ARE YOU A DIRECTOR?
TAX CHARGES TO DIRECTOR'S LOANS ARE CHANGING READ MORE HERE

From 6 April 2026, the tax rate on loans to a director who is also a participator in a close company will rise by two percentage points, reaching 35.75%.

Very broadly, a participator is a shareholder in the company, and a close company is one controlled by five or fewer participators.

OVERDRAWN LOAN ACCOUNT

Loans between a director and their company are fairly common, and there are various reasons why a director's loan account can end up overdrawn. An overdrawn director's loan account will normally be cleared by voting the director a dividend or bonus, but there are situations where this is not done This could be because the tax implications are prohibitive for a particular tax year, or because the company does not have sufficient profits available to pay a dividend.

WHEN THE TAX CHARGE APPLIES

The tax charge is payable when an outstanding loan is not repaid within nine months and a day of the end of the company's accounting period.

For example, on 15 April 2026, a director withdraws £150,000 from their personal company to help fund a private property purchase. The company has an accounting date of 31 March:

• The loan falls in the company's year ending 31 March 2027, so there will be no tax charge if it is repaid by 1 January 2028. By careful timing, the director can make use of company funds for over 20 months, with the only tax being what is charged on the director for having a beneficial loan.
• If not repaid by 1 January 2028, the company will have to pay a tax charge of £53,625 (£150,000 at 35.75%) along with its corporation tax liability.

The tax charge will be refunded by HMRC if – after 1 January 2028 – the loan is repaid or written off.

HMRC's basic guidance on loans to director can be found here.

WE CAN HELP

If you require further assistance with any of the issues raised in this article, contact us on **01753 888 211** or email **info@nhllp.com**. We are here to help.