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Solvent Liquidations and Voluntary Strike Offs

Which process?

When the decision has been made to wind up a dormant company and to distribute any remaining assets to the shareholders, there are two ways in which this can be done.

It's important to establish which process is the best for shareholders and the company as each process has its advantages (see overleaf).

Moreover, if they are not carried out correctly, there is a chance that the funds will be distributed unlawfully.

Members' Voluntary Liquidation

A Members' Voluntary Liquidation is a formal and tax-efficient way to a more certain outcome regarding creditor claims and the lawful return of share capital.

All distributions are classed as capital, rather than income, with no limit on the sum to be distributed.

Voluntary Strike Off

A Voluntary Strike Off is a cost-efficient method of removing a company from the Companies House register.

Capital distributions are limited to £25,000. Once this limit is exceeded, the whole distribution will be considered as income.

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Benefits comparison

Members' Voluntary Liquidation

- A more certain outcome regarding creditors' claims and the lawful return of share capital. Cost-efficient method of removing a company from the Companies House register.
- A quick process which allows the immediate distribution of funds (subject to contingencies). At least five days' notice of the special resolution must be provided to any floating charge holders.
- Three statutory adverts in the London Gazette at £110 each plus specific insolvency bond, which is dependent on the value of assets and can range from £220.
- Distributions to shareholders are classed as capital not income. Assets may also be distributed in specie to shareholders.
- Distributions are liable to capital gains tax. However, subject to eligibility, annual exemptions and Business Asset Disposal Relief (up to a lifetime limit of £1,000,000) could be used to minimise any tax liability.
- Court applications can be made up to six years post dissolution. However, a Liquidator will have advertised and distributed all assets so the merits of restoring the company will be questioned. There are no time limits for personal injury claims.
- If the directors have deliberately misled anyone with the declaration of solvency then criminal proceedings may be commenced.
- The Liquidator may destroy the company's books and records one year after the company has been dissolved.

Voluntary Strike Off

- Cost-efficient method of removing a company from the Companies House register.
- Cannot be commenced within three months from the date the company ceased to trade. Must make sure that all liabilities have been settled prior to commencing the process.
- £10 fee payable to the registrar of companies.
- Subject to a limit of £25,000, funds can be distributed to shareholders as capital.
- Distributions up to £25,000 will be taxed as per a Solvent Liquidation (see left). However, if the distribution exceeds this amount then the whole distribution will be classed as income, with income tax being due on it.
- A court application or an application for administrative restoration can be made up to six years post dissolution. Once restored, former directors are held to be in office and steps can be taken to wind up the company. There are no time limits for personal injury claims.
- The provision of false information or any breaches in making the application for strike off may result in criminal proceedings.
- Directors are required to maintain the company's books and records for a period of seven years after the Strike Off has completed.

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