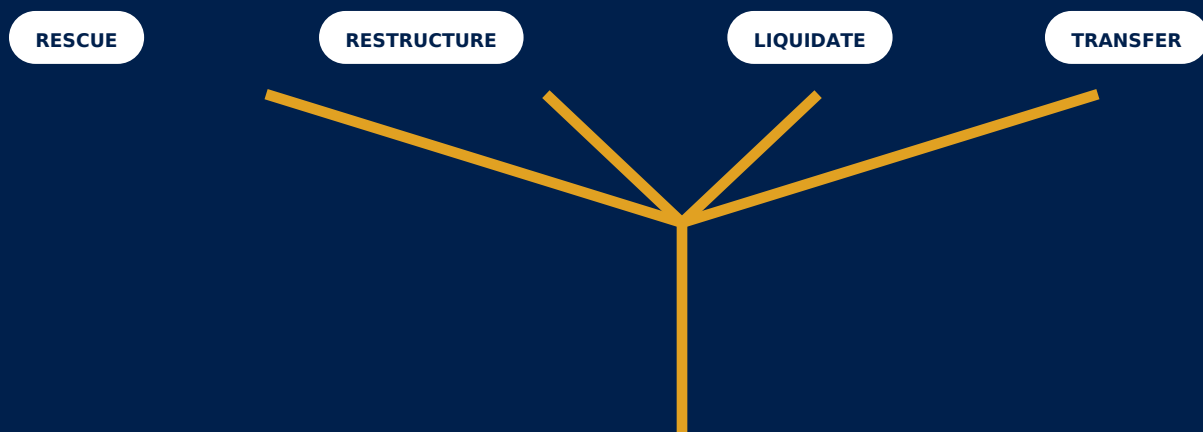


STOP YOUR DEBT UK

2026 EDITION

BUSINESS DEBT & INSOLVENCY

A DIRECTOR'S GUIDE



DIRECTOR FOCUS

Understand the position. Protect your responsibilities. Know your options.

Before You Start

Financial difficulty does not automatically mean the end of a business. A company may have fallen behind with HMRC, suppliers, lenders or other creditors yet still have a viable underlying business. In other cases, restructuring or an orderly closure may need to be considered.

This guide is written primarily for directors of UK private limited companies and focuses on England and Wales. Scotland and Northern Ireland have materially different procedures in some areas.

Stop Your Debt UK provides information and practical support to help directors understand financial and creditor situations. It is not a licensed insolvency practitioner, an SRA-authorised law firm or an FCA-authorised debt advice firm.

Formal insolvency appointments and regulated or reserved work must be carried out by appropriately authorised professionals.

CORE PRINCIPLE

A limited company is legally separate from its directors and shareholders. Company debt does not automatically become personal debt - but personal guarantees, director loan accounts and misconduct require separate analysis.

Received a statutory demand, HMRC letter or winding-up threat?

Upload it to LetterChekr™ for a plain-English explanation of the creditor, amount, deadline and next step.

OPEN LetterChekr™

Information checked: September 2026

Contents & Director Roadmap

04	What Is Business Debt?	17	Company Voluntary Arrangement - CVA
05	Company Debt vs Personal Liability	21	Creditors' Voluntary Liquidation - CVL
07	When Is a Company Insolvent?	25	Compulsory Liquidation
09	Director Duties When Insolvency Threatens	27	Strike-Off & Dissolution
12	HMRC Debt	29	Distressed-Company Share Acquisition
14	Statutory Demands & Winding-Up Petitions	31	PGs, DLAs, Bounce Back Loans & Myths
15	Rescue, Restructure, Liquidate or Transfer?	32	Director Action Plan

DIRECTOR ROADMAP

**UNDERSTAND THE DEBT → ASSESS INSOLVENCY → IDENTIFY PERSONAL EXPOSURE →
PROTECT ASSETS & RECORDS → CHOOSE THE MOST APPROPRIATE LAWFUL ROUTE**

What Is Business Debt?

A limited company will normally incur debt as part of ordinary trading. Common liabilities include VAT, PAYE and National Insurance, Corporation Tax, supplier invoices, commercial rent, utilities, business loans, overdrafts, asset finance, invoice finance, merchant funding, employee liabilities and Bounce Back Loans.

The critical starting point is that a debt entered into by the company is normally owed by the company. Directors are not normally personally responsible merely because they hold office. Separate personal exposure can still arise through a personal guarantee, personal borrowing, an overdrawn director loan account or conduct that gives rise to legal liability.

KEY MESSAGE

COMPANY DEBT does not automatically become DIRECTOR DEBT.

Company liabilities

VAT
PAYE / NIC
Corporation Tax
Suppliers & rent
Company borrowing
Bounce Back Loans

Separate personal exposure

Personal guarantees
Personal borrowing/security
Overdrawn DLA
Misfeasance / misconduct
Unlawful transactions

Company Debt vs Personal Liability

COMPANY LIABILITY

HMRC taxes
Suppliers
Commercial rent
Company loans
Overdrafts
Asset finance
Bounce Back Loan

CONTRACTUAL PERSONAL LIABILITY

Personal guarantees
Personal borrowing
Security over personal assets
Joint and several guarantees

CONDUCT / STATUTORY EXPOSURE

Overdrawn DLA
Misfeasance
Wrongful / fraudulent trading
Preferences / undervalue
Unlawful distributions

RULE TO REMEMBER

COMPANY INSOLVENCY $\neq$ AUTOMATIC PERSONAL LIABILITY

Resignation does not erase past responsibility. A share sale does not release a personal guarantee. Dissolution does not automatically prevent investigation or restoration.

Know Your Creditors

When a company cannot pay everyone, identify each creditor's legal position before making unusual payments. Insolvency law recognises different rankings and security rights; 'fair treatment' does not mean that every creditor always receives the same legal priority.

FIXED-CHARGE / PROPRIETARY RIGHTS

Security can attach to specific assets.

INSOLVENCY EXPENSES & PREFERENTIAL CLAIMS

Certain employee claims rank preferentially.

HMRC SECONDARY PREFERENCE

Certain collected taxes such as qualifying VAT, PAYE income tax and employee NIC.

FLOATING-CHARGE DISTRIBUTIONS

Subject to the statutory order and prescribed part.

ORDINARY UNSECURED CREDITORS

Suppliers, unsecured lenders and other unsecured claims.

DIRECTOR QUESTION

Why is this creditor being paid now - because it is commercially justified, or mainly because the payment protects me personally?

When Is a Company Insolvent?

Cash-flow insolvency

Can the company pay debts as they fall due?

Warning signs include repeated HMRC arrears, unpaid suppliers, bounced payments, payroll pressure and borrowing used simply to service old borrowing.

Balance-sheet insolvency

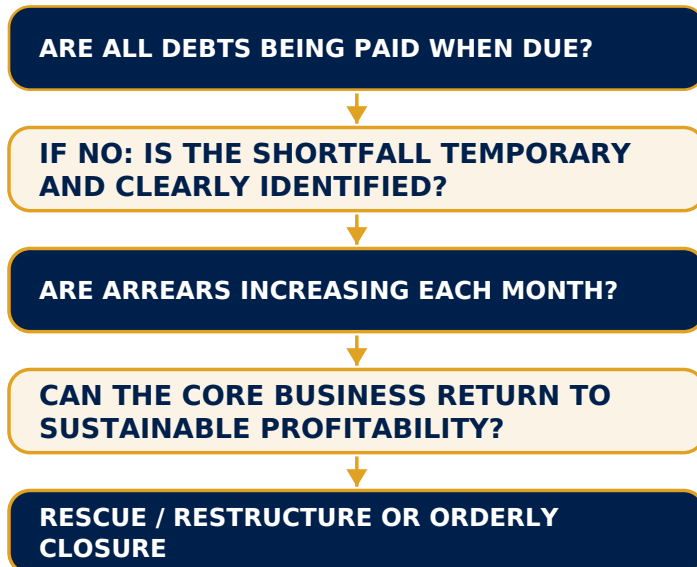
The statutory assessment takes account of the company's assets and liabilities, including contingent and prospective liabilities. It is more nuanced than comparing a single balance-sheet total.

Section 123 Insolvency Act 1986 contains statutory tests used to establish a company's inability to pay its debts. A qualifying statutory demand left unresolved and an unsatisfied judgment are among the circumstances that may evidence inability to pay.

IMPORTANT DISTINCTION

FINANCIAL DIFFICULTY = the business has a problem. LEGAL INSOLVENCY = the company satisfies the relevant statutory insolvency test. They can overlap, but they are not the same concept.

Is My Company in Trouble?



10 warning signs

1. HMRC arrears increasing
2. Suppliers reducing terms
3. Direct debits failing
4. Constant creditor juggling
5. Payroll pressure
6. Overdraft always at limit
7. New debt funds old debt
8. CCJs / formal demands
9. Escalating creditor pressure
10. No reliable cash position

ACT EARLY

Do not wait for the bank account to reach £0. Earlier diagnosis normally preserves more options.

Director Duties When Insolvency Threatens

Directors always owe duties to the company. When insolvency becomes sufficiently serious, creditor interests become increasingly important. The Supreme Court's decision in *BTI 2014 LLC v Sequana SA* [2022] UKSC 25 is the leading modern authority on the creditor-interest principle.

STOP

Pause unusual transactions.

ASSESS

Establish true finances.

DOCUMENT

Minutes, forecasts, values.

GET ADVICE

Use suitable professionals.

DECIDE

Choose a defensible route.

Records that matter

Bank statements • management accounts • tax records • loan documents • asset registers • contracts • invoices • board minutes
• DLA records • creditor communications

DIRECTOR RULE

The worse the financial position becomes, the more important contemporaneous decision-making records become.

What Directors Must Never Do

- Hide company assets or divert them away from creditors.
- Destroy, conceal or falsify accounting records.
- Backdate documents or fabricate invoices.
- Transfer valuable assets for nominal consideration without proper justification.
- Take unlawful dividends or improperly repay yourself.
- Repay a personally guaranteed creditor merely to protect yourself.
- Mislead HMRC, lenders, customers or other creditors.
- Conceal Bounce Back Loan use or other material transactions.
- Accept customer money where there is no reasonable prospect of performance and the circumstances make that misleading.
- Resign or sell the shares and assume historic responsibility has disappeared.

A USEFUL TEST

Would you be comfortable explaining this decision, the evidence behind it and who benefited from it to an independent liquidator later?

Transactions Under the Microscope

TRANSACTION AT UNDERVALUE

A company gives away value, or receives significantly less value than it provides, within the statutory framework.

PREFERENCE

A creditor, surety or guarantor is put in a better position than in an insolvent liquidation, subject to the statutory conditions including the required desire.

MISFEASANCE

Company property is misapplied or duties are breached by those responsible for it.

WRONGFUL TRADING

Not simply 'trading while insolvent'. The statutory test focuses on the point at which there was no reasonable prospect of avoiding insolvent liquidation/administration and the steps then taken.

FRAUDULENT TRADING

Dishonest carrying on of business is fundamentally different from genuine commercial failure.

CONNECTED-PARTY DEALINGS

Transactions with directors, relatives or connected companies warrant especially careful documentation and valuation.

KEY DISTINCTION

Business failure is not fraud. Poor management is not automatically personal liability. Dishonesty and deliberate creditor prejudice are different.

HMRC Debt

HMRC is a common major creditor in distressed companies. Typical liabilities include VAT, PAYE, National Insurance and Corporation Tax. Tax arrears should be treated as genuine company liabilities, not as an indefinite source of working capital.



Time to Pay - viability test

Be ready to explain:

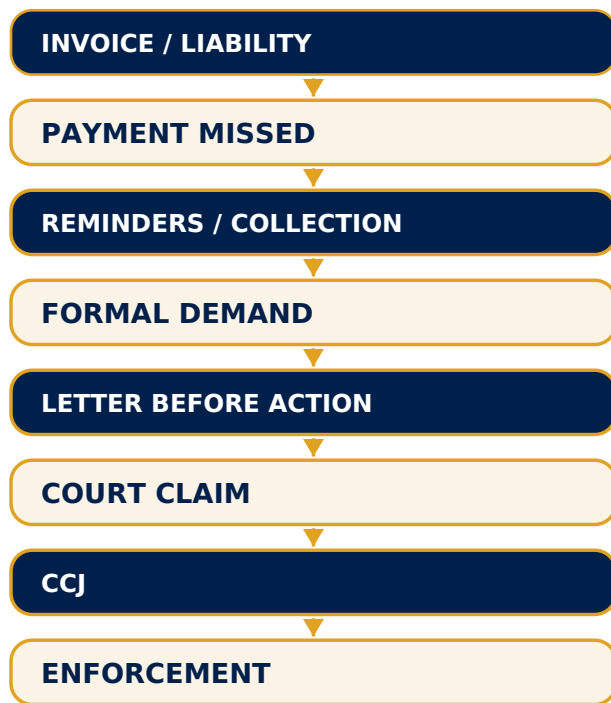
- why the arrears arose
- what the company can afford
- how ongoing taxes will be met
- why the business remains viable

A plan that pays old arrears but immediately creates new tax debt is not sustainable.

DIRECTOR QUESTION

Can the company afford both the historic arrangement and all new liabilities falling due?

The Creditor Pressure Lifecycle



When a letter arrives

Identify:

WHO is the creditor?
HOW MUCH is claimed?
IS IT CORRECT?
WHAT DEADLINE applies?
HAS COURT ACTION started?
WHAT HAPPENS if nothing is done?

LetterChekr™

Upload a business debt letter for a plain-English explanation of the creditor, amount, deadline and

OPEN LetterChekr™

Statutory Demands & Winding-Up Petitions

A winding-up petition is materially more serious than an ordinary collection letter. A creditor can petition where it is owed at least £750 and can prove that the company cannot pay. A statutory demand is one route to proving inability to pay, but it is not mandatory in every case.



Current petition costs

£352
court fee

£2,600
petition deposit

Checked September 2026. Fees can change.

URGENT

Do not ignore a petition, transfer assets to avoid it, or assume a share sale automatically brings the proceedings to an end.

Rescue, Restructure, Liquidate or Transfer?

RESCUE

Creditor negotiation
HMRC Time to Pay
Refinance
New investment

RESTRUCTURE

CVA
Administration
Moratorium
Restructuring Plan

LIQUIDATE

CVL
Compulsory liquidation

TRANSFER / SALE

Going-concern sale
Asset sale
Genuine share acquisition

THE BETTER QUESTION

Not 'How do I avoid liquidation?' but 'Which lawful route best fits the company's viability, creditor position and my responsibilities as director?'

Can the Business Be Rescued?

Stronger rescue indicators

Underlying trading is profitable or capable of profitability.
Historic debt arose from a temporary disruption.
Future cash flow is credible.
Ongoing tax and suppliers can be paid.
Management can execute a turnaround.

Closure indicators

Persistent losses.
No realistic turnaround.
No working capital.
New HMRC arrears continue.
Essential customers, licences or contracts are gone.
Borrowing only funds old borrowing.

RESCUE TEST

VIABLE BUSINESS + MANAGEABLE DEBT + CREDIBLE CASH FLOW

WARNING TEST

UNVIABLE BUSINESS + GROWING DEBT + NO WORKING CAPITAL

The existence of insolvency does not automatically require immediate liquidation. The right answer depends on whether the business can realistically return to sustainable trading without worsening creditor losses.

Company Voluntary Arrangement - CVA

A Company Voluntary Arrangement is a formal insolvency procedure through which an insolvent company may agree a structured repayment or compromise with creditors while continuing to trade. It is normally considered where the underlying business is viable.

Core mechanics

- licensed insolvency practitioner
- proposal to creditors
- payment / restructuring terms
- directors generally remain in management
- supervisor monitors the arrangement

Approval threshold

75% by debt value of creditors who vote must approve, subject to the detailed statutory voting rules.

The exact creditor classes and modifications matter.

CVA IS NOT

A promise that every debt is written off; protection for personal guarantees; or a substitute for a viable business model.

CORE PRINCIPLE

A CVA should rescue or restructure a viable company - not simply postpone an inevitable failure.

The CVA Lifecycle



Two important side-effects

HMRC

New tax liabilities still need to be paid normally unless lawfully dealt with by the arrangement.

PERSONAL GUARANTEES

A CVA does not itself release the guarantor.

IF THE CVA FAILS

Failure to meet the arrangement can lead to termination and creditors may pursue winding-up or other remedies.

Administration, Moratorium & Restructuring Plans

Administration

A licensed administrator takes control. The statutory objectives broadly prioritise rescuing the company as a going concern; if that is not reasonably practicable, achieving a better result for creditors than liquidation; and, where appropriate, realising property for secured or preferential creditors.

Moratorium

A qualifying company can obtain an initial 20 business days of formal breathing space from certain creditor action. Directors remain in control while a licensed insolvency practitioner acts as monitor. It can be extended under the statutory mechanisms.

Restructuring Plan

Part 26A Companies Act 2006 provides a court-supervised restructuring mechanism. In qualifying circumstances, a court can sanction a plan despite dissent from a creditor class. It is generally more complex and costly than tools commonly used by smaller SMEs.

REMEMBER

Formal rescue procedures manage creditor rights and viability; they do not make debt simply disappear.

What Does Liquidation Actually Mean?

Liquidation is a formal process through which a company's affairs are wound up, assets are identified and realised, creditor claims are dealt with under insolvency law and the company is ultimately dissolved.

MVL

Members' Voluntary Liquidation

Primarily a solvent liquidation route. Included here only to distinguish it from insolvent liquidation.

CVL

Creditors' Voluntary Liquidation

A voluntary formal closure route for an insolvent company.

Compulsory

Court-ordered liquidation

Commonly follows a creditor's winding-up petition.

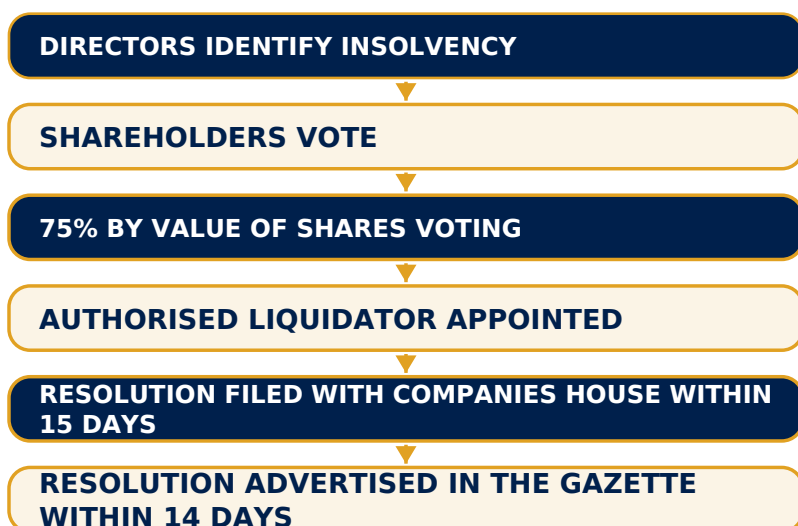
IMPORTANT

Liquidation is not automatically evidence of misconduct. Businesses fail for legitimate commercial reasons.

The key director comparison in an insolvent SME is usually CVL vs compulsory liquidation. Both are formal insolvency procedures; neither automatically converts all company debt into personal debt.

Creditors' Voluntary Liquidation - CVL

A CVL is often appropriate where directors conclude that an insolvent company cannot reasonably continue. It places the company's affairs into a recognised statutory process under a licensed insolvency practitioner.



What the liquidator does

- Identifies assets.
- Collects debts due to the company.
- Deals with creditor claims.
- Reviews transactions.
- Considers director conduct.
- Makes distributions where funds permit.
- Concludes the company.

INDEPENDENCE

The liquidator is an independent office-holder - not the outgoing director's personal representative.

The CVL Lifecycle



Director cooperation

The office-holder can require relevant information, books and records and explanations about company activity.

Cooperation is a normal part of formal insolvency and does not, by itself, mean misconduct has occurred.

What Happens to Everything in a CVL?

ITEM	TYPICAL POSITION
Company debts	Creditors prove in the liquidation.
Company assets	Controlled and realised by the liquidator.
Cash / receivables	Remain company assets and may be collected.
Employees	Employment and statutory insolvency claims may arise.
Bank account	Control changes; directors should not use funds as before.
Leases / contracts	Reviewed individually; outcomes depend on terms and law.
Personal guarantees	Remain separate and may be enforced under their terms.
Overdrawn DLA	Potential asset recoverable by the liquidator.
Bounce Back Loan	Company claim; historic misconduct is a separate issue.
Director	Must cooperate and explain relevant transactions.

SIMPLE RULE

Company property remains company property until it is lawfully dealt with.

What Happens to the Director After CVL?

Will I automatically owe every company debt?

No. Company insolvency does not automatically transfer all liabilities to the director.

Will I automatically be disqualified?

No. Liquidation itself is not misconduct. Conduct is considered separately.

Can I start another company?

Usually yes if you are not bankrupt, disqualified or otherwise restricted.

Can I use the same name?

Take advice. Insolvency Act sections 216-217 can restrict prohibited names for five years after insolvent liquidation.

What happens to my PG?

It remains separate and needs its own assessment.

What about an overdrawn DLA?

It can be pursued as an asset of the company.

Will I be asked questions?

Potentially yes. Providing information is a normal part of the process.

MYTH

Liquidation means I can never run a business again. FACT: that is not automatically the case.

Compulsory Liquidation

Compulsory liquidation occurs when the court makes an order winding up the company. A creditor is a common petitioner. Following the order, the Official Receiver normally becomes liquidator initially and has statutory investigative functions.



CVL vs compulsory

CVL

Company/shareholders initiate; licensed IP appointed; timing is more controlled.

COMPULSORY

Creditor/court drives process; control is removed; Official Receiver initially involved.

SAME PRINCIPLE

Neither route automatically releases PGs, cancels DLAs or erases historic misconduct.

CVA vs CVL vs Compulsory Liquidation

ISSUE	CVA	CVL	COMPULSORY
Primary purpose	Rescue / restructure	Voluntary closure	Court-ordered closure
Business continues?	Usually intended	Usually no	Usually no
Who controls?	Directors generally	Liquidator	OR / liquidator
Approval / trigger	75% debt value voting	75% share value voting	Court order
Licensed IP central?	Yes	Yes	OR initially; IP may follow
PG released?	No	No	No
DLA cancelled?	No	No	No
Conduct immune?	No	No	No
Company dissolved?	Not if successful	Normally	Normally

REMEMBER

CVA = attempt to rescue. CVL = voluntary formal closure. Compulsory liquidation = court-ordered closure.

Strike-Off & Dissolution

Voluntary strike-off is a Companies House process for removing a company from the register where the statutory conditions are met. It is not the same as liquidation and Companies House expressly states that it is not an alternative to formal insolvency proceedings.

DS01 / eligibility

The majority of directors apply. Statutory restrictions include relevant three-month trading / name-change restrictions and restrictions where insolvency proceedings or certain creditor arrangements apply. Creditors and HMRC can object.

After dissolution

Creditors and others may be able to restore the company. Remaining property can pass as bona vacantia. Dissolution does not automatically erase every legal consequence or prevent former-director investigation.

DO NOT PRESENT STRIKE-OFF AS

'A cheap liquidation', 'a way to wipe the debts', or a method of preventing creditors from using lawful remedies.

THE SAFE PRINCIPLE

Use strike-off only where the legal criteria are satisfied and formal insolvency is not required.

Share Sale vs Asset Sale

Share sale

The shareholder sells the shares.

Before: ABC Ltd owned by A.

After: ABC Ltd owned by B.

The company remains the same legal entity. Its assets and company liabilities generally remain with that same company.

Asset / business sale

The company sells selected assets or a business undertaking: stock, machinery, IP, goodwill, contracts or other property.

The original company remains. Liabilities do not automatically move merely because assets are sold; assignments, novations, TUPE and security may require separate analysis.

WHEN INSOLVENCY THREATENS

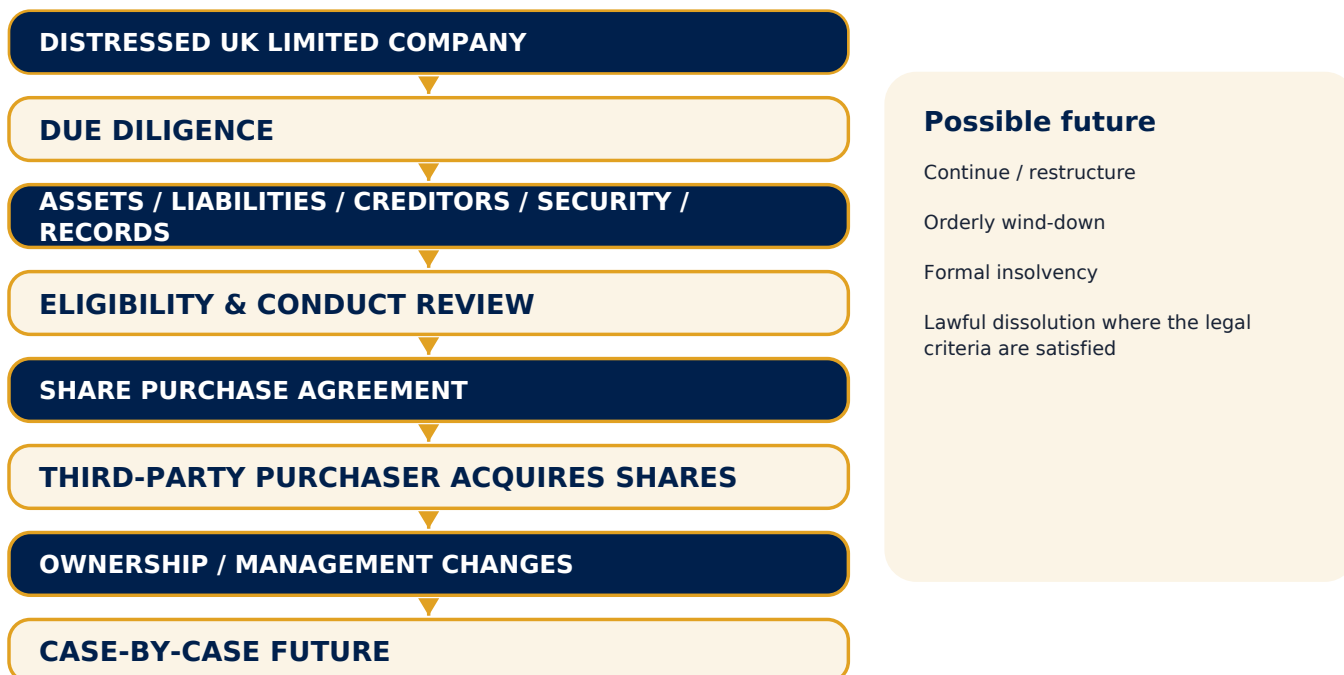
Consider valuation, commercial rationale, connected parties, security, creditor interests, destination of sale proceeds and documentation.

IMPORTANT

Selling a company asset does not turn the sale proceeds into the director's personal money.

Distressed-Company Share Acquisition

A distressed company can potentially be the subject of a genuine share sale. Some providers describe this commercially as a 'business insolvency acquisition'. It is important to be precise: it is not a statutory insolvency procedure. It is a corporate transaction involving ownership of shares.



KEY LEGAL POINT

If ABC Ltd owed £300,000 before the share sale, ABC Ltd still owes that company debt afterwards. The shareholder changed; the debtor company did not.

Acquisition: What Changes and What Does Not

What can change?

- ✓ Share ownership
- ✓ Directors and management
- ✓ Responsibility for future corporate administration
- ✓ Who manages creditor communications
- ✓ Strategy for the company's future

What does NOT disappear?

- ✗ Personal guarantees
- ✗ Overdrawn DLA
- ✗ Historic misconduct
- ✗ Existing personal liability
- ✗ Creditor rights
- ✗ Investigation powers
- ✗ BBL misconduct
- ✗ Record obligations

Responsible acquisition red flags

Fraud • tax evasion • hidden assets • false accounting • destroyed records • deliberate creditor deception • suspicious connected-party transfers • Bounce Back Loan fraud or misuse • asset dissipation • ongoing criminal investigation • attempts to frustrate lawful creditor remedies

Insolvency Service action against the Atherton scheme shows the risk where £1 distressed-company transfers are combined with asset removal, poor records or a design to undermine the insolvency regime. A genuine acquisition must withstand scrutiny on its own facts.

PGs, DLAs, Bounce Back Loans & Myths

Personal guarantees

A PG is a separate contractual obligation. A CVA, CVL or share acquisition does not itself release the guarantor.

Director loan account

An overdrawn DLA is normally an asset of the company. Insolvency or a share sale does not automatically cancel it.

Bounce Back Loan

The loan is company debt. False applications, personal misuse or avoidance conduct can create separate director consequences.

MYTH My company's debt automatically becomes mine.

FACT: Usually not.

MYTH Liquidation means I will be banned.

FACT: Not automatically.

MYTH I should repay my PG creditor first.

FACT: That can raise preference concerns.

MYTH Selling the company removes my PG.

FACT: No.

MYTH An overseas buyer puts the company beyond UK creditors.

FACT: No.

MYTH Once I resign, nobody can investigate me.

FACT: No.

MYTH All insolvent companies must immediately liquidate.

FACT: No - viable companies may have rescue options.

What Should I Do Now?

- 1. Identify every creditor. Create an accurate schedule of who is owed what.
- 2. Confirm what is overdue. Separate current liabilities from arrears.
- 3. Build a 13-week cash-flow view. Understand what happens next, not only today's bank balance.
- 4. Identify security. Check fixed charges, floating charges and asset finance.
- 5. Find every personal guarantee. Do not rely on memory.
- 6. Review the director loan account. Establish whether money is owed by or to the company.
- 7. Preserve records. Do not destroy, conceal or alter company documents.
- 8. Stop questionable transactions. Take advice before unusual transfers or connected-party payments.
- 9. Identify urgent legal deadlines. Claims, statutory demands and petitions need prompt attention.
- 10. Assess all lawful options. Rescue, restructure, liquidate or transfer.

Know exactly where you stand.

Received a business debt letter? Upload it to LetterChekr™ for a plain-English explanation.

OPEN LetterChekr™

PRIMARY LEGAL & OFFICIAL SOURCES

Insolvency Act 1986 • Insolvency Rules 2016 • Companies Act 2006 • Company Directors Disqualification Act 1986 • Corporate Insolvency and Governance Act 2020 • Insolvency Service Director Information Hub • Companies House • HMRC • GOV.UK • The Gazette • BTI 2014 LLC v Sequana SA [2022] UKSC 25.

General educational information only. Individual legal, insolvency, tax and financial advice may be required.