

DIRECTORS GUIDE

MVL VS DISSOLUTION – WHICH IS RIGHT FOR YOUR COMPANY?

When closing a solvent company, directors have two primary options: Members' Voluntary Liquidation (MVL) or Company Dissolution (Strike-Off).

Both methods allow for the closure of a business, but they differ significantly in cost, process, tax implications, and legal protection.

This guide outlines the key differences to help directors decide the best approach for their company.

What is a Members' Voluntary Liquidation (MVL)?

An MVL is a formal liquidation process for solvent companies that wish to distribute retained profits in a tax-efficient way before closing.

◆ Key Features:

- ✓ Allows shareholders to extract funds as capital, not income.
- ✓ Can qualify for Business Asset Disposal Relief (BADR), reducing Capital Gains Tax to 10%.
- ✓ Liquidator appointed to handle all legal and financial aspects.
- ✓ Ensures all creditors are paid before distributing assets to shareholders.

What is Company Dissolution (Strike-Off)?

Dissolution (or voluntary strike-off) is a simpler, cheaper process to close a company when it is no longer needed.

◆ Key Features:

- ✓ No liquidator required, reducing costs.
- ✓ Directors apply to Companies House for the company to be removed from the register.
- ✓ Suitable for companies with minimal assets and no debts.
- ✓ Quick and straightforward if all legal conditions are met.

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Key Differences Between MVL and Dissolution

Factor	MVL (Members' Voluntary Liquidation)	Dissolution (Strike-Off)
Eligibility	Must be solvent and able to pay all debts + interest within 12 months.	Must be dormant, inactive, or no longer needed with no outstanding debts.
Tax Treatment	Funds are distributed as capital, making BADR possible (10% CGT).	Funds are treated as income, subject to higher tax rates.
Process	Requires a liquidator, declaration of solvency, and formal liquidation process.	Directors submit a DS01 strike-off form to Companies House.
Cost	Typically £2,500 - £5,000 + VAT (varies based on assets and complexity).	£10 Companies House fee + legal/admin costs.
Timeframe	Usually 3-6 months, depending on asset distribution.	2-3 months, if no objections arise.
Creditor Protection	Ensures all creditors are paid in full before closure.	Directors must ensure no outstanding debts, or creditors can object.
Legal Protection	A liquidator manages the process, reducing personal risk for directors.	Directors remain liable for any undisclosed debts after dissolution.
Restoration Risk	Unlikely, as debts are settled before liquidation.	Company can be restored for up to 20 years if creditors raise claims.

When to Choose an MVL

- ✓ Your company has £25,000+ in retained profits, making an MVL more tax-efficient than a dividend.
- ✓ You want to pay less tax by benefiting from BADR (10% CGT).
- ✓ The company has assets to distribute (e.g., property, cash, or investments).
- ✓ You want to ensure creditors are properly dealt with before closing.
- ✓ You want legal protection against future claims.

When to Choose Dissolution (Strike-Off)

- ✓ The company has no debts, assets, or liabilities.
- ✓ The company has minimal retained profits (under £25,000).
- ✓ The business has been dormant for some time and is no longer needed.
- ✓ You want a low-cost and quick closure method.
- ✓ All creditors, employees, and HMRC obligations are settled before applying.

Final Thoughts: Which is Best for Your Company?

- ◆ If your company has over £25,000 in retained profits, an MVL is usually the best option due to its tax benefits and legal protections.
- ◆ If your company has little to no assets and no debts, dissolution is a cheaper and simpler alternative.
- ◆ Directors should seek professional advice before proceeding to ensure they choose the most tax-efficient and risk-free option.

If you need guidance on whether an MVL or dissolution is right for your business, contact a licensed insolvency practitioner for a consultation.