

## Members' Voluntary Liquidation (Solvent Liquidation) Factsheet

<p><b>What is Members' Voluntary Liquidation?</b></p>	<p>Although subject to legislation contained within the Insolvency Act 1986, Members' Voluntary Liquidation (MVL) relates to the winding up of solvent companies and are utilised as a means of bringing a company to a formal end and distributing its surplus assets. This is undertaken either through payment of a final cash dividend or by what is known as distribution in specie of its assets directly to its shareholders.</p> <p>Circumstances can be encountered where one company is operating a number of trading activities and there is a requirement to divest these to separate limited companies. This can be done by</p>	<p>re-organisation pursuant to Section 110 of the Insolvency Act 1986, whereby new companies are created and certain assets relating to the particular trade transferred to the newly formed companies.</p> <p>In return for the transfer of these assets, the shareholders receive a distribution of shares in the new companies, usually in accordance with their shareholding in the original company. Prior to implementation of the scheme, clearance is obtained for it from HM Revenue &amp; Customs thus avoiding capital gains tax and other taxation issues.</p>
<p><b>Who can benefit from it?</b></p>	<p>Enables shareholders to extract their investment in a co-ordinated manner benefiting, where applicable, from retirement, taper and other potential tax reliefs that may be available.</p> <p>A procedure which can be utilised to split different businesses</p>	<p>within one company often allowing the directors to individually concentrate on their areas of strength, while also enabling opportunity for growth and development but at the same time minimising the level of risk and exposure that may otherwise have been placed on the original company.</p>
<p><b>The Procedure in Brief</b></p>	<p>Requires the preparation of a formal Declaration of Solvency which must be produced at a date within five weeks of the resolution to wind up. The Declaration of Solvency details the company's assets and liabilities as evidence of its solvency and ability to repay creditors together with statutory interest within a maximum of 12 months.</p> <p>A board meeting of directors is held during which the Declaration of Solvency is produced in support of the solvency of the company.</p>	<p>At this meeting, a resolution of the board is taken whereby it is recommended that a meeting of shareholders is convened with a view to placing the company into liquidation and for the appointment of a nominated liquidator.</p> <p>A chairperson being one of the directors is nominated at the board meeting whose role is to sign the relevant notices convening a General Meeting (GM). It is also the chairperson's role to chair the GM.</p>

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<p>Continued...</p>	<p>A 14 day notice period to shareholders of the GM is required (unless the company's Articles specify a longer period), although this can be shortened by consent of 95% of the shareholders in value.</p> <p>At the GM, the shareholders will pass a number of resolutions relating to the solvent winding up of the company, appointment of liquidators and the basis of remuneration including fees and disbursements.</p> <p>If shareholders are seeking to receive a Distribution in Specie in respect of company assets (as oppose to just cash) a resolution along the following terms is also passed:</p> <ul style="list-style-type: none"> <li>• That the liquidator be authorised to divide among the members of the company in specie, part or whole of the assets of the company and may for that purpose, value any assets and determine how the division between members should be carried out</li> </ul>	<p>Following the appointment of the liquidator it is his role to settle any remaining outstanding creditors there may be before making a distribution to shareholders. These distributions can take the form of distribution of cash, assets as indicated above or in the case of S110 schemes, shares.</p> <p>Upon completion of his duties, prior to preparing and delivering to shareholders a report on the conduct of the liquidation, including a final account, clearance is obtained for the government departments that they have no objection to him obtaining his release as Liquidator.</p> <p>The company is struck off the register at Companies House, some three months after the filing of the liquidator's final account with the Registrar of Companies.</p>
<p>Key Components for a Successful MVL</p>	<p>The directors must be absolutely certain of the solvency of the company taking into account both prospective and contingent liabilities. Ultimately if it is established that the company is, in fact insolvent, then the liquidation will be converted to an insolvent</p>	<p>Creditors' Voluntary Liquidation, and the directors may by virtue of having sworn a Declaration of Solvency become liable to imprisonment, a fine or both. See Insolvency section of this website for further details</p>
<p>Advantages of an MVL</p>	<p>Formally ends the life of the company, leaving no outstanding matters. Provides a potential tax efficient exit route to shareholders.</p>	

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