



# Insolvency Act 1986

## 1986 CHAPTER 45

### PART IX

#### BANKRUPTCY

#### CHAPTER IV

##### ADMINISTRATION BY TRUSTEE

##### *Distribution of bankrupt's estate*

#### **322 Proof of debts.**

- (1) Subject to this section and the next, the proof of any bankruptcy debt by a secured or unsecured creditor of the bankrupt and the admission or rejection of any proof shall take place in accordance with the rules.
- (2) Where a bankruptcy debt bears interest, that interest is provable as part of the debt except in so far as it is payable in respect of any period after the commencement of the bankruptcy.
- (3) The trustee shall estimate the value of any bankruptcy debt which, by reason of its being subject to any contingency or contingencies or for any other reason, does not bear a certain value.
- (4) Where the value of a bankruptcy debt is estimated by the trustee under subsection (3) or, by virtue of section 303 in Chapter III, by the court, the amount provable in the bankruptcy in respect of the debt is the amount of the estimate.

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**Modifications etc. (not altering text)**

C1 S.322 applied with modifications by [S.I. 1986/1999](#), art. 3, [Sch. 1 Pt. II](#)

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### 323 Mutual credit and set-off.

- (1) This section applies where before the commencement of the bankruptcy there have been mutual credits, mutual debts or other mutual dealings between the bankrupt and any creditor of the bankrupt proving or claiming to prove for a bankruptcy debt.
- (2) An account shall be taken of what is due from each party to the other in respect of the mutual dealings and the sums due from one party shall be set off against the sums due from the other.
- (3) Sums due from the bankrupt to another party shall not be included in the account taken under subsection (2) if that other party had notice at the time they became due that [F1proceedings on a bankruptcy application relating to the bankrupt were ongoing or that ] a bankruptcy petition relating to the bankrupt was pending.
- (4) Only the balance (if any) of the account taken under subsection (2) is provable as a bankruptcy debt or, as the case may be, to be paid to the trustee as part of the bankrupt's estate.

#### Textual Amendments

- F1** Words in s. 323(3) inserted (6.4.2016) by Enterprise and Regulatory Reform Act 2013 (c. 24), s. 103(3), **Sch. 19 para. 27**; S.I. 2016/191, art. 2 (with art. 3)

#### Modifications etc. (not altering text)

- C2** S.323 applied with modifications by S.I. 1986/1999, art. 3, **Sch. 1 Pt. II**
- C3** S. 323 modified (25.4.1991) by Companies Act 1989 (c. 40), **ss. 154, 155, 163(2)(b), 182(4)**, Sch. 22 para. 6(2)(b); S.I. 1991/878, art. 2, **Sch.**

### 324 Distribution by means of dividend.

- (1) Whenever the trustee has sufficient funds in hand for the purpose he shall, subject to the retention of such sums as may be necessary for the expenses of the bankruptcy, declare and distribute dividends among the creditors in respect of the bankruptcy debts which they have respectively proved.
- (2) The trustee shall give notice of his intention to declare and distribute a dividend.
- (3) Where the trustee has declared a dividend, he shall give notice of the dividend and of how it is proposed to distribute it; and a notice given under this subsection shall contain the prescribed particulars of the bankrupt's estate.
- (4) In the calculation and distribution of a dividend the trustee shall make provision—
  - (a) for any bankruptcy debts which appear to him to be due to persons who, by reason of the distance of their place of residence, may not have had sufficient time to tender and establish their proofs,
  - (b) for any bankruptcy debts which are the subject of claims which have not yet been determined, and
  - (c) for disputed proofs and claims.

#### Modifications etc. (not altering text)

- C4** S. 324 applied with modifications by S.I. 1986/1999, art. 3, **Sch. 1 Pt. II**

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### 325 Claims by unsatisfied creditors.

- (1) A creditor who has not proved his debt before the declaration of any dividend is not entitled to disturb, by reason that he has not participated in it, the distribution of that dividend or any other dividend declared before his debt was proved, but—
  - (a) when he has proved that debt he is entitled to be paid, out of any money for the time being available for the payment of any further dividend, any dividend or dividends which he has failed to receive; and
  - (b) any dividend or dividends payable under paragraph (a) shall be paid before that money is applied to the payment of any such further dividend.
- (2) No action lies against the trustee for a dividend, but if the trustee refuses to pay a dividend the court may, if it thinks fit, order him to pay it and also to pay, out of his own money—
  - (a) interest on the dividend, at the rate for the time being specified in section 17 of the <sup>M1</sup>Judgments Act 1838, from the time it was withheld, and
  - (b) the costs of the proceedings in which the order to pay is made.

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**Modifications etc. (not altering text)**

C5 s. 325 applied with modifications by [S.I. 1986/1999, art. 3, Sch. 1 Pt. II](#)

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**Marginal Citations**

M1 [1838 c. 110.](#)

### 326 Distribution of property in specie.

- (1) Without prejudice to sections 315 to 319 (disclaimer), the trustee may, with the permission of the creditors' committee, divide in its existing form amongst the bankrupt's creditors, according to its estimated value, any property which from its peculiar nature or other special circumstances cannot be readily or advantageously sold.
- (2) A permission given for the purposes of subsection (1) shall not be a general permission but shall relate to a particular proposed exercise of the power in question; and a person dealing with the trustee in good faith and for value is not to be concerned to enquire whether any permission required by subsection (1) has been given.
- (3) Where the trustee has done anything without the permission required by subsection (1), the court or the creditors' committee may, for the purpose of enabling him to meet his expenses out of the bankrupt's estate, ratify what the trustee has done.

But the committee shall not do so unless it is satisfied that the trustee acted in a case of urgency and has sought its ratification without undue delay.

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**Modifications etc. (not altering text)**

C6 S. 326 applied with modifications by [S.I. 1986/1999, art. 3, Sch. 1 Pt. II](#)

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**[<sup>F2</sup>327 Distribution in criminal bankruptcy.**

Where the bankruptcy order was made on a petition under section 264(1)(d) (criminal bankruptcy), no distribution shall be made under sections 324 to 326 so long as an appeal is pending (within the meaning of section 277) against the bankrupt's conviction of any offence by virtue of which the criminal bankruptcy order on which the petition was based was made.]

**Textual Amendments**

**F2** S. 327 repealed (*prosp.*) by [Criminal Justice Act 1988 \(c. 33, SIF 39:1\)](#), ss. 123, 170, 171, Sch. 8 para. 16, [Sch. 16](#)

**Modifications etc. (not altering text)**

**C7** S.327 applied with modifications by [S.I. 1986/1999, art. 3, Sch. 1 Pt. II](#)

**328 Priority of debts.**

(1) In the distribution of the bankrupt's estate, his preferential debts <sup>F3</sup>... shall be paid in priority to other debts.

[<sup>F4</sup>(1A) Ordinary preferential debts rank equally among themselves after the expenses of the bankruptcy and shall be paid in full, unless the bankrupt's estate is insufficient to meet them, in which case they abate in equal proportions between themselves.

(1B) Secondary preferential debts rank equally among themselves after the ordinary preferential debts and shall be paid in full, unless the bankrupt's estate is insufficient to meet them, in which case they abate in equal proportions between themselves.]

<sup>F5</sup>(2) .....

(3) Debts which are neither preferential debts nor debts to which the next section applies also rank equally between themselves and, after the preferential debts, shall be paid in full unless the bankrupt's estate is insufficient for meeting them, in which case they abate in equal proportions between themselves.

[<sup>F6</sup>(3A) If the bankrupt is a relevant financial institution, subsection (3) does not apply but—

- (a) the bankrupt's ordinary non-preferential debts shall be paid in priority to the bankrupt's secondary non-preferential debts,
- (b) the bankrupt's ordinary non-preferential debts rank equally among themselves after the secondary preferential debts and shall be paid in full, unless the bankrupt's estate is insufficient to meet them, in which case they abate in equal proportions,
- (c) the bankrupt's secondary non-preferential debts shall be paid in priority to the bankrupt's tertiary non-preferential debts, and
- (d) the bankrupt's secondary non-preferential debts rank equally among themselves after the ordinary non-preferential debts and shall be paid in full, unless the bankrupt's estate is insufficient to meet them, in which case they abate in equal proportions.

See section 387A for definitions relevant to this subsection.]

(4) Any surplus remaining after the payment of the debts [<sup>F7</sup>—

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- (a) where subsection (3) applies, that are preferential or rank equally under that subsection, or
- (b) where subsection (3A) applies, that are preferential or are referred to in that subsection,]

shall be applied in paying interest on those debts in respect of the periods during which they have been outstanding since the commencement of the bankruptcy; and interest on preferential debts ranks equally with interest on debts other than preferential debts.

- (5) The rate of interest payable under subsection (4) in respect of any debt is whichever is the greater of the following—
  - (a) the rate specified in section 17 of the <sup>M2</sup>Judgments Act 1838 at the commencement of the bankruptcy, and
  - (b) the rate applicable to that debt apart from the bankruptcy.
- (6) This section and the next are without prejudice to any provision of this Act or any other Act under which the payment of any debt or the making of any other payment is, in the event of bankruptcy, to have a particular priority or to be postponed.

[<sup>F8</sup>(7) In this section “preferential debts”, “ordinary preferential debts” and “secondary preferential debts” each has the meaning given in section 386 in Part 12.]

#### Textual Amendments

- F3** Words in s. 328(1) omitted (1.1.2015) by virtue of [The Banks and Building Societies \(Depositor Preference and Priorities\) Order 2014 \(S.I. 2014/3486\)](#), arts. 1(2), **7(2)** (with art. 3)
- F4** S. 328(1A)(1B) inserted (1.1.2015) by [The Banks and Building Societies \(Depositor Preference and Priorities\) Order 2014 \(S.I. 2014/3486\)](#), arts. 1(2), **7(3)** (with art. 3)
- F5** S. 328(2) omitted (1.1.2015) by virtue of [The Banks and Building Societies \(Depositor Preference and Priorities\) Order 2014 \(S.I. 2014/3486\)](#), arts. 1(2), **7(4)** (with art. 3)
- F6** S. 328(3A) inserted (19.12.2018) by [The Banks and Building Societies \(Priorities on Insolvency\) Order 2018 \(S.I. 2018/1244\)](#), arts. 1(2), **8(2)** (with art. 3)
- F7** S. 328(4)(a)(b) substituted for words (19.12.2018) by [The Banks and Building Societies \(Priorities on Insolvency\) Order 2018 \(S.I. 2018/1244\)](#), arts. 1(2), **8(3)** (with art. 3)
- F8** S. 328(7) inserted (1.1.2015) by [The Banks and Building Societies \(Depositor Preference and Priorities\) Order 2014 \(S.I. 2014/3486\)](#), arts. 1(2), **7(5)** (with art. 3)

#### Modifications etc. (not altering text)

- C8** S. 328 applied (with modifications) by S.I. 1986/1999, art. 3, **Sch. 1 Pt. II**
- C9** S. 328 excluded (10.8.2005) by [The Insurers \(Reorganisation and Winding Up\) Regulations 2004 \(S.I. 2004/353\)](#), reg. 20 (as amended (10.8.2005) by S.I. 2005/1998, regs. 2(3), **40(1)–(5)**)
- C10** S. 328 modified (1.12.1994) by S.I. 1994/2421, art. 11(2)(3), **Sch. 7 para. 21** (as amended (8.12.2017) by [The Insolvency \(Miscellaneous Amendments\) Regulations 2017 \(S.I. 2017/1119\)](#), reg. 1(1), **Sch. 2 para. 7(4)**); and (19.12.2018) by [The Banks and Building Societies \(Priorities on Insolvency\) Order 2018 \(S.I. 2018/1244\)](#), arts. 1(2), **21** (with art. 3); and (28.12.2020) (temp.) by [The Bank Recovery and Resolution \(Amendment\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1350\)](#), regs. 1(4), **121(5)**)
- C11** S. 328 modified (28.12.2020 until IP completion day when the amending provision ceases to have effect in accordance with reg. 1(4) of the amending S.I.) by [The Bank Recovery and Resolution \(Amendment\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1350\)](#), regs. 1(4), **112** (with reg. 108)
- C12** S. 328(1)–(3)(6) modified (1.12.1994) by S.I. 1994/2421, art. 8, **Sch. 4 Pt. II para. 23**
- C13** S. 328(1)(2) applied (11.12.1999) by S.I. 1999/2979, **reg. 14(5)**
- C14** S. 328(4)(5) applied (with modifications) (1.12.1994) by S.I. 1994/2421, arts. 8(3)(9), 10(6), **Sch. 4 Pt. II para. 24**

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### Marginal Citations

**M2** 1838 c. 110.

## 329 Debts to spouse.

- (1) This section applies to bankruptcy debts owed in respect of credit provided by a person who (whether or not the bankrupt's spouse [<sup>F9</sup>or civil partner] at the time the credit was provided) was the bankrupt's spouse [<sup>F9</sup>or civil partner] at the commencement of the bankruptcy.
- (2) Such debts—
- (a) rank in priority after the <sup>F10</sup>... interest required to be paid in pursuance of section [<sup>F11</sup>328(4)], and
  - (b) are payable with interest at the rate specified in section 328(5) in respect of the period during which they have been outstanding since the commencement of the bankruptcy;
- and the interest payable under paragraph (b) has the same priority as the debts on which it is payable.

### Textual Amendments

- F9** Words in s. 329(1) inserted (5.12.2005) by [Civil Partnership Act 2004 \(c. 33\)](#), ss. 261(1), 263, [Sch. 27 para. 116](#); [S.I. 2005/3175](#), [art. 2\(2\)](#) (subject to [art. 2\(3\)-\(5\)](#))
- F10** Words in s. 329(2)(a) omitted (19.12.2018) by virtue of [The Banks and Building Societies \(Priorities on Insolvency\) Order 2018 \(S.I. 2018/1244\)](#), arts. 1(2), [9\(a\)](#) (with [art. 3](#))
- F11** Word in s. 329(2)(a) substituted (19.12.2018) by [The Banks and Building Societies \(Priorities on Insolvency\) Order 2018 \(S.I. 2018/1244\)](#), arts. 1(2), [9\(b\)](#) (with [art. 3](#))

### Modifications etc. (not altering text)

- C15** S. 329 applied (with modifications) by [S.I. 1986/1999](#), [art. 3](#), [Sch. 1 Pt. II](#)

## 330 Final distribution.

- (1) When the trustee has realised all the bankrupt's estate or so much of it as can, in the trustee's opinion, be realised without needlessly protracting the trusteeship, he shall give notice in the prescribed manner either—
- (a) of his intention to declare a final dividend, or
  - (b) that no dividend, or further dividend, will be declared.

[<sup>F12</sup>(1A) A notice under subsection (1)(b) need not be given to opted-out creditors.]

- (2) The notice under subsection (1) shall contain the prescribed particulars and shall require claims against the bankrupt's estate to be established by a date ("the final date") specified in the notice.
- (3) The court may, on the application of any person, postpone the final date.
- (4) After the final date, the trustee shall—
- (a) defray any outstanding expenses of the bankruptcy out of the bankrupt's estate, and

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- (b) if he intends to declare a final dividend, declare and distribute that dividend without regard to the claim of any person in respect of a debt not already proved in the bankruptcy.
- (5) If a surplus remains after payment in full and with interest of all the bankrupt's creditors and the payment of the expenses of the bankruptcy, the bankrupt is entitled to the surplus.

<sup>F13</sup>(6) .....

**Textual Amendments**

- F12** S. 330(1A) inserted (26.5.2015 for specified purposes, 6.4.2017 for E.W. in so far as not already in force) by [Small Business, Enterprise and Employment Act 2015 \(c. 26\), s. 164\(1\)](#), [Sch. 9 para. 82](#); [S.I. 2015/1329, reg. 3\(d\)](#); [S.I. 2016/1020, reg. 4\(e\)](#) (with reg. 5) (as amended by [S.I. 2017/363, reg. 3](#))
- F13** S. 330(6) omitted (31.12.2020) by virtue of [The Insolvency \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/146\), reg. 1\(3\)](#), [Sch. para. 34](#) (with regs. 4, 5); 2020 c. 1, [Sch. 5 para. 1\(1\)](#)

**Modifications etc. (not altering text)**

- C16** S. 330 applied with modifications by [S.I. 1986/1999, art. 3](#), [Sch. 1 Pt. II](#) (as amended (31.5.2002) by [S.I. 2002/1309, art. 3\(3\)\(4\)](#))
- C17** S. 330(4)(b) modified by [S.I. 1986/1999 art. 5, Sch. 2](#) (as amended (6.4.2016) by [The Enterprise and Regulatory Reform Act 2013 \(Consequential Amendments\) \(Bankruptcy\) and the Small Business, Enterprise and Employment Act 2015 \(Consequential Amendments\) Regulations 2016 \(S.I. 2016/481\), reg. 1](#), [Sch. 2 para. 2\(8\)\(c\)](#))

**331 Final [<sup>F14</sup>report].**

- (1) Subject as follows in this section and the next, this section applies where—
- (a) it appears to the trustee that the administration of the bankrupt's estate in accordance with this Chapter is for practical purposes complete, and
  - (b) the trustee is not the official receiver.

<sup>F15</sup>(2) The trustee must give the bankrupt's creditors (other than opted-out creditors) notice that it appears to the trustee that the administration of the bankrupt's estate is for practical purposes complete.

(2A) The notice must—

- (a) be accompanied by a report of the trustee's administration of the bankrupt's estate;
- (b) explain the effect of section 299(3)(d) and how the creditors may object to the trustee's release.]

<sup>F16</sup>(3) .....

<sup>F16</sup>(4) .....

**Textual Amendments**

- F14** Word in s. 331 heading substituted (26.5.2015 for specified purposes, 6.4.2017 for E.W. in so far as not already in force) by [Small Business, Enterprise and Employment Act 2015 \(c. 26\), s. 164\(1\)](#), [Sch. 9 para. 83\(4\)](#); [S.I. 2015/1329, reg. 3\(d\)](#); [S.I. 2016/1020, reg. 4\(e\)](#) (with reg. 5) (as amended by [S.I. 2017/363, reg. 3](#))

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- F15** S. 331(2)(2A) substituted for s. 331(2) (26.5.2015 for specified purposes, 6.4.2017 for E.W. in so far as not already in force) by **Small Business, Enterprise and Employment Act 2015 (c. 26), s. 164(1), Sch. 9 para. 83(2)**; S.I. 2015/1329, reg. 3(d); S.I. 2016/1020, reg. 4(e) (with reg. 5) (as amended by S.I. 2017/363, reg. 3)
- F16** S. 331(3)(4) omitted (26.5.2015 for specified purposes, 6.4.2017 for E.W. in so far as not already in force) by virtue of **Small Business, Enterprise and Employment Act 2015 (c. 26), s. 164(1), Sch. 9 para. 83(3)**; S.I. 2015/1329, reg. 3(d); S.I. 2016/1020, reg. 4(e) (with reg. 5) (as amended by S.I. 2017/363, reg. 3)

**Modifications etc. (not altering text)**

- C18** S. 331 applied with modifications by S.I. 1986/1999, art. 3, **Sch. 1 Pt. II**  
 S. 331 applied (with modifications) (1.12.1994) by S.I. 1994/2421, art. 10(6), **Sch. 4 Pt. II para. 18**
- C19** S. 331 modified (1.12.1994) by S.I. 1994/2421, art. 11(2)(3), **Sch. 7 para. 22**

**332 Saving for bankrupt's home.**

- (1) This section applies where—
- (a) there is comprised in the bankrupt's estate property consisting of an interest in a dwelling house which is occupied by the bankrupt or by his spouse or former spouse [<sup>F17</sup>or by his civil partner or former civil partner], and
  - (b) the trustee has been unable for any reason to realise that property.
- (2) The trustee shall not [<sup>F18</sup>give notice under section 331(2)] unless either—
- (a) the court has made an order under section 313 imposing a charge on that property for the benefit of the bankrupt's estate, or
  - (b) the court has declined, on an application under that section, to make such an order, or
  - (c) the Secretary of State has issued a certificate to the trustee stating that it would be inappropriate or inexpedient for such an application to be made in the case in question.

**Textual Amendments**

- F17** Words in s. 332(1) inserted (5.12.2005) by **Civil Partnership Act 2004 (c. 33), ss. 261(1), 263, Sch. 27 para. 117**; S.I. 2005/3175, **art. 2(2)** (subject to art. 2(3)-(5))
- F18** Word in s. 332(2) substituted (26.5.2015 for specified purposes, 6.4.2017 for E.W. in so far as not already in force) by **Small Business, Enterprise and Employment Act 2015 (c. 26), s. 164(1), Sch. 9 para. 84**; S.I. 2015/1329, reg. 3(d); S.I. 2016/1020, reg. 4(e) (with reg. 5) (as amended by S.I. 2017/363, reg. 3)

**Modifications etc. (not altering text)**

- C20** S. 332 applied (with modifications) by S.I. 1986/1999, art. 3, **Sch. 1 Pt. II**



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**Changes and effects yet to be applied to the whole Act associated Parts and Chapters:**

- Act amendment to earlier affecting provision S.I. 1986/1999, art. 3, Sch. 1 Pt. 2 by [S.I. 2017/1119 Sch. 3 para. 1](#)
- Act savings and transitional provisions for amendments by S.I. 2022/1166 by [S.I. 2022/1172 Regulations](#)

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 41HB(2) words substituted by [2018 c. 14 s. 1\(3\)\(b\)](#)