

CREDITORS GUIDE

CREDITORS' RIGHTS IN A CREDITORS' VOLUNTARY LIQUIDATION (CVL)

When a company enters Creditors' Voluntary Liquidation (CVL), creditors have specific rights to ensure they are treated fairly and given the opportunity to recover as much of their outstanding debt as possible. Understanding these rights can help creditors navigate the process effectively.

Your Rights as a Creditor

- **Notification of the CVL**

Creditors must be formally notified of the company's intention to enter liquidation. This includes details of the appointed Licensed Insolvency Practitioner (IP) who will manage the process.

- **Participation in the Decision Process**

Creditors are invited to vote on the appointment of the liquidator, ensuring they have a say in who manages the liquidation. This is often conducted via a virtual meeting or written resolution.

- **Submission of a Proof of Debt**

To register your claim, you must submit a proof of debt form outlining the amount owed. This ensures your debt is considered during the distribution of company assets.

- **Request Information and Reports**

Creditors have the right to request updates on the liquidation process, including financial details, asset realisation progress, and anticipated outcomes.

- **Challenge Director Conduct**

If you believe the directors acted improperly or engaged in wrongful trading, you can raise concerns with the appointed liquidator, who is required to investigate director conduct.

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Order of Payment in a CVL

During liquidation, creditors are paid in a strict legal order:

- **Secured Creditors with a Fixed Charge**

These creditors hold security over specific company assets, such as property or equipment.

- **Costs of the Liquidation**

The liquidator's fees and other professional costs are paid next.

- **Preferential Creditors**

This includes employee claims such as unpaid wages (up to a certain limit), holiday pay, and some pension contributions.

- **Secondary Preferential Creditors**

HMRC now holds secondary preferential status for certain debts, such as VAT, PAYE, and NIC. This means they are paid before floating charge holders but after employee claims.

- **Secured Creditors with a Floating Charge**

These creditors hold security over more general company assets like stock, machinery, or raw materials.

- **Unsecured Creditors**

Trade creditors, suppliers, landlords, and remaining HMRC debts fall into this category. They are paid from any remaining funds after higher-priority creditors have been settled.

- **Shareholders**

If any funds remain after all creditors are paid, shareholders may receive a distribution.

VAT Bad Debt Relief

Creditors with unpaid invoices that include VAT may be eligible for VAT Bad Debt Relief. This allows you to reclaim the VAT element of unpaid invoices if:

- The debt is over six months old.
- The invoice has been written off in your accounts as a bad debt.
- The VAT on the invoice has already been accounted for and paid to HMRC.

For guidance on claiming VAT Bad Debt Relief, speak with your accountant or tax advisor.

How DCA Business Recovery Can Help

As licensed insolvency practitioners, we support creditors throughout the CVL process. If you have concerns about a company owing you money, we can advise you on the best steps to recover your debt and ensure your rights are protected.

For expert advice tailored to your situation, contact us today.



**Arrange a
free initial
advice
meeting**