Implications of an overdrawn director's loan account

The company is a completely separate legal entity to the directors, even in an owner managed business, therefore there is a limit on how much of the company's cash you can withdraw.

An overdrawn director's loan account (DLA) is the technical term given for when you owe the company money, and this will lead to expensive tax being applied on the balance

An overdrawn position occurs usually when there are insufficient reserves in the company to cover the amount owing via a dividends distribution. Clients must remember that drawings out of a company are not dividends until certified as such and just remain drawings up to that point .

1 The tax rate on dividends and the amount of the s455 charge will increase from 32.5% to 33.75% as of 06 April 2022.

2 Secondly, if the overdrawn amount exceeds £10k and interest is not being charged at the market rate, then it will constitute a benefit in kind (BIK) and P11Ds will need to be completed. This means more tax for both the company and the director personally, as well as increased accountancy fees for the extra work required

3 If it is likely you will go overdrawn and you wish to monitor the situation on a regular basis and minimise the chances of an unfavourable tax position, speak to your client manager to discuss your options

Lesser & Co.
CHARTERED ACCOUNTANTS
AND BUSINESS ADVISORS