

DIRECTOR'S LOAN ACCOUNT

HELP SHEET
7 AUGUST 2013



TAX ON DIRECTOR'S LOAN ACCOUNT

Director's Loan Account are subject to regulatory compliance. Failure to work within the rules can lead to a personal benefit in kind and/or charge to corporation tax of 25% of the amount of the loan outstanding at the company's year end unless it is repaid within nine months of the year end.

Benefit in kind

A benefit in kind will arise if the amount withdrawn from the company is £5,000 or more at any time during the tax year. The loan becomes a personal benefit in kind chargeable to income tax on the Director. Class

IA NICs are payable on the whole amount outstanding (not just the amount above £5,000).

A way to avoid this is to ensure that the official rate of interest is charged by the company. This changes the loan from a beneficial one to commercial one.

Corporation Tax charge

Regardless of whether or not interest is charged, a 25% charge to corporation tax is levied on any loan outstanding at year end which is not repaid within nine months of year end by dividend or salary.

The amount of the loan outstanding at year end must be declared in the Corporation Tax Return even if repayment takes place within nine months and no charge to tax arises.

Disclosure is required of Director's Loan balances within the company's statutory accounts filed with Companies House.

Company Secretarial

It should be noted that any loan in excess of £10,000 needs to be approved by ordinary resolution with written conditions attached.



CHANGE IN RULES FOR 13/14

Up until recently Directors have avoided a charge to Corporation Tax by simply repaying the loan and then issuing themselves a new loan either side of the nine month window. This Bed and Breakfasting has now been restricted.

Where a loan is repaid by more than £5,000 and then more than £5,000 is re borrowed within 30 days, the repayment is ignored by

the lesser of the amount repaid and re borrowed.

Where the amount owed is more than £15,000 then any arrangement or intention to re borrow £15,000 or more at any time will result in the repayment being ignored by the lesser of the amount repaid or re borrowed.

Therefore it is essential that close attention is paid to a Director's Loan Account both during the year (to avoid a Benefit in Kind) and after the year end.

Clearing a Director's Loan Account with dividend and/or salary, remains the safest way to avoid the corporation tax charge.

For further Information please contact:

Syeda Sadiq
Chartered Accountants
22 Lansdowne Road
Luton
Bedfordshire
LU3 1EE

01582 450873

Email:

enquiries@syedasadiq.co.uk

Website:

www.syedasadiq.co.uk

Blog:

<http://bit.ly/syedablog>

Facebook:

<http://bit.ly/syedaafb>