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Individual Voluntary Arrangements

An Individual Voluntary Arrangement [“IVA”] is an alternative to bankruptcy to deal with unsecured creditors. It allows an individual to retain control of their assets and business. Whilst requiring creditor approval, an IVA usually provides a substantially higher return to creditors than bankruptcy due to the significantly lower costs. As such this is usually a much more attractive option for the creditors.

The individual will formulate a repayment proposal detailing which assets are to be included and the time period over which payment will be made. Creditors are then presented with these proposals and invited to a meeting to accept or reject them. This meeting allows for negotiations and modifications to be made to the proposals until a workable solution is found. This process allows the individual to keep a certain level of control and avoid the restrictions that would be placed upon them in bankruptcy. Once an IVA is approved by creditors, it provides protection to the individual from any further action being taken in relation to their debt.

For sole traders, an IVA removes the burden of historical debts that can be a significant drain on cash flow, thus providing an opportunity to trade out of financial difficulties over a specified period of time. To assist a culture of recovery, HM Revenue & Customs have a dedicated Voluntary Arrangements department to deal with proposals. Providing it can be shown that the business is profitable, HMRC are usually happy to consider the offer on the basis they will get a much better return.

An IVA is not only available to sole traders; it is often used by individuals with unmanageable consumer debt as a way to protect their home. Known as a consumer IVA, this solution has gained prominence in recent times following the credit boom of the early 2000’s and subsequent property market slump. Overstretched individuals wishing to protect their home have turned to the IVA as an alternative to bankruptcy. The banks and credit institutions generally recognise the importance of the IVA to their recovery levels and have appointed dedicated agents to deal with IVA proposals.

The creditors improved understanding of the IVA process, together with its popularity, has seen the number of IVAs approved increase from just under 10,000pa in 2003 to over 50,000pa by 2010. This increase in volume has required more robust systems to be implemented throughout the process, making the procedure much more straight forward for the individual.

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.

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