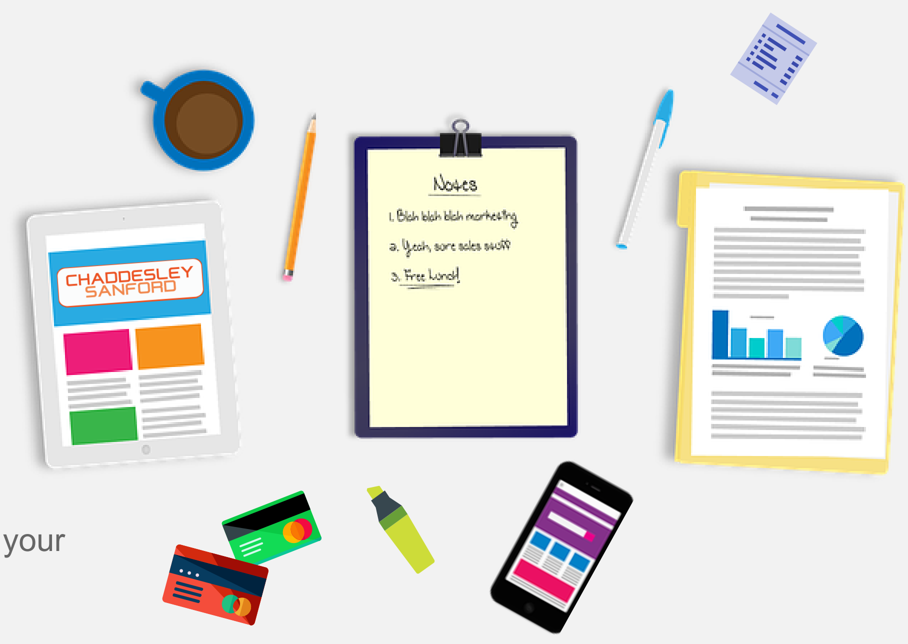
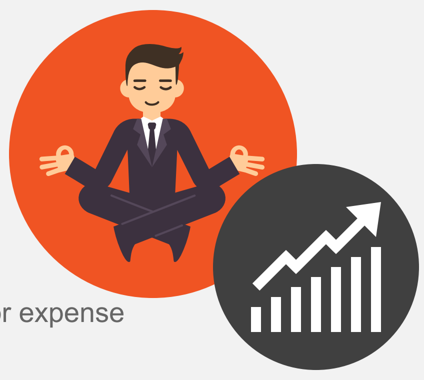
Director's Loan Account



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

Let's check some facts below.

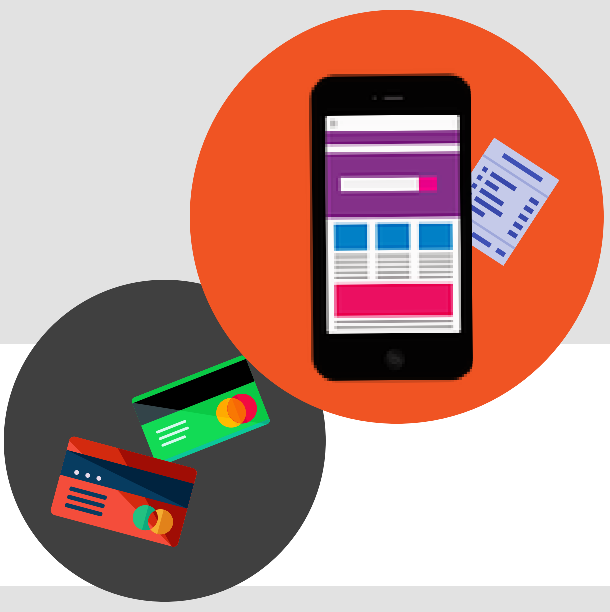
WHAT IS A DIRECTOR'S LOAN ACCOUNT?



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- Cash withdrawn from the company that is not a dividend, salary or expense repayment.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.



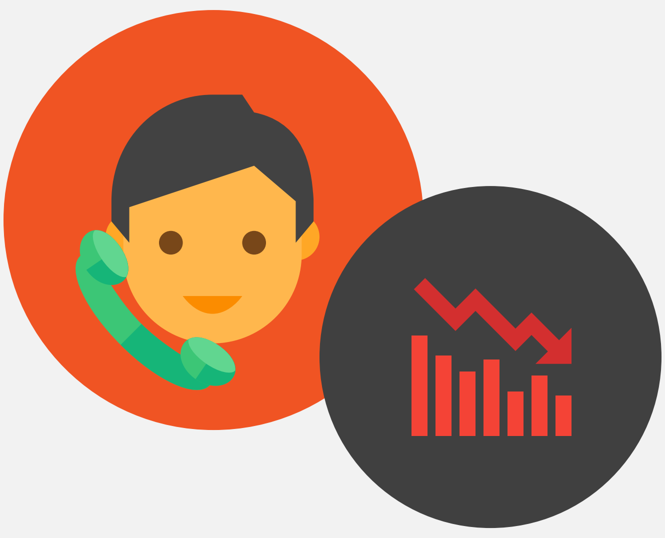
- If the director's loan account is "overdrawn" at the year end you owe the company money. This must be paid back within 9 months of the company's year-end. For example: if your year end is the 31st December 2019, and at that date you owe your company £1,000, you must repay £1000 by 30th September 2020.

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.

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