

# Director's Loans Explained

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If you've taken money out of your company that wasn't salary, dividends or a reimbursed expense, it's probably sitting in your director's loan account.

That's fine in the short term. But if you owe the company money for too long, it starts to cost you.

In this article, we'll explain:

- What a director's loan account is
- What it means when you owe the company, and when the company owes you
- The two tax charges to watch out for
- How to clear a loan properly

## What is a director's loan account?

Your director's loan account is a running record of money moving between you and your company that isn't salary or dividends.

Think of it as a tab. Take money out that doesn't fit those three, and it goes on the tab. Put money in or pay some back, and it comes off.

## Which way is your loan going?

A loan account can run in either direction, and the two are treated very differently.

- You owe the company. This is the one with tax consequences, and it's what most of this article covers. It happens when you've taken out money that isn't salary, dividends or reimbursing expenses.
- The company owes you. This happens when you've put your own money in, whether that's paying for something on a personal card, covering a supplier, or lending the company cash to get started. There's no tax charge. You can take that money back whenever the company can afford it, and it's tax free, because it's your own money coming back to you.

## What ends up in a director's loan account?

The usual things that increase what you owe the company:

- Cash taken out that hasn't been declared as salary or a dividend
- Personal spending on the company card or bank account
- Overdrawn dividends. If you withdraw more dividends than the business can afford to pay (e.g. the available dividends figure you see on your dashboard), then this overpayment would be recategorised

to the directors loan account.

## **The first thing to watch: the S455 charge**

If you owe the company money at your year end and it's still outstanding 9 months and 1 day later, your company pays a tax charge called S455.

It's charged on whatever is still outstanding:

- 35.75% for money taken on or after 6 April 2026
- 33.75% for money taken between 6 April 2022 and 5 April 2026

So if you owe £10,000 and don't clear it in time, your company has to find £3,575. You do get it back once you repay the loan, but not quickly. You can't reclaim it until 9 months and 1 day after the end of the year in which you repaid, so the money can sit with HMRC for well over a year.

We've written a full guide on this, including how to reclaim it. Have a read of [the S455 charge explained](#).

## **The second thing to watch: loans over £10,000**

If your loan goes over £10,000 at any point in the tax year, HMRC treats it as a [benefit in kind](#), in the same way as a company car or private health insurance. You've had an interest-free loan, and HMRC wants to tax the benefit of that. This is separate from S455, and it can apply even if you repay the loan on time.

Two things happen:

- You pay personal tax on the benefit through your Self Assessment
- The company pays Class 1A National Insurance (at 15%) on it

You can avoid this by paying the company interest at HMRC's official rate, which is currently 3.75%. HMRC now reviews that rate every three months rather than once a year, so it can change part way through the year, but we can help calculate this for you. If you're thinking about going over £10,000, talk to us first. Charging interest is usually straightforward, but it comes with its own reporting, and it's much easier to set up in advance than to unpick afterwards.

## **How do I clear a loan I owe?**

Your loan is properly cleared if you:

- Transfer the money back to the company
- Declare a dividend and use it to clear the balance, as long as the company has enough profit to cover it
- Put it through payroll as salary or a bonus

We can help advise on the latter two options.

It isn't cleared if you:

- Simply write the loan off, as that usually gets taxed as a dividend instead
- Repay it and then take it straight back out again

That last one is called bed and breakfasting. If you repay £5,000 or more and borrow it again within 30 days, HMRC can ignore the repayment and charge S455 anyway. Clearing the balance the week before your deadline and withdrawing it again afterwards doesn't work.

### **What if the company owes me?**

This one is much simpler. Repay yourself whenever the company has the cash. There's no S455, no benefit in kind, and nothing to pay tax on, because it's your own money coming back to you.

You can charge the company interest if you want to, and the company gets tax relief on it. But the interest counts as income for you, and the company has to deduct tax from it and report it to HMRC every quarter. On a small balance it's rarely worth the admin.

### **So is a director's loan a good idea?**

For short-term timing, it can be useful. Bridging a gap, covering something unexpected, or waiting until there's enough profit to declare a dividend properly.

As a long-term plan, no. The charges above exist to stop a loan being used instead of paying yourself properly, and they do the job well. It's better treated as something that lasts a few months rather than a few years.

### **Where do I find this in Mighty?**

Head to 'Paying Yourself' and 'Director's Loans' to see the current balance for each director. Alternatively, your balance sheet (found in reports) will show you the directors loan, plus any other amounts owed to/from you for expense and mileage claims, over/under paid salaries etc.

If anything in there looks wrong or unexpected, it's usually something simple like a categorisation issue, so just let us know and we'll take a look.

### **To summarise:**

- Your director's loan account tracks money between you and the company that isn't salary, dividends or expenses
- If you owe the company, repay it within 9 months and 1 day of your year end or the company pays S455 at 35.75%
- If the balance goes over £10,000, it's also a benefit in kind unless you pay interest at HMRC's official rate
- S455 comes back to you, but slowly
- If the company owes you, you can take it back tax free whenever there's cash available

If you have any questions with director's loans, please reach out to your dedicated Mighty accountant or [support@mightyaccounting.com](mailto:support@mightyaccounting.com). We're always happy to talk it through before you take money out, as there's often a better way of doing it, and it's much easier to plan than to fix.

## Related guides

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- [Benefits In Kind](#)
- [S455 Charge Explained](#)

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