

## BORROWING FUNDS FROM YOUR OWN COMPANY: WILL IT WORK FOR YOU?



Directors/shareholders of owner-managed limited companies have a unique position for tax purposes. Usually, they can decide when and how to withdraw funds tax efficiently from their business. However, some withdrawals can have unforeseen tax effects.

### **Salary, dividends, and loan repayments to you**

If amounts drawn are taken as salary or dividend payments the tax implications can be planned for and will form part of the annual tax return submission. Also, if directors withdraw funds that they have previously loaned to their company, this will create no tax issues.

### **Directors' loans from your company**

During these difficult times, we all need to manage our finances with care and aim to avoid strategies that create unwanted tax liabilities. If directors withdraw funds as a director's loan/ private overdraft, rather than salary or dividends etc., this may result in the director owing unexpected income tax and their company, owing both taxes and NIC liabilities.

Specifically, the issues include:

### **Benefits in kind**

A company that lends more than £10,000 to a director is obliged to charge interest to the individual on the loan, currently at least 2.25%, otherwise HMRC will treat the difference as a benefit in kind. This will increase the director's income tax bill and the company's NIC liabilities. You can check the official rate of company interest for loans by going to the Government website [here](#).

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## **Notional dividend tax (“s455”)**

Further, if you are unable to repay your company within nine months and one day of your company’s accounting period in which the loan was drawn, then your limited company will have to pay additional tax of 32.5%, along with its normal corporate tax bill. This tax charge is commonly known as Section 455 (S455). You can only reclaim the s455 tax nine months and one day after the company accounting period in which the loan is repaid, so there may be significant cash flow issues created if not managed properly.

Please be aware that there are also anti-avoidance provisions in place that will counter any attempts to pay off the loan and then borrow the funds back after a short period.

## **Can we help?**

If you are presently building up an overdrawn position on your loan with your company, please contact us as a matter of urgency so that we can devise a plan to regularise your loan and mitigate any tax issues.

If you would like to discuss any of the issues raised in this Broadcast generally, please contact a member of our dedicated tax team on **01753 888211** or email **info@nhllp.com**