

Director's Loan Account






Do you want to know some key insights on your director's loan account (DLA)?

Let's check some facts below.

WHAT IS A DIRECTOR'S LOAN ACCOUNT?

A director's loan is when a director takes out money from the company that is not a salary, dividend or expense repayment.








Things that go into the DLA:

-  Cash withdrawn from the company that is not a dividend, salary or expense repayment.
-  Travel costs for private cars used for business trips in the form of a mileage claim. It is reimbursed at the official rate of 45p for the 1st 10,000 miles and then 25p for mileage after that - this counts as money owed back to the director.
-  Any personal expenses that have gone through the company. E.g. Accountancy fees for the director's personal tax returns.














 If the director's loan account is "overdrawn" at the year end you owe the company money. This must be paid back within 9 months of the company's year-end. For example: if your year end is the 31st December 2019, and at that date you owe your company £1,000, you must repay £1000 by 30th September 2020.

WHEN THE COMPANY IS OWED MONEY BY THE DIRECTOR






-  If the amount is not repaid within 9 months of the year-end then the company will have to pay S455 Corporation Tax @ 32.5% to HMRC. This tax is due 9 months and 1 day after the year end.
-  It is important to note that when then a loan of £5,000 or more is repaid you cannot take out a loan of £5,000 or more until 30 days after the date of repayment. Otherwise you will have to pay the S455 corporation tax on the original loan. This is called 'Bed & Breakfasting'.
-  If the company pays S455 tax and you repay the loan at a future date the company will be able to reclaim the S455 tax.
-  If you repay the loan within 2 years of the end of the accounting period in which the loan was taken out, then the tax can be reclaimed on an amended company tax return.
-  If you're reclaiming after 2 years of the end of the accounting period, then a separate L2P form will have to be filed to reclaim the tax paid.
-  If at any point during the financial year you owe more than £10,000 it is better to pay interest at the HMRC official rate (currently 2.5%) for the time that you owe more than £10,000.
-  Otherwise, if you do not pay this rate then the loan will be treated as a benefit in kind and the company will have to pay Class 1 national insurance.

HOW TO REPAY THE LOAN

-  Pay expenses on behalf of the company.
-  Transferring cash to the business.
-  Issuing a dividend of the amount of the loan outstanding and not taking the money out of the company.
 -  However, personal tax will have to be paid by the director on this dividend.
 -  Important to consider other shareholders that will be receive the dividend as well.
 -  To issue the dividend there has to be sufficient retained earnings in the company.
-  Write off the loan:
 -  A directors loan account can be written off by the company.
 -  Although the director would not owe the company anymore, there would be tax consequences for the director.
 -  The amount written off is treated as a deemed dividend meaning personal income tax will be paid on this amount.
 -  Class 1 National Insurance will also have to be paid on this amount by going through the company's payroll.



OTHER POINTS: WHEN THE COMPANY OWES THE MONEY

-  When the company owes the director money you can charge interest to the company on this loan.
-  The loan interest is treated as income for the director, as well as being a business expense for the company.
-  You can charge any rate of interest. you can charge the commercial rate, or less.
 -  You will need to report on CT61 form each time an interest payment is made, and the company must retain 20% to pay over to HMRC as income tax.
 -  Therefore, its best to agree pay on a quarterly, 6 monthly, or annual basis.

HOW TO BE PAID THE LOAN BACK

The director can take the loan back at any time without personal tax consequences.

