Orange Genie
Contractor Management Outsourcing
Accountancy

Directors Loan Accounts

Director's loans can occur as both official loans from the company or simply as an overpayment of expenses, salary and/or dividends. However the loan has originated there are tax consequences for both the company and you as the director.

Company Tax Considerations

Any loan that is outstanding at the Company's year end is subject to an additional Corporation tax charge under S455 of the Corporation Tax Act 2010.

The surcharge value is calculated as 25% of the outstanding loan at the year end on loans taken out prior to 6th April 2016. For periods ending after April 2016 the surcharge increases to 32.5%is payable with the Corporation tax at the normal due date. However, if all or part of the loan is repaid within 9 months of the year end the surcharge is reduced. If the whole loan is repaid with the 9 months there will be no surcharge.

HMRC will repay the surcharge but only at a point when the loan has been cleared. Any monies paid under the surcharge will be repaid to the company 9 months after the end of the accounting period in which the loan is repaid. This can impact cash flow severely.

Company Tax Example:
A loan of £50,000 is taken on 6th June 2016 by the director and is still outstanding at the company's year end of 31st October 2016. The loan is repaid on 25th August 2017. The 30.5% surcharge will apply and will equate to £16,250 and will be payable by the company along with their Corporation tax due at the normal due date of 31st July 2017. Interest will be charged by HMRC if the tax or surcharge is paid late.

The director repays the loan in full before the end of the next financial year (31st October 2017) and so the company is entitled to reclaim the surcharge of £16,250.

A letter will need to be sent to HMRC detailing the repayment of the director's loan and requesting the surcharge to be refunded. HMRC may ask to see evidence that the loan has been refunded.

If HMRC are happy to repay the surcharge they will do this by 31st July 2018, the date when the Corporation tax for the period is due.

Surcharges paid under S455 are costly, especially given the time delay between payment and refund.

Personal Tax Considerations

With effect from 6th April 2014, any loan that exceeds £10,000 at any point during the year must be declared on your P11d for each tax year in which the loan is outstanding. (For tax years prior to 6th April 2014, the amount was set at £5,000).

You will incur a benefit in kind if the loan is a "beneficial loan" i.e the interest charged on the loan is below the official interest rate as set by HMRC. The benefit in kind value is equivalent to the official rate of interest on the loan less any interest paid by the employee (or director) to the company during the year.

Any tax payable by you on the loan will be at your marginal rate. Your company will also need to pay Class 1a National Insurance on any such benefit.

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Personal Tax Example

The director of ABC Limited takes a director's loan from his company of £20,000 on 6th April 2016. During the year to 5th April 2017, he also withdraws funds in excess of those due to him as salary, expenses or dividends. These excess funds amount to £5,000. On the 6th 2017, he repays £10,000. The loan has been classed as a beneficial loan as no interest has been paid on the outstanding balance. The benefit in kind is calculated as follows:-

Loan outstanding at 6 April 2016	£20,000
Other funds advanced during the year	£5,000
Loan outstanding at 6 April 2015	£15,000
Maximum loan outstanding during the period	£25,000
Average loan outstanding during the period	£20,000
Official rate of interest	3%
Benefit in Kind Value (Average loan x interest rate)	£600

The benefit in kind would be declared on your P11d and additional tax of £120 (20% of BIK) in personal tax will be due if you are a basic rate taxpayer. If your marginal rate of tax is 40% your additional benefit in kind tax charge will be £240.

Writing Loans Off

If your company decides to write a loan off between themselves and you as a director, the amount of the loan instantly falls to be treated as additional dividend income of you the director and must be reported on your Self Assessment Tax Return, with any taxes due falling payable as part of your overall liability.

Bed and Breakfasting

HMRC can classify a series of loans as one single loan for P11d and Section 455 purposes. If you take a loan, repay it on 30 September (for example) to avoid a S455 charge and then take out a new loan for the same amount on 1st October, HMRC would deem there to have been no repayment and as such he S455 charge would apply.

Why Orange Genie Accountancy?

Orange Genie Accountancy offers fixed fee accountancy packages to contractors and freelancers. Each client has unlimited access to their own dedicated approachable and friendly accountant. All Orange Genie Accountancy accountants are specialists in the contracting market, therefore they can give you bespoke, high quality advice to ensure you are operating as tax efficiently as possible.

We never outsource any of our work and we pride ourselves in being another employee of your company, so we promise we will always keep you informed with anything that could affect you and your company. We really do love to talk to our clients as often as it suits them, whether it be face to face, over the telephone or email.

Our packages start at £75 + VAT a month for an online service. Our most popular package is £120 + VAT a month which provides you with your very own dedicated accountant as well as:

- Unlimited accountancy support
- Face to face meetings so we can get to know you and understand your contracting goals
- Proactive contact
- Access to the FreeAgent Software, which is updated in real time so you can always see how your business finances are looking
- Director and employee payroll
- Annual Return
- Self-Assessment Return
- A fully compliant service so you are safe in the knowledge that you are meeting your legal obligations
- And much more... access to wealth management advice, IR35 reviews, pensions planning

If you would like to appoint Orange Genie Accountancy as your accountants please either fill out our enquiry form or give one of our friendly expert accountants a call on 01296 468 185 or email accountancy@orangegenie.com.

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