Director’s loans guide

the accountancy partnership

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What is a director's loan account?

If you put your personal money into your limited company, or withdraw money for personal use, and it isn't a salary, dividend, or expense repayment, it's called a director's loan.

You'll need to keep a record each time this happens. These transactions are what make up a director's loan account.

Director's loan accounts

Each director in the business has their own director's loan account, which is shown separately on the company's records.

If you use our Pandle cloud accounting software, a director's loan account (DLA) will be added for each director.

A DLA in Pandle is used in the same way as a bank account, but shows how much the company owes to each director, or what the director owes to the company.

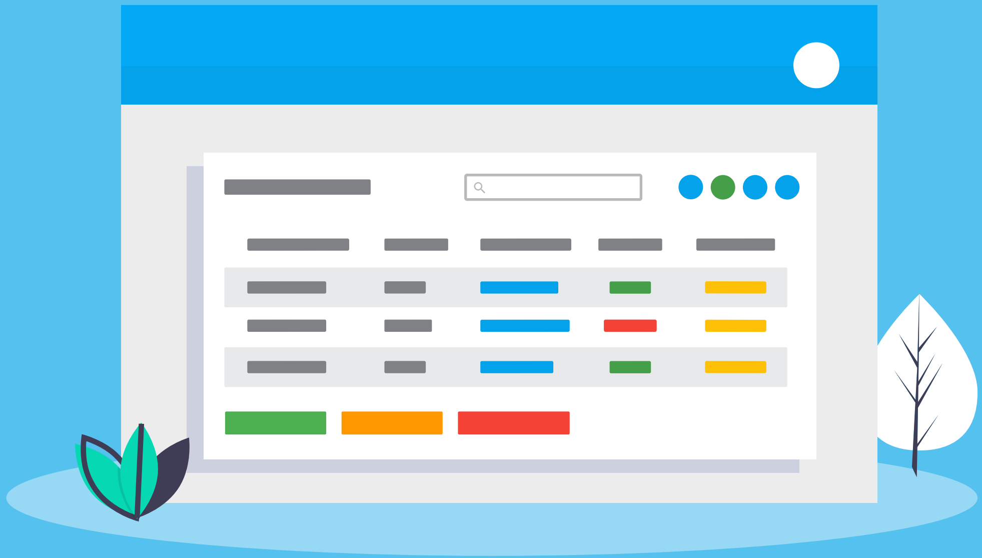
Director's loans can be used to loan money to the company, or borrow from the company.

Borrowing money from the company

Technically the money that you borrow from your company as a director's loan can be used for anything.

In reality though, it's important to remember that **there are serious tax considerations** when you do this.

There might be times that you need to borrow company money to pay for unexpected personal bills, but ideally only on a short-term, one-off basis.



If you do need to borrow money from your company...

There's no legal limit on how much you can borrow as a director's loan.

However:

- Consider how much you really need to borrow. If you borrow money that the company can't afford, it could lead to cash flow problems for the business.
- If you regularly borrow money from the company, HMRC might decide that this should be treated as a salary, and ask you to pay income tax on it.
- If the total amount of everything that you borrow is more than £10,000 at any one time, it will be automatically treated as a Benefit in Kind (BiK). We will explain what this means for you and the company later on in the guide.

Loaning money to the company

You might pay for specific items for your company using personal money, or even put funds into the company to help it get started or grow.

You and your company are separate legal entities, so the money you put into the business is treated the same as any other loan, and the company owes it to you.

What should I record in a director’s loan account?

Your director’s loan account should record every transaction which shows company money being withdrawn or used for personal reasons (that isn’t your salary or a dividend payment).

Or, personal money that you use for the company, or put into it, including repayments you make to your director’s loan account.

Recording your transactions

Your director's loan account transactions might be in the form of:

- A cash transfer from the company bank account to a personal one, or the other way round.
- Using a company card to pay for personal expenses.
- Using a personal card to pay for business expenses.

If you owe the company for a director's loan, paying for business expenses with your own funds reduces the amount that you owe.

As a general rule, anything that isn't entirely and exclusively for the business is considered to be a personal cost, so make sure you record them in your director's loan account!

When you use your director's loan account, it will show either a debit or credit balance.

Debit	A debit (positive number) balance if you owe money to the company.
Credit	A credit (negative number) balance if the company owes money to you.

When you owe the company money

A debit balance on your director's loan account (DLA) means that you owe money to the company. This should be repaid as soon as possible.

If the director is also a shareholder, this balance can be cleared as if it were a dividend, but only if the company made profits which allow this.

So, if the DLA is overdrawn by £5,000 (which means it would show a debit balance of £5,000), the company could declare dividends of £5,000 to clear the amount.

The director doesn't actually receive the £5,000 payment, but the 'transfer' is shown in the company's bookkeeping. The amount will be subject to dividend tax, which the director will have to pay personally.

- The director's loan account will be credited with £5,000
- Dividends will be debited with £5,000

If you get to the end of your company's financial year and the loan amount hasn't been repaid or cleared as if it were a dividend, it might be subject to S455 Corporation Tax.

When the company owes you money

Director's loan accounts can work both ways, and you can lend your personal money to the business if it needs it.

If your director's loan account shows a credit balance, it means that the company owes money to you.

This might be start-up money to get the business going, or funds that you put in at a later date.

The company won't have to pay Corporation Tax on the amount that you lend to it, and you can take the money back at any time.

Charging your company interest on a director's loan

The interest payments will be considered a business expense for the company.

However:

- Your company will need to deduct 20% income tax when paying you the interest on the loan. These deductions need to be shown on a form called a CT61, and reported to HMRC every quarter.
- The remaining amount will be paid to you but will be classed as personal income, so you'll need to include them on your Self Assessment tax return.

Director's loan accounts and tax

Ideally, if your director's loan account is ever overdrawn, you'll repay it before the end of the company's financial year. HMRC also refer to your financial year end as the end of your Corporation Tax accounting period.

There are tax penalties if you don't repay a director's loan within nine months and one day from the company's financial year end.

This is because the amount you borrowed hasn't yet been taxed, either through the company or your own tax return.

The way that HMRC deals with tax when directors take loans from their business depends on how much you borrow at any one time.

Tax you pay if your director's loan is less than £10,000

If the total amount you borrow as a director's loan stays below £10,000 in a financial year, then the tax that you pay depends on when you pay it back.

The key here is the **nine months and one day** window after the end of the company's financial year.

When you repay your director's loan	Tax the company pays on the loan	Tax you pay personally on the loan
If you repay your director's loan in full before the end of the accounting period	The company doesn't have to include it on the Company Tax Return, and **won't have to pay** any Corporation Tax	**Nothing**
If you repay your director's loan in full **after** the end of the accounting period, but **before** **nine months and one day** after the end of it	The company doesn't have to include it on the Company Tax Return, and **won't have to pay** any Corporation Tax	**Nothing**
If you repay your director's loan **after** nine months and one day	As this is considered money owed to the business, it's classed as an asset. Meaning the **company will pay** a supplementary rate of Corporation Tax, called S455, at a rate of 33.75% on the amount that you	**Nothing**
If you **don't repay** the director's loan, and don't intend to	The company will need to write the amount off. It won't get any Corporation Tax relief for writing off the debt* **There are other tax considerations if this happens, so speak to an accountant!**	You'll pay Class 1 National Insurance on the amount through the company payroll. **You'll also need to include the amount on your personal Self Assessment tax return, and pay**

*When you pay back your director's loan, that 33.75% can be reclaimed by the company from HMRC.

Tax you pay if your director’s loan is more than £10,000

If the total amount which you borrow from your company as a director’s loan goes above £10,000 at any point in a financial year, it’s automatically classed as a Benefit in Kind (BiK).

This means that both you personally and the company will be liable to pay tax on it.

The company won’t have to pay Corporation Tax on the amount that you lend to it, and you can take the money back at any time.

- The company (which is technically employing you as a director) must complete a P11D to tell HMRC about the benefit. The company will then pay Class 1A Employer’s National Insurance on the total amount of the loan, at a rate of 13.8%.
- You’ll need to include the loan on your Self Assessment tax return.

What if I repay the loan before year end, then withdraw it again?

Paying back your director's loan before year-end only to withdraw it again after year-end has passed might seem like a terrific way to not pay tax.

It really isn't. It's tax avoidance.

Tax avoidance

This sort of tax avoidance is sometimes called bed & breakfasting (a name which also applies to buying and selling shares in a way which avoids Capital Gains Tax).

To block directors from using their director's loan account this way, the government introduced a 30-day rule.

If you repay one loan to your company, you must wait at least 30 days before you're able to take out another one.

If HMRC decide that the way you repay and withdraw money to and from your director's loan account looks like tax avoidance – beware!

There'll be a bill for income tax and NI heading your way, and quite possibly some nasty tax penalties, too.

Looking for more help with director's loans?

If you have any further questions simply phone us on 020 3355 4047 and one of our friendly accountancy advisors will be happy to help.

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