

# Your **MVL** Solution



## **Frequently** **Asked Questions**

# FAQs

## Members' Voluntary Liquidation (MVL)



### Q. What is a Members' Voluntary Liquidation?

A. An MVL is a liquidation process available to solvent companies, enabling the shareholder/s to appoint a liquidator to formally close down their company.

Closing your company through an MVL process allows your company assets to be transferred to you by way of capital distribution and thus be potentially eligible for Business Asset Disposal Relief (formerly Entrepreneurs' Tax Relief). This is a generous allowance whereby you are taxed at 10% on the entirety of the company assets, potentially saving you £1000s.

### Q. What is my Net Asset Value?

A. Throughout this FAQ we refer to your Net Asset Value, which is simply the value of what your company owns outright, minus what it owes, giving the resulting figure of the company's monetary worth (the Net Asset Value).

### Q. Is an MVL right for me?

A. No matter the reason for the company's closure, be it retirement, a sale after a merger or simply closing the doors on a company that is no longer required, as long as you have over £25,000 of net assets to distribute between shareholders an MVL will probably be the most tax efficient way to close your business.

### Q. What other options do I have?

A. The other route of closing down a solvent company is by way of Strike Off (also called dissolution). While Companies House only charges a nominal fee (£10) to action a strike off, you will pay income tax on your net assets. If you have over £25,000 of net assets after all liabilities have been paid, the tax savings assigned to an MVL compared to a strike off will usually mean an MVL will see more of your hard-earned cash find its way back into your pocket.

### Q. Do I qualify for an MVL?

A. As mentioned above, as long as the company you are looking to close is solvent, has over £25,000 in assets once all liabilities have been paid and has been trading for longer than 24 months, an MVL is probably the right route for you.

## Members' Voluntary Liquidation - continued.

Q. What are the benefits of an MVL compared to a Strike Off?

A. To answer this, let's use an example:

Mr Jones has a successful Ltd company and has been contracting for the last two years. He now has a role inside IR35, however, and no longer needs his limited business. He is the sole shareholder/owner and has £50,000 in the bank and is VAT registered.

There are two main options open to him:

Option 1 would be to strike the company off. In doing so, the owner's £50,000 would be taxed at 32.5% (taxed on the shareholder as dividends), costing him £16,250. Companies House charge an additional (albeit nominal) administration charge of £10 leaving funds in the bank of £33,740.

Option 2 would be a Members' Voluntary Liquidation ("MVL"). Using this route, the shareholder would benefit from the Business Asset Disposal Relief (formerly Entrepreneurs' Tax Relief), taxed at only 10%, once the Insolvency Practitioners' (IP) fees have been deducted.

Based on the asset position of £50k, a typical Insolvency Practitioners' fee will be circa £2,000 plus expenses and VAT. The expenses will be a statutory bond at £93, statutory advertising at £298.35 and sundry expenses at £15.25, totalling £2,406.60 plus VAT (£481.32). If the company is VAT registered, the VAT can be reclaimed back by the IP and distributed to the shareholder, so in this instance we will assume this has been actioned and add it to the total saving.

The Insolvency Practitioners' fees are then deducted before the Business Asset Disposal Relief of 10% is applied, so in this case the fees (£2,406.60) are subtracted from the assets (£50,000) which leaves £47,593.40. This amount would then be taxed at 10% = £4,759.34.

Therefore, by using the MVL the total cost would be £7,165.94 (£4,759.34 + £2,406.60). This option will result in the shareholder receiving a total of £42,834.06 after liabilities and taxes paid, leaving him £9,094.06 better off than a company strike off.

As you can imagine the higher the net asset balance, the higher the saving.

Looking at the example above, you will have probably noted the key difference in the contributing factors that make up the saving using an MVL is the 10% tax rate utilising Business Asset Disposal Relief (formerly named Entrepreneurs' Tax Relief).

So, the 2 main benefits of using an MVL are:

Tax Efficiency:

Utilising an MVL enables you to take advantage of Business Asset Disposal Relief, with all net assets (after debts have been settled) being taxed at 10%.

Fast Distribution/Cash Release:

By signing a shareholder's indemnity, we can release a proportion of your company's net asset value before HMRC has confirmed clearance. While different Insolvency Practitioners release funds at different stages of the process which can sometimes take up to 60 days, Liquidation Centre can usually release up to 90% (varies as per asset level) of your net asset value within 7 days of appointment.

# FAQs

## Fees & Expenses



### Q. What fees am I charged for an MVL?

A. You will be charged an initial fixed fee by your chosen Insolvency Practitioner, as well as some expenses, which are explained below. Insolvency Practitioners' fees do vary and it's important you understand what level of service you are receiving for the cost.

### Q. What expenses are charged and what are they?

A. There are various expenses you will have to pay as well as the Insolvency Practitioner's fee. Almost all these expenses are unavoidable third-party costs incurred by the liquidator during the process of placing the company into an MVL. These costs are charged along with the Insolvency Practitioner's fee and then the Insolvency Practitioner pays the third parties as soon as these raise their own invoices. In this way, the liquidation process moves quicker as the Insolvency Practitioner is able to apply for the VAT refund on the costs straight away.

**Statutory Bond** – A statutory bond is best described as a form of insurance to protect your capital while it is in the hands of the Insolvency Practitioner. All Insolvency Practitioners are legally required to take out a statutory bond upon being appointed to manage a solvent liquidation.

The cost of a bond operates on a sliding scale based upon the asset capital within the company.

**Statutory Advertising** – As part of the MVL process, the IP is obliged to publish various notices in the Gazette. This will make the liquidation public knowledge so any outstanding creditors can submit a claim for monies owed before the liquidation is officially closed.

Three notices must be published: one on appointment of an IP, another on resolution and one to serve as a notice for claims.

The advertiser's current cost for each advert is £99.45.

**Sundry Expenses** – These are nominal IP costs directly related to the MVL. Usually these are made up of:

- AML (Anti-money laundering search) - £5.25 per individual search
- Stationery, photocopying and postage - £10

## Fees & Expenses - continued.

Q. So, including fees & tax, how much will the liquidation cost me in total?

A. Taking into account all of the above, let's use an example to set out the costs clearly:

Net Asset Value: £50,000 (i.e. the balance after any remaining liabilities owed)

Typical IP Fee:	£2,000	
Expenses: Statutory Bond (based upon asset value)	£93	
	Statutory Advertising (three adverts)	£298.35
	Sundry Expenses	£15.25

Total IP costs = £2,406.60

VAT@20% = £481.32 (can be reclaimed back during the liquidation process if the company is VAT registered (or was VAT registered when it ceased to trade))

The IP costs are then deducted from the net asset value before Business Asset Disposal Relief (BADR) is applied, so in this case:

$£50,000 - £2,406.60 = £47,593.40$

Shareholders' distribution taxed at 10% (BADR):  $£47,593.40 @ 10\% = £4,759.34$

Total cost of MVL: IP fees and expenses -	£2,406.60
	<u>Tax on distribution - £4,759.34</u>
	£7,165.94

In this case, the total cost to the shareholder of the MVL process is £7,165.94 leaving the client with £42,834.06 from the initial net asset value of £50,000.

Obviously, the costs are reflective of the initial asset value and will vary as the net asset value increases.

# FAQs

## Liquidation Centre Our Service



### Q. Who are The Liquidation Centre

A. Founded in 2002, Exigen Group T/A Liquidation Centre (Liquidation Centre) are a fully regulated & leading specialist Turnaround & Restructuring company operating on a national level, based in Royal Victoria Docks, London.

The group is made up of various divisions comprising of Turnaround, Restructuring, Property, Recoveries, Corporate Solutions and a Financial Brokerage.

### Q. Why should I choose Liquidation Centre to act on my behalf in closing down my company?

A. Last year more clients trusted Liquidation Centre to handle the closing down of their business via an MVL than any other IP in the UK, a testament to our professionalism, expertise & level of service in this area.

Liquidation Centre are the IP of choice for the top contractor accountants in the country to pass their clients onto, as well as over 100 other chartered accountancy firms across the UK, again displaying a proven level of service and expertise when it comes to trusting us to handle their clients' affairs.

Liquidation Centre have won multiple awards in various categories of the prestigious Business Moneyfacts Awards, attracting the 'Best Business Recovery Specialist' award 5 times as well as the 'Invoice Finance Broker of the Year' award 6 times in the last decade.

We are the market leading IP practice for clients who wish to close down their solvent companies via an MVL.

### Q. Liquidation Centre are an insolvency practice. Is there any stigma attached?

A. No. An MVL is a solvent liquidation where there are surplus assets to cover all liabilities, meaning we are helping you to close down a successfully run business, but by law it must be done by an insolvency practitioner. There should be no adverse effect to you or your credit rating.

## Liquidation Centre - Our Service - continued.

### Q. What service does Liquidation Centre offer?

A. There are various benefits in choosing Liquidation Centre to deal with your MVL:

- Distribution of up to 90% of your company's net assets within 7 days of appointment
- Number 1 provider of MVLs in the UK
- Peace of mind: your money is in safe hands
- Highly experienced expert MVL team
- No hidden fees!
- Personalised service with your own dedicated account manager

### Q. Can I be sure that my money is in safe hands?

A. Liquidation Centre are regulated insolvency specialists with great experience in handling procedures for businesses large and small. All funds that pass under our care are handled and distributed with the upmost care and attention. All of our insolvency practitioners are licensed and our liquidation operations are overseen by the Recognised Professional Bodies.

To provide added comfort, we can assure you that, as required by law, a bond is arranged whereby the surety undertakes to be liable for losses caused in the extremely unlikely event of the liquidator's fraud or dishonesty. Although our insolvency practitioners are bonded generally, they also arrange a bond specific to each insolvency case and the cost for this specific bond is charged as an expense at the start of the liquidation (See Statutory bonds in the Members' Voluntary Liquidation (MVL) section).

### Q. Do you have professional indemnity insurance?

A. Yes. Our professional indemnity insurers are Travellers Insurance Company Limited, Saint Paul House, 61-63 London Road, Redhill RH1 1NA (coverage relates to the United Kingdom (including Channel Islands and the Isle of Man) and the Republic of Ireland).



# FAQs

## The MVL Process



### General Questions:

#### Q. What are the stages in the MVL process?

A. We have a section on our website that explains the MVL process in stages - <https://liquidationcentre/how-it-works/>

#### Q. How long will the process take?

A. We are able to work as quickly as you like. We shall require the final accounts and tax returns to be complete and all liabilities paid (where possible) before the company can go into liquidation, however we can start the process our end before this time and send you all the liquidation documents in advance for your review.

After your initial distribution within 7 days of appointment, the remaining company assets will be held until such time as we are satisfied that all other matters, including the company's tax position, are cleared. HMRC tax clearance can take up to 6 months and on occasion longer than this.

#### Q. Do I need to visit your offices?

A. No. All correspondence can be undertaken via email and we can accept all signed documents in this way as well.

#### Q. Which solicitor should I use to witness my Declaration of Solvency?

A. We will not recommend a solicitor for you to use as it is often easier for you to use your local one. They will not need to know anything about the company but may charge a small fee (£20 to £100) to witness any documents. If you have serious difficulties attending a solicitor's office, please contact us and we can look at alternatives.

#### Q. Do you undertake anti-money laundering checks?

A. Yes, the law requires us to do this before the liquidation begins. We will use external electronic databases to check the identities of directors and shareholders, but we will also ask you to provide proofs of identity, e.g. passports and utility bills.



## General Questions: - continued:

### Q. Should I continue with the company insurance?

A. If possible, the current insurance policy should be maintained throughout the Liquidation process with the Liquidator's name noted which will prevent the requirement to take out any further cover.

Run-off insurance should be arranged to cover the company up to dissolution. Your current insurers may be able to help with quotes.

### Q. There is a pension in the company, what should I do?

A. The pension provider should be contacted prior to liquidation as it is easier to assign to new trustees before liquidation.

It takes longer for us to deal with pensions during the liquidation as we would be required to complete forms before they can speak to us.

### Q. Can I set up another company doing the same thing?

A. From our understanding, this is not possible for two years from receiving your final distribution, as it may affect your entitlement to Business Asset Disposal Relief (formerly Entrepreneurs' Tax Relief).

### Q. I am abroad, how would I have the Declaration of Solvency sworn?

A. This can be sworn abroad in front of a notary, solicitor or equivalent.

### Q. I'm on the flat rate VAT scheme. Can you still reclaim the VAT?

A. Yes, we would ask you to de-register from the flat rate scheme onto the standard scheme prior to liquidation to ensure that reclaiming the VAT on our fees and expenses will not be a problem.

### Q. What should I do with the company's books and records?

A. On rare occasions, the liquidator may ask for some of the records, but any books and records left with you will need to be kept safe by you for at least 15 months after the end of the liquidation. Although we will change the company's registered office (unless it is a Scottish-registered company), you will remain responsible for the statutory books.

### Q. One of the Directors of the company has sadly passed away, what needs to be done in this situation?

A. The accountant will have to ensure that the executor is appointed as the Director so that they can swear the Declaration of Solvency.

If the Director were also a shareholder, once the probate is obtained the executor would be required to sign share transfer forms. We will require a copy of the probate and share transfer forms.

This should be completed by the accountant, before we can liquidate the company.

## The MVL Process - continued.

### The Liquidation Bank Account:

Q. Will I have control of the company's bank account during the liquidation?

A. No. Once the company is in liquidation, the Directors' powers cease and the liquidator takes control.

Q. What protection do I have to ensure my money will be protected?

A. It is a statutory requirement for the liquidator to have a bond in place for every liquidation based on the asset value. The bond is provided by a third party provider and the premium paid from the company's reserves.

Q. I still don't feel comfortable to transfer the funds to you?

A. In every liquidation, the liquidator has to take control of the assets of the company. If you do not feel comfortable transferring the funds before the liquidation begins, we can write to the bank on appointment and once they have completed their own internal checks, they will transfer the funds to us. This will mean an initial distribution will not be completed until we have received the funds and from experience it can take up to 6-9 weeks.

Q. Who closes the company's bank account?

A. We will write to the bank requesting the account closure and the transfer of any remaining funds to the liquidation account.

Q. What if the company holds fixed term bank accounts that will not mature for 6 months?

A. Depending on the amount involved and if the shareholder is happy to lose the interest, the bank will return the capital once a company is liquidated.

Alternatively, we would do the following If a large sum is involved and the Director/shareholder does not want to lose the interest.

Where there is a sole shareholder and sole director involved, it may be possible for the shareholder to speak to the bank to have the bank account transferred into their personal name. This asset would need to be represented in the final account; this would then be distributed in specie on appointment. This is a paper exercise where we distribute the asset to the shareholder.

If there are any other shareholders, we are happy to discuss further how this can be managed.

Q. Can I close my company's bank account myself as there are no funds held, before liquidation to avoid further bank charges?

A. Yes that's fine and we would still write to the bank on appointment, confirming that the bank account is closed.

## The MVL Process - continued.

### Creditors/Debtors, Liabilities, Loans etc:

Q. Do I pay my creditors?

A. Ideally all creditors should be paid prior to liquidation. This is why we wait for the final accounts before proceeding to liquidation.

The accounts are prepared up to cessation of trade. As soon as the payment of any final invoice has been received by the company, there should be no taxable income apart from bank interest after this point.

Unpaid creditors at the date of liquidation are entitled to statutory interest of 8% per annum.

Q. The company is owed money from another company (inter-company debt), will this need to be paid back?

Yes, the loan should be repaid to the company. If this is not possible and depending on the structure of the company, we may be able to distribute the inter-company debt in specie. This is a paper exercise where we distribute the inter-company debt to the shareholder at the value shown in the final accounts.

We will have to consider the current shareholding/Directorship of the company being liquidated and also the shareholding/Directorship of the company owing the money, as there may be a requirement for a formal Deed of assignment of the debt.

Q. What happens to a loan due to the company by the Director?

A. The loan should be repaid to the company if possible.

If the Director's loan is still outstanding, we would distribute it in specie to the shareholder as part of the initial distribution. This is a paper exercise where we distribute the asset to the shareholder.

Q. A tax refund is owed to the company, do I have to wait until this has been received to liquidate my company?

A. No. As part of our post appointment responsibilities, we will write to HM Revenue and Customs and request that any refunds due to the company should be paid to the liquidation account.

Q. I have outstanding debtor monies due in. Will this hold up the process?

A. No. Upon liquidation we can request that the company bank account remains open until all debtor funds have been received before the funds are transferred to the liquidation account.

Q. Do I need to have paid all liabilities before entering liquidation?

A. Ideally, we request that all liabilities are paid wherever possible prior to liquidation to ensure the process runs as smoothly as possible. This will reduce the time needed for the liquidation, meaning that your final capital distribution will not be delayed.

## Creditors/Debtors, Liabilities, Loans etc - continued:

### Q. What about my fixed assets?

A. You should have any remaining fixed assets valued and you can purchase them prior to liquidation either for cash consideration or by way of a loan account transaction.

We can also distribute these to the shareholder in specie (which is a paper exercise) as part of your initial distribution on appointment.

For example:

Cash - £95,000

Laptop - £5,000

Total - £100,000

Minus liquidator's fee @ £2,406.60

Assets after costs £97,593.40

First distribution of 90% = £87,834.06

Actual first distribution will be:

Laptop £5,000 in specie

Cash £82,834.06

Total £87,834.06

### Q. How can I be sure that you have dealt with all the liabilities?

A. We ask you and your accountants to provide information on all known liabilities before the liquidation begins. We will send a questionnaire to help you do this. You should also consider whether there are any unusual parties that might have a claim against the company, for example previous customers who could claim that the company has failed to provide the agreed quality of service or goods or former employees who claim that they were not provided sufficient notice that they were being made redundant. A notice will also be published in the Gazette, which will serve as an opportunity for any other creditors to come forward, although in view of the serious consequences of converting to CVL, we urge you to identify all possible creditors at the start.

### Q. Can the VAT be reclaimed on the liquidation fees?

A. Yes we will reclaim the VAT back on our fees during the liquidation process, if the company is VAT registered (or was up to the point that it stopped trading).

### Q. What would happen if it turned out that there were insufficient funds to settle all the liabilities?

A. You would need to return to the liquidator some or all of the funds/assets distributed to you as a shareholder after the liquidation commenced. If those are still insufficient to settle all liabilities, the liquidator will need to convert the MVL into a Creditors' Voluntary Liquidation ("CVL").

### Q. What could be the consequences for the director, if the MVL converts to CVL?

A. If the company turned out to be insolvent, then it is presumed that you did not have reasonable grounds for swearing the Declaration of Solvency (in which you will have stated that all claims (plus any statutory interest) and the liquidation costs would be settled in full within 12 months), which under law could result in a fine and/or imprisonment. The liquidator would also need to report on your conduct as a director and, if the Secretary of State considers that you are unfitted to be concerned with the management of a company, you could face disqualification proceedings.

## The MVL Process - continued.

### Capital Distribution:

#### Q. When will I receive capital distribution / my funds?

A. We shall pay up to 90% (90% if assets are up to £250,000, 80% if assets are between £250,001 and £500,000, 75% if assets are between £500,001 and £1,000,000 and % to be agreed with the proposed Liquidator if assets exceed £1,000,000) of the net assets (i.e. after costs and any remaining liabilities) as an initial capital distribution usually within 7 days of liquidation (where the funds are transferred to us pre-liquidation; otherwise, it shall be once we are in receipt of the funds from the bank).

If the initial distribution was 90%, the remaining funds are distributed once the relevant clearances have been obtained from HMRC and we are satisfied that there are no further assets or liabilities.

If the distribution was 80% or 75%, a further half of the balance held is distributed at month three and the remainder once the relevant clearances have been obtained from HMRC and we are satisfied that there are no further assets or liabilities.

#### Q. Can you please confirm the distributions and when are they completed?

A. Our distribution percentages are based on the following net asset reserves:

Net assets below or equal to £250,000 – 90% (10% at closure)

Net assets between £250,001 and £500,000 – 80% (10% at month 3 and final 10% at closure)

Net assets between £500,001 and £1m – 75% (12.5% at month 3 and final 12.5% at closure)

Anything above £1m – we will review the company's position and provide a tailor-made schedule

Initial distributions are completed within 7 days of liquidation, provided that all funds and correctly signed documentation have been received.

#### Q. Can you split the distribution, so I receive it over two years?

A. Yes depending on when the company is placed into liquidation.

For example, if a company is being placed into liquidation on 13 March 2021, the shareholders will be receiving a split distribution anyway. As an amount of 75% to 90% will be distributed immediately, the further distribution(s) (25% to 10%) will be made in the new tax year.

However, we cannot keep the liquidation open purely to accommodate distributions over two tax years.

## Capital Distribution: - continued:

### Q. What could delay my distribution?

A. There are number of possibilities:

Incorrectly signed documents received or an incomplete pack of documents received.

We will require a complete pack of documents in order to proceed with the initial distribution. We provide step by step instructions to help you work through them. If we receive any incorrectly completed or signed documentation, we will need to ask you to make corrections to ensure that the legal requirements are met so that the liquidator can act.

#### Reconciliation of the final position

The position from your final accounts to funds/assets received will have to reconcile. The liquidator's responsibility is to realise all assets; therefore the position would need to reconcile before we can complete the first initial distribution.

#### Poor quality of documents

The signed documents will have to be on a white background with no shading, as poor quality documents will be rejected by Companies House.

#### Lack of funds

We can only complete the initial distribution if the funds have been received!

### Q. Where do I go if I want to complain?

A. We always strive to provide a professional and efficient service, however if you should have cause to complain, we ask that in the first instance you write to our Compliance Department, so that your complaint can be put through our internal complaints procedure. If you are not satisfied that your complaint has been resolved or dealt with appropriately, you may complain to: The Insolvency Service, IP Complaints, 3rd Floor, 1 City Walk, Leeds, LS11 9DA; email: [ip.complaints@insolvency.gsi.gov.uk](mailto:ip.complaints@insolvency.gsi.gov.uk); phone: 0300 678 0015; website: [www.gov.uk/complain-about-insolvency-practitioner](http://www.gov.uk/complain-about-insolvency-practitioner).

# Contact Us



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