

Sole Trader Individual Voluntary Arrangement (IVA)

As a sole trader, balancing your finances can be tricky when things aren't going well. With sole trader status offering none of the protection of a limited company, your personal finances can suffer as a result of a struggling business.

On top of debt worries, sole traders have the added concern of the loss of their income should they be forced to stop trading due to unmanageable debt. If you have a sole trader business, your trade debt is treated as your personal debt and therefore you could qualify for an Individual Voluntary Arrangement (IVA). An IVA is a formal arrangement with your creditors whereby you agree to reduced monthly repayments over a set time period, typically five years. In an IVA arrangement, you are permitted to carry on your sole trader business, giving you the option of keeping your income and trading through the IVA and out of debt.

Is an IVA right for you?

An IVA could be the right path for you if you are struggling to keep up repayments on your unsecured debt*. As a rule, your debts would need to be £15,000 or more in order for you to qualify for an IVA. As a sole trader, this sum would include your business-related debt and any unsecured personal debt. The total debt of a sole trader entering into an IVA arrangement is often much higher than the £15,000 minimum qualifying amount and there is no maximum amount threshold.

Historically, many sole traders would have filed for bankruptcy if they could not repay their debts. Bankruptcy, although writing off the debt, would mean the end to trading for most sole traders, but this is not the case with an IVA. An IVA allows you to continue your business, allowing you to trade out of your debt and avoid the extra worry of the loss of income.

If you own your own home, this, and other valuable assets are better protected in an IVA arrangement.

*Unsecured debt is any debt not secured on an asset such as a house. Typically it is credit card debt, loans, HP agreements etc.

Advantages

- Interest on your debts will be frozen
- You are protected against legal action from your creditors
- At the end of the IVA, any remaining unsecured debt is written off
- Unlike bankruptcy IVAs are not published in local papers
- Entering an IVA should not stop you from trading
- You may be able to retain assets such as your home

Disadvantages

- You will need to stick to a budget for the term of the IVA
- You may be asked to release some equity from your property toward the last six months of your IVA
- IVAs are recorded on a register and are likely to appear on your credit file
- If you fail to maintain your agreed repayments, you could be made bankrupt

How much will I repay?

In an IVA, you repay only what you can afford to, for a fixed period - usually 5 years. Once the IVA period is complete, any remaining debt is written off.

The Process

Setting up an IVA is a straightforward process. Your IVA supervisor guides you through each step and communicates with your creditors on your behalf.

1. Assessment

When you contact our IVA team, we will assess your situation to see whether you are eligible to enter this type of agreement. If you are, one of our insolvency practitioners will “nominate” you for the IVA. This is simply part of the process and means that they feel an IVA is right for you.

2. Proposal

A proposal is then drawn up based on the information you provide and allows you to put forward the best offer of repayment you can afford. The offer could be a one-off lump sum payment (full and final settlement), or regular monthly payments over a fixed period, or a mixture of both. You won't have to deal with this yourself, we will assist you every step of the way.

3. Approval

A copy of your proposal is sent to each creditor and they are asked to vote to accept or reject the proposal. If a majority (more than 75%) accept, then the IVA is approved and will be legally binding for all creditors, even those who may have rejected the proposal. Over 99% of the agreements drawn up by McAlister & Co are accepted by creditors.

4. Payments

Once approved you simply start to make the agreed payments or lump sum and all phone calls and letters from creditors must cease.

5. Completion

When all of the agreed payments have been completed the remainder of the debt will be cleared.

If an IVA sounds like the right solution for you, call McAlister & Co. Our IVA team are friendly, understanding and efficient and your IVA could be set up within as little as six weeks.

Just by getting in touch, you are taking the first step in dealing with your unmanageable debt, and that's a great feeling!