RESOURCE GUIDE · HERMIT BUSINESS SOLUTIONS

# Overdrawn Director's Loan Accounts

*What an overdrawn DLA actually costs you in tax* ***and how to avoid the nasty surprises.***

## Why this matters

An overdrawn director's loan account (DLA) happens when a director withdraws more from the company than they've put in or are owed in salary or dividends. In effect, the director owes the company money and HMRC treats this as a red flag with several layers of tax consequences attached.

## The key points

- Unpaid balances after nine months and one day trigger a corporation tax charge (section 455)
- The section 455 rate depends on when the loan was made: 33.75% before 6 April 2026, 35.75% on or after
- Loans over £10,000 with no or low interest count as a taxable benefit in kind
- Writing off the loan doesn't avoid tax; it just changes how the tax lands
- There's a 30-day anti-avoidance rule aimed at repay and redraw tactics (bed and breakfasting)

## The section 455 charge, in a bit more detail

If the loan isn't repaid within nine months and one day of the company's accounting year end, the company faces a corporation tax charge under section 455 of CTA 2010. This is a hard deadline, not a grace period.

The rate is tied to the dividend upper rate and has just gone up. Loans made before 6 April 2026 are charged at 33.75%, while loans made on or after 6 April 2026 attract 35.75%, following the 2% dividend tax rise announced in the Autumn Budget 2025. Companies with mixed dates of borrowing need clear records, since the rate depends on when the loan was made, not when it's repaid.

The charge isn't permanent. Once the loan is repaid, the company can reclaim the section 455 tax using form L2P although the refund isn't paid until nine months after the end of the accounting period in which repayment was made. Claims must be made within four years.

Watch out for the 30-day rule too. If a director repays the loan and re-borrows a similar amount within 30 days, HMRC can treat the repayment as ineffective, so the charge still applies. This targets people who repay just before the deadline and redraw shortly after.

## Benefit in kind on cheap or interest free loans

Separately from section 455, if the loan exceeds £10,000 at any point in the tax year and no interest (or below market interest) is charged, it's treated as a taxable benefit in kind on the director personally. The benefit is calculated against HMRC's official rate of interest, which is 3.75% for 2025/26 (still in place). This goes on a P11D. The director pays income tax on the benefit and the company pays Class 1A National Insurance on it. Charging interest at or above the official rate avoids the benefit altogether.

## If the loan is written off instead of repaid

For a director who is also a shareholder, HMRC generally treats a written off loan as a dividend, taxable at dividend rates, with no corporation tax deduction for the company. Where the director is also an employee, the write off can instead be treated as earnings subject to Class 1 National Insurance and PAYE, depending on the facts, so it's worth getting this classification checked. Once the loan is released or written off any section 455 tax already paid on it becomes reclaimable, the same as a repayment.

**LOAN DATE IMPORTANCE**

*The rate rise from April 2026 catches a lot of directors out because it depends on the loan's date, not the repayment date. If you've got a mix of older and newer drawings ensure that they are accurately recorded.*

## What to do next

- Repay well before the nine month deadline to avoid the section 455 charge entirely
- Clear the balance with a genuine cash repayment, a dividend (if reserves allow) or salary or bonus through payroll
- Avoid the 30-day redraw pattern which triggers the anti-avoidance rule
- Keep a proper loan agreement and board minutes in place in case HMRC queries it
- Talk to us before writing off a loan, since the tax treatment depends on the specific facts