a brief guide to compulsory liquidations

Compulsory liquidations (CWUs) are for insolvent companies that have reached the end of the road and the directors/shareholders/creditors decide to force the issue and make an application to Court to wind it up. It is generally used where the board of directors/shareholders cannot agree on a creditors' voluntary liquidation or where a creditor wants to force a liquidation.

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summary

A compulsory liquidation is imposed on a company by a Court – usually on the application/petition of a creditor. The most prolific petitioning creditor is HMRC. It costs around £3,000 to petition so it tends to only be for larger debts. If a winding up order is made, the Official Receiver, a civil servant, is appointed liquidator.

advantages

- Allows directors/shareholders/creditors to take control and force a liquidation by petitioning the Court. HMRC are the most prolific petitioner and perform a useful economic function cleansing the economy from rotten/zombie companies.
- Once the petition is presented (filed in Court) then all transactions entered into by the company are void thus preserving the position for all creditors until the court hearing typically six weeks later.
- Finality – and an independent review of the company's affairs and the possibility of bringing bad directors to account.

starting it

The process starts with a petition being filed in Court and then served on the company. A hearing date will be set usually in six weeks' time. Meanwhile any creditor can join the petition. In disputed cases hearings are often adjourned and it can take many months before a winding up order is made. This is a Court order procedure and it is best to instruct a solicitor to do this – with Court fees and deposits at a cost of c. £3,000 which are repaid from asset realisations in the liquidation.

what next?

Usually the Official Receiver (a civil servant) is appointed by the Court. He/she performs much the same function as an Insolvency Practitioner but is set targets to disqualify badly behaved directors. If creditors wish they can get an Insolvency Practitioner appointed in place of the Official Receiver, who may have more resources to pursue recovery action.

how it ends

Like a creditors' voluntary liquidation, by the liquidator issuing a final progress report and eight weeks later, if no objections are received, this is filed at Companies House. Three months after that the company will be dissolved.

Download a more detailed guide to compulsory liquidations

Click for further guidance from R3

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At McTear Williams & Wood our aim is to help you deal with a difficult situation, remove some of the stress and worry and obtain the best possible outcome for you. But early contact is the key. The sooner you get in touch the more we will be able to do to help.

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