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# Why a Members' Voluntary Liquidation is the best way to close your business.

A Members' Voluntary Liquidation (MVL) is a quick and straightforward way of winding up your business. It will allow you to extract cash and distribute it in a tax-efficient way, while your business is solvent.

And it brings other benefits too, like reducing directors' risk, improving transparency and returning assets to shareholders. Not to mention bringing you peace of mind.

This article is designed to show you how an MVL can close your business quickly, efficiently, legally and in the most financially advantageous way.



## Why choose Members' Voluntary Liquidation (MVL)?

Simply put, an MVL is a way of formally closing down a solvent company. Which means you can - and will need to - pay all taxes due, all creditors and all contractual obligations.

If you fall into one of these three categories, the most financially rewarding route to closing your business is through an MVL.

- You're a **contractor** who wants to release the assets in your company, especially due to **IR35 legislation**.
- You own a company but don't want to run it any more, or you want to retire.
- You have one or more **dormant company** that's outlived its usefulness.



# What are the advantages of an MVL for...

## Contractors

If you're a contractor, the most pressing reason for you to seek a Members' Voluntary Liquidation is IR35.

**NOTE:** *IR35 refers to the rules around off-payroll working and deciding whether a contractor is employed or independent, which has huge tax implications.*

What's set the cat among the pigeons are planned changes to the legislation. As the Government's own [website](#) explains: "From April 2021, the rules for engaging individuals through personal service companies are changing. The responsibility for determining whether the off-payroll working rules apply will move to the organisation receiving an individual's services."

In anticipation of employers classifying contractors as employed staff to simplify their own tax affairs, contractors with a personal services company (PSC) to help minimise their tax bills, are winding up that company.

The advantages of doing this through an MVL are:

- It's a tax efficient way of extracting cash from the business.
- You might qualify for Business Asset Disposal Relief, if you own at least 5% of the shares for at least one year before your MVL.

You can take HMRC's [Employment Status Test](#) to find out whether you really are a contractor or would count as an employee under the new rules.

## **Dormant companies**

Sometimes companies simply outlive their purpose. You might have created them for a specific project that's now finished, or to operate in a sector where it's no longer viable.

An MVL has significant advantages for directors faced with this situation. They include:

- Saving on accounting and audit fees.
- Saving time spent preparing statutory compliance information.
- Reducing risk to directors.
- Improving transparency by simplifying your business' structure
- Returning surplus assets to shareholders tax efficiently.
- Settling inter-company debts.
- Transferring assets to new companies without a cash transaction.



## A quick guide to Member Voluntary Liquidation.

You've made the decision to close your company. There are now just five steps you need to take to complete your MVL.

1. Appoint a licensed **Insolvency Practitioner (IP)** as a liquidator, who will take charge of winding up the company.
2. Draft a Declaration of Solvency that includes
  - the name and address of the company and the the company's directors
  - a statement of the company's assets and liabilities, and
  - how long it will take the company to pay its debts (which must be less than 12 months after liquidation).

The declaration must be signed in the presence of a solicitor or notary.

3. Call a general meeting with shareholders no more than five weeks after the Declaration of Solvency is signed, to pass a resolution for voluntary winding up.
4. Advertise the resolution in **The Gazette** within 14 days.
5. Send your signed declaration to **Companies House** within 15 days of passing the resolution. The business will eventually be removed from the Companies House register.

Once appointed, your Insolvency Practitioner will advise you on all of these steps. Which brings us to the perhaps unnecessary question...



## What's a licensed Insolvency Practitioner and do you need one?

The answer is yes. An MVL can't proceed without one. Your Insolvency Practitioner (IP) will play a lead role in making the MVL a success, as they effectively take control and co-ordinate the MVL process.

**NOTE:** Look for an experienced, specialist company – such as **FA Simms** – which offers an efficient, competitively priced and service that's focused around you.

Your IP will have many duties, but the main ones are:

- helping the directors prepare the Declaration of Solvency and calling the meeting with shareholders
- realising the company's assets
- distributing surplus funds to shareholders and members
- paying outstanding creditors
- providing you with regular reports on the progress of the MVL, and
- settling any legal disputes out of the company's cash.

**NOTE:** In every MVL the liquidator must hold a bond, which protects the creditors (if there are any) and the company closing down from any misappropriation of funds by the liquidator.



## How we can help

While this article has attempted to explain how the Members' Voluntary Liquidation works, it's vitally important to remember that each and every process has its own unique set of circumstances.

For advice and help with your Members' Voluntary Liquidation, call **01455 555444** to speak to one of our Licensed Insolvency Practitioners or email us at **[enquires@fasimms.com](mailto:enquires@fasimms.com)**.

### Useful links

**[FA Simms](#)**

**[The Freelancer & Contractor Services Association](#)**

**[IT Contractor](#)**

**[Closing a limited company](#)**

**[Contractor calculator](#)**