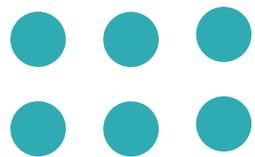




# Directors loans and Dividends

- **Presented by Jo Tomlinson**
- Owner and MD of Business Works UK
- Certified Quickbooks Trainer
- Certified Profit Improvement Coach



# Jo Tomlinson BA(hons) ACMA

MD Business Works UK LTD

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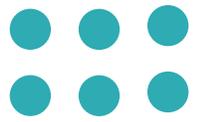
[www.businessworksuk.co.uk](http://www.businessworksuk.co.uk)



After 20 years in Industry analysing company data to support commercial business decisions, I founded Business Works with a vision to offer real-world solutions to businesses.

We have grown into a trusted partner for companies seeking a better understanding of their numbers, great customer service, and business growth.

With a team of 12, we are large enough to provide all the finance support SME business owners need, plus the value-added services that help them to flourish and grow.



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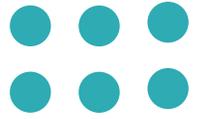
**Tax Planning**

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# The Directors Loan Account

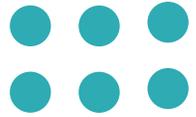
Tracks monies owed between a director and the company



# Frequent DLA transaction

Introduce funds into the company

The company owes the director

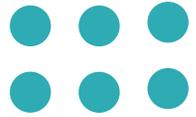


# Frequent DLA transaction

Receipts processed, but out of the directors personal account

Tax deductible expenses

**The company owes the director**

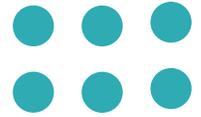


# Frequent DLA transaction

Receipts paid out of the company bank account, but for personal expenses

Not tax deductible expenses

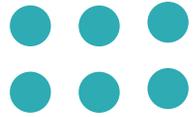
The director owes the company



# Frequent DLA transaction

Director payroll – processed, but not paid

The company owes the director

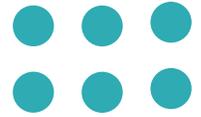


# Frequent DLA transaction

Director extracts funds that are not:

- Payroll
- Expenses refunded
- Dividends

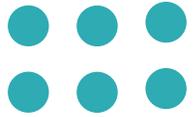
The director owes the company



# Frequent DLA transaction

Director dividend – processed, but not paid

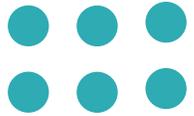
The company owes the director



# Dividends

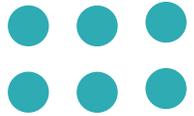
Paid out of post tax profits

A shareholders reward for investing in the company



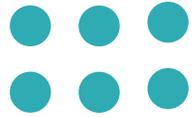
# Dividends

Taxable Profit	£20,000
Corporation Tax	£3,800
Available to distribute	£16,200



# Dividends

- **Be from profit** - Dividends can only be paid from **accumulated profits** (after tax). If there's no profit, dividends **can't legally** be paid.
- **Be declared** - Directors must declare dividends formally, often through a board resolution.
- **Be per share** - Unless there are different share classes (e.g. A & B shares), dividends must be paid **equally per share**.
- **Have a dividend voucher** - The company must issue a **dividend voucher** showing details of the dividend paid.

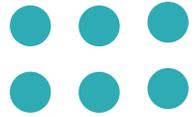


# Tax implications

## Dividends

Dividend allowance £500

Band	Taxable income	Dividend Tax Rate
Basic Rate	Up to £50,270	8.75%
Higher Rate	£50,271-£125,140	33.75%
Additional Rate	Over £125,140	39.35%



# Tax implications

## Directors Loan

The company owes you.

No tax implication

Note – can charge the company interest on this loan

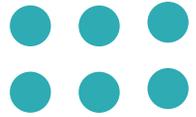


# Tax implications

## Directors Loan

You owe the company

**S455 tax** – loans made by a close company to its participators – typically directors and shareholders

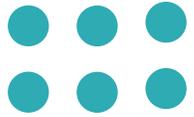


# Tax implications

## Directors Loan

### S455 tax

- Due 9 months and 1 day after the end of the accounting period
- Due at a rate of 33.75%
- Refundable if/when the loan is repaid or written off



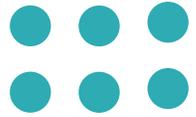
# Tax implications

## Directors Loan

### Benefit in Kind (BiK)

If the DLA is overdrawn by more than £10k and no or low interest is charged then:

- The director must – pay income tax on the deemed interest (HMRC expects a commercial rate)
- The company must report the benefit on a P11D and pay class 1A NICs on the BIK

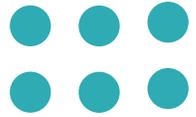


# Tax implications

## Directors Loan

### Writing off a directors loan

HMRC treats this as income for the director. Taxed as either dividend or employment income



# Tax implications

## Directors Loan

## Bed and Breakfasting

Anti avoidance legislation – tempting to repay the DLA and then take it again



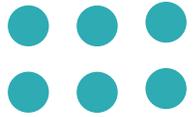
# Tax implications

## Directors Loan

## Bed and Breakfasting

Disregarded if:

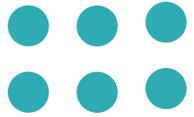
- A loan is repaid, and a similar amount is re-borrowed within 30 days
- The repayment is funded by a dividend or salary and that was planned



# Tax Planning

## Extracting money from a LTD Company

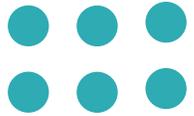
- Tax saved - deductible expenses
- Tax suffered – relevant rates
- Timing of taxes due
- Who pays!



# Tax Planning

## Salary for Directors

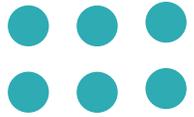
- Use personal allowance
- Consider rates of income tax and employees NI
- Consider employers NI
- Deductible for CT



# Tax Planning

## Salary for Directors

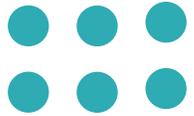
	£ 12,570	£ 20,000	£ 50,000
Income tax	£ -	£ 1,486	£ 7,486
EES NI	£ -	£ 743	£ 3,743
	£ 12,570	£ 17,771	£ 38,771
ERS NI	£ 1,136	£ 2,250	£ 6,750
CT	-£ 2,604	-£ 3,804	-£ 8,649



# Tax Planning

## Dividends

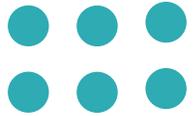
- Post tax profit
- First £500 is tax free
- Not tax deductible



# Tax Planning

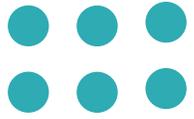
## Dividends

PAYE	£ 12,570	£ 12,570	£ 12,570
Income tax	£ -	£ -	£ -
EES NI	£ -	£ -	£ -
	£ 12,570	£ 12,570	£ 12,570
ERS NI	£ 1,136	£ 1,136	£ 1,136
CT	-£ 2,604	-£ 2,604	-£ 2,604
Dividend		£ 7,430	£ 37,430
Dividend Tax		£ 650	£ 3,275
Take home pay	£ 12,570	£ 19,350	£ 46,725



# Tax Planning

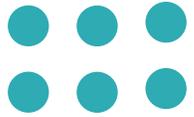
All PAYE	Take home	£ 12,570	£ 17,771	£ 38,771
	Total Expense to business	£ 13,706	£ 20,021	£ 45,521
	Reduce CT	-£ 2,604	-£ 3,804	-£ 8,649
Mix	Take home	£ 12,570	£ 19,350	£ 46,725
	Total Expense to business	£ 13,706	£ 13,706	£ 13,706
	Reduce CT	-£ 2,604	-£ 2,604	-£ 2,604



# Tax planning

Dividend tax is paid on your self-assessment tax return

PAYE – deducted at source



# Tax planning

## Directors Loans

S455 tax at 33.75% is paid by the company, not the director

Due 9 months after the accounting year end



# Tax Planning



Complex

Speak to your accountant



# Resources



1. MTD
2. Accessing Capital for Growth
3. Forecasting
4. How much is your business worth
5. Selling some or all of your shares
6. Shared Business Ownership
7. Profitability
8. Project Evaluation
9. Directors Loans v Dividends
10. Cash flow v Profit
11. Risk and Resilience

# Thank

# You



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