

Corporate Insolvency Newsletter

Q4 2024

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Welcome to our quarterly newsletter, where we provide you with the most recent insights and updates in the world of corporate insolvency.

As we navigate through the final quarter of 2024, businesses across the UK continue to face a challenging economic landscape. In this edition, we aim to equip you with analysis to help you stay informed and prepared.

In this issue, we will cover:



Business Insolvency Statistics

An overview of the latest insolvency figures, highlighting key trends and sector-specific insights.



Featured Article

A look at the recent changes to Business Asset Disposal Relief (BADR) from the Autumn Budget 2024.



The Naughty List

A roundup of 2024 insolvency stories providing cautionary tales and lessons for business leaders and professionals.

Business Insolvency Statistics (September - November 2024)

In the past three months, the UK has experienced significant fluctuations in corporate insolvencies, reflecting the ongoing economic pressures faced by businesses. Here is a detailed overview of the key statistics for this period:

Total Insolvencies

Over the last quarter, there were a total of **5,686 company insolvencies**. This period saw a notable decrease compared to the same quarter last year, indicating some improvement in the economic climate. The breakdown includes:

Compulsory Liquidations

922

Creditors' Voluntary Liquidations (CVLs)

4,485

Administrations

387

Company Voluntary Arrangements (CVAs)

45

Projections for 2025

A number of recent forecasts have projected that UK corporate insolvencies will increase 10% in 2025, as the general economic outlook remains challenging. Certain sectors are likely to be more affected than others:



Construction

Continuing supply chain issues, labour shortages and high material costs are likely to result in a challenging year for the construction industry.



Retail

The retail sector may continue to struggle due to changing consumer behaviours, increased competition from online retailers and increasing rents.



Hospitality

The increase in national insurance and the minimum wage is likely to have a significant detrimental impact on this sector.

Featured article

Navigating the Changes to Business Asset Disposal Relief (BADR) and Maximising Your Exit Strategy

The Autumn Budget 2024 has introduced significant changes to Business Asset Disposal Relief (BADR), which will impact business owners planning to sell their businesses. BADR, formerly known as Entrepreneurs' Relief, allows business owners to pay a reduced rate of Capital Gains Tax (CGT) on the sale of their business assets. We consider the impact of these changes, their implications, and strategic considerations for business owners.

Overview of BADR

Business Asset Disposal Relief (BADR) is a key tax relief for business owners, offering a reduced CGT rate on qualifying business disposals. The relief is designed to encourage

entrepreneurship by allowing business owners to retain more of their gains when they sell their business assets. Previously known as Entrepreneurs' Relief, BADR has undergone several changes over the years, with the latest adjustments introduced in the Autumn Budget 2024.



Key changes in the Autumn Budget 2024

- **From 6 April 2025:** The CGT rate for gains eligible for BADR will increase from 10% to 14%.
- **From 6 April 2026:** This rate will further rise to 18%, aligning with the lower main rate of CGT.
- The £1 million lifetime limit on qualifying capital gains remains unchanged. This limit applies to the total gains that can benefit from the reduced BADR rate over an individual's lifetime.

Implications for Business Owners

The phased increase in the BADR rate has significant implications for business owners:

- **Increased Tax Liabilities:** Business owners will face higher tax liabilities on gains from business disposals, reducing the net proceeds from such transactions. This increase could deter some business owners from selling their businesses, potentially impacting the market for business sales.
- **Timing of Disposals:** The timing of asset disposals becomes crucial.

Business owners may need to accelerate their exit plans to benefit from the lower 10% rate before it increases. This urgency could lead to a surge in business sales before the new rates take effect.

To navigate these changes effectively, business owners should consider the following strategies:

1. Reviewing Exit Plans

- Business owners should review their exit strategies in light of the upcoming rate increases. Selling before the end of the current tax year (before April 2025) will allow them to benefit from the existing 10% rate.

2. Members Voluntary Liquidations (MVL)

- An MVL is a formal process to wind up a solvent company, allowing shareholders to extract the remaining assets in a tax-efficient manner. This can be particularly advantageous given the upcoming changes to BADR. An MVL can provide a structured and efficient way to exit a business, ensuring that shareholders receive the maximum possible return.

Breakdown of MVL Timing for company valued at £1,000,000

Timing	BADR Rate	Analysis	Total CGT Liabilities	Net Proceeds
Before April 2025	10%	This period offers the most favourable tax conditions for business owners considering an MVL. The lower CGT rate means higher net proceeds from the disposal of business assets.	£100,000	£900,000
April 2025 - March 2026	14%	While still beneficial, the increased rate means higher tax liabilities on gains. Business owners should weigh the benefits of an MVL against the higher tax rate.	£140,000	£860,000
After April 2026	18%	The rate aligns with the lower main rate of CGT, making it less advantageous compared to earlier periods. However, an MVL can still provide tax efficiencies compared to other exit strategies.	£180,000	£820,000

Therefore, we can see the increased tax rate significantly reduces the net proceeds from an MVL. Business

owners should carefully consider their options and seek professional advice to determine the best course of action.

The Naughty List

In the spirit of the festive season, we present “The Naughty List,” spotlighting a few notable insolvency stories from the past few months. These cases serve as cautionary tales and provide valuable lessons for business leaders.

Unlicensed Insolvency Practitioners Lead to Company Shutdown

Director:

Mr. Dante Colin Dan Terrell Smith
Brock, of Save Consultants Ltd

Reason:

Unlicensed insolvency practitioners

In a crackdown on unlicensed insolvency practices by the Insolvency Service, the directors of Save Consultants Ltd, were implicated in serious regulatory breaches and not holding the relevant authorisations. The High Court intervened, ordering the company to be wound up in the public interest.

The case underscores the critical importance of regulatory compliance within the insolvency sector. The Insolvency Service noted that “operating without the required licenses not only violates legal standards but also erodes trust in the insolvency process”. It was found that the actions of Mr. Brock and his associates posed considerable risks to creditors, highlighting the necessity for stringent oversight and enforcement by regulatory bodies.

For directors and businesses, this case illustrates the importance of engaging reputable licensed insolvency practitioners. Firms like McCambridge Duffy ensure that all regulatory requirements are met, providing transparency and safeguarding the interests of all stakeholders.

County Armagh Director Disqualified for Misuse of Bounce Back Loan

Director:

Ellie McClelland, of EM Farms Ltd

Reason:

Misuse of Bounce Back Loan and failure to cooperate with the Department

Director:

13 years

In a decisive move, the High Court has disqualified Ellie McClelland, the director of EM Farms Ltd, for 13 years due to serious misconduct involving the misuse of a Bounce Back Loan. EM Farms Ltd, a mixed farming business based in Middletown, Co. Armagh, was dissolved in June 2021, leaving creditors with an estimated shortfall of over £50,000.

The court found that McClelland had improperly applied for and received a £50,000 Bounce Back Loan, despite knowing that her company did not meet the eligibility criteria, as it was not trading on March 1, 2020. Instead of using the loan to support the business, McClelland diverted the entire amount for personal use. Additionally, she failed to cooperate with the Department for the Economy by not responding to inquiries about the loan’s utilisation, violating Article 10(5A) of the Company Directors Disqualification (Northern Ireland) Order 2002.

The disqualification of Ellie McClelland highlights the severe consequences of misusing government financial support schemes. The Bounce Back Loan Scheme was designed to

provide critical financial relief to businesses during the pandemic. Misappropriating these funds not only violates legal and ethical standards but also harms the broader business community by diverting resources away from those in genuine need.

Former Footballer John Barnes Disqualified as Company Director

Director:

John Barnes, of John Barnes Media Limited

Reason:

Failure to pay VAT and corporation tax

Director:

3.5 years

In a recent decision, the High Court has banned former England and Liverpool footballer John Barnes from serving as a company director for three and a half years. This follows an investigation by the Insolvency Service, which uncovered significant financial mismanagement at his company, John Barnes Media Limited.

The investigation revealed that between November 2018 and October 2020, John Barnes Media Limited failed to pay over £190,000 in VAT and corporation tax, despite generating more than £400,000 in revenue during this period. The company ceased trading in 2023, with HM Revenue and Customs (HMRC) as its sole creditor.

Barnes, who was the sole director, agreed to a disqualification undertaking, which prevents him from being involved in the promotion, formation, or management of a company without court permission. This ban, accepted by the Secretary of State for Business and Trade, took effect on April 24, 2024.

This case highlights a broader issue of tax evasion and financial misconduct among company directors. Government data and various reports have shown the significant impact of such activities on public finances. When businesses fail to pay their taxes, it deprives the government of essential funds needed for public services and infrastructure.

These 3 examples remind us that maintaining ethical standards and robust financial management practices are crucial for business sustainability and success. As we move into the New Year, let these cautionary tales serve as a reminder of the importance of integrity, transparency, and accountability in all business dealings.

Thank you for taking the time to read our latest quarterly newsletter. We hope the insights and updates provided are useful. As always, our team at McCambridge Duffy is here to support you and your clients with expert advice and tailored solutions.

Please don't hesitate to reach out to us for any assistance.

Happy Christmas and Happy New Year,
The McCambridge Duffy Team

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