

Companies House Close Companies Definition

The definition of a Close Company is where the company is under the control of

- five or fewer participators or
- any number of participators if those participators are directors, or
- more than half the assets of which would be distributed to five or fewer participators, or to participators who are directors, in the event of the winding up of the company.

This includes near relatives (grandparents, parents, grandchildren, brothers and sisters), business partners, trustees, and associate companies.

Loans to shareholders and directors of close companies have to be carefully considered, as 25% of the loan value is required to be deposited with the Inland Revenue. It is payable with the corporation tax in the year in which the loan and corporation tax apply. When the loan is repaid, the deposit is repaid when the corporation tax (for the period in which the loan is repaid) is due to be paid.

Benefits or payments of any kind paid to shareholders, other than salaries taxed under the PAYE/NI system, is deemed to be a dividend, and should be treated as a distribution of profits.

The small companies reduced corporation tax rate does not apply to non trading close investment holding companies.

The tests to determine whether a company is a close company are

- Is the company within one of the specific exceptions which exclude it from being a close company? [Exceptions to Close Companies](#)
- Who are the participators in the company and what powers or rights do they possess or are they entitled to acquire?
- What rights and powers of other persons are attributable to the participators?

- Having regard to the rights, etc, of each participator, and other persons' rights, etc, which are attributed to the participator, do
 - five or fewer participators control the company or
 - Participators who are directors control the company?
- Would more than half the assets of the company be ultimately distributed to five or fewer participators, or to participators who are directors, in the event of the company being wound up?

If the company is not within one or other of the specific exceptions then company is probably a close company.

The non-statutory term 'open company' refers to a company which is not a close company.