



Chester
01244 340129

Liverpool
0151 236 4331

Llandudno
01492 871474

Warrington
01925 245004

Are the Zombie Companies days numbered and what are the consequences?

Back in August last year, we first drew your attention to the phenomenon that is a zombie business, which is classed as one which is only able to service the interest on its debts and is unable to reduce the level of debt itself.

A recent survey tracking the number of these businesses over the past year suggests that things are beginning to change. The survey indicates that there are currently 108,000 businesses in the UK classified as zombie businesses down from a peak of 160,000 last November.

Zombie businesses have been ticking along in large part due to the benign environment, but now even “ticking along” is out of reach for some. There is evidence that as the UK finally appears to be coming out of recession creditor pressure is increasing and with it the number of zombie company failures.

If your client is one of these zombie companies it may be time to review how the directors are remunerated. The payment of a regular dividend in anticipation of available profits at the end of the year to cover them is a dangerous one and will more than likely give rise to an overdrawn directors’ loan account. Should the company subsequently fail and proceed into a formal insolvency procedure, the director would then face the prospect of having to repay the overdrawn loan account balance.

With the introduction of Real Time Information (RTI) for payroll, there is no longer the flexibility available of reviewing the method of the directors’ pay on an annual basis and then adjusting as necessary.

Economic recovery usually heralds an increase in insolvencies as creditors generally begin to take a tougher stance towards debtors as the economy improves. If there is a sustained increase in insolvency numbers over the next year or so, it would bring the curtain down on one of the more unique consequences of the current financial crisis, the Zombie company.

Please note that should your clients require any confidential advice regarding this or any other insolvency matter they are welcome to contact one of our Partners. An initial consultation is provided free of charge and without obligation. Also, if you or any of your colleagues require any clarification regarding insolvency law or procedure, please do not hesitate to contact us.

If you no longer wish to receive this information, please reply with the word “unsubscribe” in the text or subject and you will be taken off the mailing list immediately.