

Guide to Company Liquidation

An overview of liquidation types, when they are used, and what directors should expect from the process.

If your company is struggling financially, liquidation may be the most appropriate way to bring matters to an orderly close. This guide explains the main types of liquidation, how the process works, and what it means for you as a director.

What Is Company Liquidation?

Liquidation is the formal process of winding up a company's affairs. An insolvency practitioner (known as the liquidator) is appointed to realise the company's assets, distribute the proceeds to creditors, and ultimately have the company removed from the Companies House register.

Liquidation does not necessarily mean a director has done anything wrong. Many directors use it as a responsible way to deal with debts that the company can no longer pay.

Types of Liquidation

There are three main types of liquidation under UK insolvency law. Each applies in different circumstances.

Creditors' Voluntary Liquidation (CVL)

A CVL is the most common route for insolvent companies. It is initiated by the directors and shareholders when the company cannot pay its debts as they fall due. The directors appoint a licensed insolvency practitioner to act as liquidator, and the process is overseen in the interests of creditors.

A CVL is generally regarded as the responsible course of action where a company is insolvent and there is no realistic prospect of recovery.

Members' Voluntary Liquidation (MVL)

An MVL is used when a solvent company is being closed, typically to extract retained profits in a tax-efficient manner. The directors must make a statutory declaration of solvency confirming that the company can pay all of its debts within 12 months. If this declaration proves to be incorrect, the liquidation may be converted to a CVL and the directors could face personal consequences.

Compulsory Liquidation

Compulsory liquidation is imposed by the court, usually following a winding-up petition presented by a creditor. HMRC is the most common petitioner. This route removes control from the directors entirely. The Official Receiver is appointed as liquidator, and the process tends to involve more detailed investigation into the company's affairs and the conduct of its directors.

Important: If your company has received a winding-up petition, you should seek urgent advice. You may still be able to place the company into a CVL before a winding-up order is made, which generally gives directors more control over the process.

Comparing the Three Routes

Feature	CVL	MVL	Compulsory
Who initiates	Directors / shareholders	Directors / shareholders	Creditor / court
Company solvent?	No	Yes	No
Director control	Moderate	High	None
Typical cost	Funded from assets or deferred	Paid by company	Court fees + deposit
Investigation level	Standard	Minimal	Detailed

What Happens During Liquidation?

Regardless of the type, the broad steps in a liquidation are similar. The liquidator takes control of the company, realises any assets (such as stock, equipment, debtors, or property), investigates the company's affairs, and distributes the available funds to creditors in the order prescribed by law. Secured creditors are paid first, followed by preferential creditors (primarily employees), then HMRC for certain debts, and finally unsecured creditors.

The company ceases to trade, employees are made redundant, and the directors' powers effectively cease, although they are required to cooperate fully with the liquidator throughout the process.

What Does Liquidation Mean for Directors?

Liquidation brings the company to an end, but it does not automatically affect the directors personally. Directors are not generally liable for company debts unless they have given personal guarantees or there are grounds for a claim of wrongful trading, fraudulent trading, or misfeasance.

The liquidator is required to submit a report on the conduct of the directors to the Insolvency Service. In the vast majority of cases where directors have acted honestly and taken timely advice, no further action follows.

Key point: Taking early advice and acting promptly is one of the most important things a director can do. Delay often increases the risk of personal liability and can reduce the options available to the company.

Next Steps

If you believe your company may be insolvent, or if you are simply unsure about the position, the sensible first step is to speak with a licensed insolvency practitioner. At Insolvency Direct, we offer a free initial consultation to help you understand your options and decide on the right course of action.

There is no obligation, and the earlier you take advice, the more options are likely to be available.