MEMBERS VOLUNTARY LIQUIDATION (MVL)

WHAT IS IT?

A Members' Voluntary Liquidation (MVL) is the process of the company Directors formally liquidating the company. This involves appointing a liquidator, advertising the liquidation in the London Gazette and officially shutting down the company.

COMPANY FUNDS BELOW £25,000

If the funds to be distributed at a 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If an individual wished for the amounts withdrawn at close down to be treated as dividends, there is no formal process. The amounts drawn should 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%.

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 two years
- 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 an annual exempt amount of £12,300 (2020/21). This could be utilised to reduce the proportion of distribution that is subject to Capital Gains Tax.

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

Also, in 2016 HMRC introduced the Targeted Anti Avoidance Rule (TAAR) aimed at preventing 'phoenixing'. This is where a company is closed down to gain a tax advantage and a new "phoenix" business is then opened within the period of two years from the date of the capital distributions, doing a similar activity. If you are planning to return contracting in the near future, you should therefore not take this route.

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