



CORPORATE · GUIDE

Winding up or dissolving a corporation

How to close a company properly, the steps people skip, and why a careless dissolution can leave you personally exposed.

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When a business has run its course, the instinct is to simply stop: stop operating, stop filing, let the company fade away. That is the one thing you should not do. A corporation is a separate legal entity that exists until it is formally dissolved, and abandoning it leaves loose ends that can come back to reach you personally. Closing a company properly is a defined process, and doing it in the right order is what protects you.

The one rule that matters most

Almost everything that goes wrong in a wind-down traces back to a single mistake: taking the company's money or property for yourself while it still owes someone else. So the governing rule is simple. Pay or properly provide for every liability, including tax, before you distribute anything to the shareholders. Distribute to the owners ahead of creditors or the tax authority and you can be held personally responsible for having done so. Get the order right and the corporate shield holds; get it backwards and it does not.

The proper sequence

A clean voluntary wind-down generally runs like this:

- Stop operating and settle the business's affairs. Collect what is owed to the company, and complete or properly end its contracts, leases, and obligations.
- Deal with employees properly. Handle final wages, vacation pay, and any termination entitlements. Remember that unpaid wages can become a personal liability of directors, so this is not a corner to cut.
- Pay or provide for all liabilities, to creditors and to the tax authority, before anything goes to the owners.

- Handle the tax side, with your accountant. This means final tax returns and closing the corporation's tax accounts (corporate income tax, payroll, HST). Directors can generally seek a clearance certificate from the tax authority confirming the corporation's taxes are paid before assets are distributed. That certificate is one of the most valuable protective steps available, because distributing assets while tax is still owing is a common way directors end up personally pursued. The mechanics are your accountant's or tax counsel's area; the point is to use the tool, not skip it.
- Distribute what remains to the shareholders, only after liabilities and tax are dealt with.
- Formally dissolve the corporation so it legally ceases to exist. This is the step people skip when they "just stop."
- Keep the records for the required period afterward, because questions can still arise.

The process depends on which statute your corporation lives under

How you dissolve is not one-size-fits-all. An Ontario corporation under the Business Corporations Act, a federal corporation under the Canada Business Corporations Act, and a not-for-profit each follow their own process. A voluntary dissolution typically requires the shareholders' authorization and, for an Ontario business corporation, obtaining the necessary consents to dissolve before the dissolution can be filed. Confirm the specific steps for your corporation rather than assuming, because the requirements and the order differ.

The trap nobody expects: assets left behind forfeit to the Crown

Here is the point that surprises people most, and it matters especially if the corporation owns anything of value. If you dissolve a corporation while property is still in its name, a forgotten bank account, an unremitted refund, or, worst of all, real estate still on title, that property can forfeit to the Crown. It does not simply pass to the former shareholders. Recovering it generally means reviving the corporation first, which is a process and a cost you created by dissolving carelessly.

So before you dissolve, make sure the corporation owns nothing that still needs to be dealt with. For any corporation that has held real estate, confirm title is clear of it before the company is closed.

Revival, and why "just stop filing" backfires

Abandoning a corporation is not the same as closing it. A company that simply stops filing can be dissolved involuntarily, but that leaves liabilities unresolved and accounts open. And a dissolved corporation can be revived, sometimes by a creditor, to pursue a claim that you thought had disappeared with the company. Add the Crown-forfeiture problem above, and the "just let it lapse" approach is how a closed chapter reopens at the worst time. A deliberate voluntary dissolution, done in the right order, is what actually gets you a clean ending.

What to do

- Decide to close it properly rather than walking away.
- Involve your accountant early on the tax returns, account closures, and clearance certificate.

- Confirm the corporation owns no property, especially real estate, that needs to be dealt with first.
- Pay or provide for every liability, including tax, before distributing anything to the owners.
- Complete the formal dissolution under the correct governing statute, and keep the records afterward.

Bottom line

Closing a corporation is a process, not an act of neglect, and the order is the whole game: settle the business, deal with employees, clear liabilities and tax, and only then distribute what is left and formally dissolve. Do it carelessly, by distributing ahead of creditors and the tax authority, abandoning the company with obligations open, or dissolving with property still in its name, and you can be left personally exposed, chased on a revived corporation, or watching an asset forfeit to the Crown. Get your accountant onto the tax steps and talk to us about running the wind-down properly, so when you close the door it stays closed.

This is general information about dissolving a corporation in Ontario, not legal or tax advice for your situation, and it is not a substitute for retaining counsel and an accountant. The dissolution process depends on your governing statute, and the tax steps in particular require your accountant or tax counsel. Talk to us before you wind down a company.

Questions about your own situation? Book a free consultation at lucianolegal.com/contact.html, call 647-479-4585, or email info@lucianolegal.com.

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