

OUR GUIDE TO THE PRESCRIBED PART

The prescribed part

Before a creditor with floating charge security, granted after 2003, can be re-paid an insolvency practitioner is required to make a deduction called the “*prescribed part*”¹.

This is a calculation² that the insolvency practitioner will undertake that equals:

- (i) 50% of the first £10,000; plus
- (ii) 20% of the value of the company’s net realisations which exceed £10,000.

The total sum set aside for the prescribed part is capped.

The money that is deducted from the sum which would otherwise have been available for the charge holder is distributed amongst the company’s unsecured creditors. The charge holder isn’t allowed to share in this money for any shortfall it may have.

What has changed?

With effect from 6 April 2020, the Government has introduced an order increasing the cap from £600,000 to £800,000³.

What is the relevance to my company?

It is likely that this is only going to be relevant in a very small number of insolvencies as the sum required to be exceeded in order for the cap to apply is £3,985,000.

If you would like specific guidance for you or your company, talk to Sadlers today.

¹ Section 176A of the Insolvency Act 1986

² The Insolvency Act 1986 (Prescribed Part) Order 2003

³ The Insolvency Act 1986 (Prescribed Part) (Amendment) Order 2020