



Insolvency

Members Voluntary  
Liquidation (MVL)

Your Guide to Solvent Liquidation



**NACFB**  
Helping Fund UK Business

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## What is an MVL / Solvent Liquidation?

A Members' Voluntary Liquidation is a process carried out by shareholders of a solvent company. In this process, the shareholders will appoint a liquidator under special resolution to realise the assets of the business in order to distribute the proceeds to the company members either in cash or its assets in specie.

To enter into an MVL, the directors of a company must make a sworn Declaration of Solvency. This states that they have thoroughly reviewed the company's balance sheet and finances and have concluded that the business is solvent and able to reasonably repay all existing and prospective debts within a period of no more than 12 months.

Although the special resolution for the voluntary winding up must be advertised, an MVL is not considered an insolvency procedure and therefore should not negatively affect the business' reputation in the same way as a creditors' voluntary liquidation (CVL) could.

As the company has been wound up, and the value extracted, anyone that benefits from an MVL may no longer be liable to Income Tax on their gains, but could be subject to Capital Gains Tax instead. And, as many shareholders are liable for higher rate Income Tax on dividends, such a process can be a highly effective and much more cost effective method of realising their full worth.

It is up to the shareholders to declare the relevant income/gains on their personal tax return(s). Whilst we do not provide any tax advice to the company and shareholders, you should seek this from an accountant. At My Insolvency, we can however recommend accountants (should you require) in order to provide this further advice.

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## Why should you consider a Solvent Liquidation (MVL)?

MVLs are used for a variety of reasons

- Following the retirement of one/all of the directors of the company (e.g. The closure of a family business where the children have no desire to continue to trade the company following the parent(s) retirement).
- To resolve disputes amongst a company's shareholders;
- To reorganise a company's activities into a more efficient structure (often using a process called a Section 110 IA 86 arrangement);
- The shareholders want to close the company in order to take the money out in the most tax efficient manner.

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## **Dissolution v Members Voluntary Liquidation (“MVL”)**

The two main methods of dissolving a company are

- Strike off - where the directors apply to Companies House to strike the company off of the register
- MVL

Whilst a strike off might appear cheaper at first glance, it may in fact mean higher tax bills for the shareholders on any distribution made. In addition, by allowing a business to be struck off there remains potential risks for the directors and shareholders which can be mitigated through a formal MVL process.

It should be noted that if the company is struck off / dissolved, then all of the assets and property of the company prior to dissolution become the property of the state (Bona Vacantia - The Secretary of State).

It should also be noted that in addition, the company can also be restored to the register by any former director, member, creditor or liquidator.

As a general rule a restoration order can be applied for up to 6 years from the date of dissolution (if the dissolution date is on or after 1 October 2009). Note that despite any dissolution through striking off, there are no time limits for personal injury claims.

Before you decide to strike your business off please contact My Insolvency free of charge in order to discuss and consider the alternative option to wind up of your company through an MVL process, after all this might provide you with the most tax efficient manner of distributing the capital with the added protection and peace of mind.

Professional advice should be sought on both the tax issues arising and whether a MVL would be more beneficial to you and your business.

### **How to Initiate an MVL**

If you want to understand how you could put a solvent company into liquidation - the first step is to consult a licensed insolvency practitioner such as My Insolvency.

If you have any questions about voluntary liquidation or any other matter related to the voluntary winding up or rescue of a company then please feel free to send us your questions.

We have licensed insolvency practitioners on hand ready to answer your questions. Simply phone 0843 8860 686 for free, no nonsense advice.

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# Liquidation

Are creditors threatening to put you out of business and force your company into compulsory liquidation?

Are you wanting to stop this from happening, or are you considering the possibility of winding up voluntarily?

The information below will tell you what you need to know to devise a suitable course of action for your business:



## Types of Liquidation

There are three types of liquidation:

1. Compulsory Liquidation
2. Creditors' Voluntary Liquidation (CVL)
3. Members Voluntary Liquidation (MVL)

All three types of liquidation are subject to the rules and regulations specified in the Insolvency Act 1986, and as such have their own sets of prerequisites and unique features.

### Compulsory Liquidation

In a compulsory liquidation, one or more of your creditors petition the court to have your company forced into liquidation so that its assets can be sold and the proceeds used to repay outstanding debts.

A creditor can only issue a winding up petition if you owe them a debt of more than £750 and have failed to pay this debt after formal payment demand for the debt has been made. It may also be possible to seek compulsory liquidation if a creditor already has an unpaid County Court Judgment (CCJ) against your company.

Ultimately, the end result of a compulsory liquidation order will be the dissolution of the business. The company will cease to exist and will be struck from the company register within 3 months of the conclusion of the liquidation.

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## Creditors' Voluntary Liquidation (CVL)

A Creditors' Voluntary Liquidation is a director-led process that is used to close a company that is already insolvent.

Under this process, all assets are sold and proceeds are used to pay outstanding creditors in order of priority.

A CVL gives the Directors more flexibility than a compulsory liquidation and offers the opportunity for the Directors to purchase the assets of the company themselves, thereby providing the opportunity to reopen the business and continue to trade.

### **Members Voluntary Liquidation (MVL)**

A Members Voluntary Liquidation is a process normally instigated by the directors of the company who have taken the decision to call a meeting of shareholders to wind up the company voluntarily.

The assets are sold and proceeds distributed back to the members of the company. Our specialists work closely with you accountants and tax advisors to consider the tax implications of the process and any distributions.

This is the ideal solution if the members of a company wish to retire or step down from the business, or if the business is no longer necessary.

The ultimate result will be the complete wind down of the organisation with the backing of the members.

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