly. When a significant break is anticipated, there are two main options.

DORMANCY

Dormancy means that the company is not actively trading but is still a "live". This option is only available if the following criteria are met:

- There is no transactions through the Limited Company at all
- You have not traded in your accounting year

Provided the above is met, MyAccountant.co.uk charge an annual fee for dormancy of £375+VAT, which would be invoiced over twelve monthly instalments of £31.25+VAT.

The advantages to dormancy rather than closing down include:

- The ability to start trading again immediately should you take on another contract in the future
- Being able to retain the company name and trading history. Should someone else use the same name in the future, there is risk of confusion and to your reputation
- Companies can remain dormant indefinitely providing your administrative duties are still met

CLOSE DOWN

The other option is to close the company down. This involves preparing final cessation accounts, shutting down all the relevant company schemes, submitting close down forms to Companies House and ensuring all liabilities are paid in full. The close down process generally takes four months upon receipt of the close down forms at Companies House.

MyAccountant.co.uk can handle this process for a fee of £500+VAT which covers all of the above plus taxation advice on the most tax efficient route.

Upon close down, there are two methods of withdrawing the remaining funds from the business by way of dividends or members voluntary liquidation (MVL).

If the funds to be distributed at company close down are less than £25,000, you have the choice of either treating this as a dividend or capital distribution. The company can be 'struck-off' the Companies Register, provided it has not traded for in the last three months and isn't threatened with liquidation or have any agreements in place with creditors.

COMPANY FUNDS ABOVE £25,000

For funds distributed over £25,000 there are two options:

1. Apply to have your company struck-off and treat the amount drawn as dividends
2. Enter an MVL and apply for the funds to be treated as a capital distribution

DIVIDENDS

If an individual wished for the amounts withdrawn at close down to be treated as dividend there is no formal process. The amounts drawn should simply be recorded on the personal tax return for the tax year and any additional personal tax paid. Depending upon the level of personal income in the year this could be at 7.5% or 32.5%, with the first £2,000 tax free.

CAPITAL DISTRIBUTION

The benefit of entering an MVL is that where funds to be distributed exceed £25,000 they will be treated as a capital distribution and potentially be taxed at 10% regardless of your other income. Capital gains are usually taxed at 10% or 20% depending on the tax rate of their other income, (18%/28% on residential gains) but the 10% rate could apply if the shareholder can utilise Entrepreneurs' Relief (ER).

ER is available on qualifying business disposals provided that:

- The company is a trading company
- The company has been owned for more than one year
- You are an employee or directors of the company
- You own at least 5% of the ordinary share capital and 5% of the voting rights

In addition to the 10% tax rate, a further potential benefit is that each individual has annual exempt amount of £12,000 (2019/20). This could be utilised to reduce the proportion of distribution that is subject to Capital Gains Tax.

The draw-back to entering an MVL is that an official liquidator needs to be appointed to handle the process. An Insolvency Practitioner would charge approx. £2,500 for this service.

Whilst MyAccountant.co.uk do not offer this service, we would be happy to recommend a local firm who would be happy to assist.