• RESOURCE GUIDE · HERMIT BUSINESS SOLUTIONS

Director's Loan Account

A plain-English guide to ***taking money from your company.***

What Is a Director's Loan Account?

As a director, you are legally separate from your limited company, even if you are also the owner. This means that the money your company makes is NOT your personal money.

A Director's Loan Account (DLA) is a record kept in your company's accounts that tracks all money moving between you and the company that isn't salary, dividends or genuine expense reimbursements. Don't be misled by the word 'loan'. If you buy anything personally (clothes, meals out, trips away, cash withdrawals), HMRC classes this as a director's loan and accurate records must be kept of every transaction.

How Can I Take Money From My Company?

- Repay your investment: if you put your own money into the business to get it started, you can take it back at any time, completely tax-free.
- Salary via payroll (PAYE): pay yourself through the company payroll. Tax and National Insurance are deducted at source; once paid, the money is yours to keep.
- Dividends from profit: if your company makes a profit then you can take dividends. No National Insurance applies, but you must make a profit first and board meeting minutes and dividend vouchers are required.

In Credit vs Overdrawn

Your DLA can move in either direction. Understanding which way it sits is crucial.

Status	What it means	Tax position
In Credit	The company owes you money. You've put in more than you've taken out	You can withdraw this tax-free at any time
Overdrawn	You owe the company money. You've taken out more than you've put in	Tax charges can apply to both you and the company if not repaid in time

What If I've Already Taken Money and Owe It Back?

- Repay before year-end: no tax consequences if the balance never exceeded £10,000.
- Repay within 9 months and 1 day of year-end: this avoids the Section 455 corporation tax charge.
- Declare a dividend: if the company has made sufficient profit, a dividend can clear the balance.
- If none of the above is possible, interest and tax consequences will apply (see below).

Tax Implications: What You Need to Know

Getting it wrong can result in charges for both you personally and your company.

Charge	Who pays	Rate / threshold	Reclaimable?
Benefit-in-kind (P11D)	You personally	Income tax on interest benefit if DLA exceeds £10,000 at any point in the year	N/A
Section 455 tax	Your company	32.5% of the outstanding balance after 9 months and 1 day	Yes, once the loan is fully repaid (but HMRC can take a long time to refund)

Using Dividends to Clear a Director's Loan

- Dividends are taxed at 8.75% (basic rate), so no National Insurance applies.
- For 2026/27, the first £500 of dividend income is tax-free.
- Board meeting minutes must be prepared to formally agree the dividend.
- Dividend vouchers must be issued to each director receiving a payment.
- Dividends must be declared in the same ratio as shareholding. Two equal shareholders must receive equal dividends.
- Important: you must have actual profit before declaring a dividend. Taking dividends without sufficient profit creates an illegal dividend, which itself becomes a director's loan.

Watch Out: 'Bed and Breakfasting'

A COMMON MISTAKE TO AVOID

Repaying your director's loan and then immediately re-borrowing to reset the clock is known as 'bed and breakfasting'. HMRC has specific anti-avoidance rules to counter this. The repayment must be genuine and not part of a pre-arranged cycle. Always speak to your accountant before repaying and re-drawing.

Key Tips & Best Practices

- Keep accurate, up-to-date records of every DLA transaction.
- Monitor your balance regularly and don't wait until year-end.
- Repay overdrawn balances before the 9-month deadline where possible.
- Work with your accountant to structure withdrawals efficiently alongside salary and dividends.
- Never assume that taking money from the company is consequence-free. Always check first.