

# Key Rules for Director Loans and Personal Expenses

## 1. The £10,000 Threshold: When Overdrawn DLAs Become Taxable

If your Director's Loan Account is overdrawn by more than £10,000 at any point during your company's financial year, it can be treated as a benefit in kind. This means you might have to pay Income Tax on the amount you have borrowed, and your company might have to pay Corporation Tax on the loan itself.

HMRC Guidance: <https://www.gov.uk/hmrc-internal-manuals/business-income-tax/bim20000>

## 2. Interest is Chargeable on Overdrawn DLAs

Even if your overdrawn DLA is below £10,000, if your company does not charge you a commercial rate of interest (currently 3.75%) HMRC can treat this as a taxable Benefit in Kind (BiK)

You should be paying interest at a rate that reflects what a commercial lender would charge. If no interest is charged, or the rate is too low, HMRC can calculate a notional interest charge.

HMRC Guidance: <https://www.gov.uk/hmrc-internal-manuals/business-income-tax/bim20600>

## 3. Personal Expenses Paid from Business Account Must Be Reported on P11D

Any personal expenses you pay directly from your company's bank account (which are effectively drawings from your DLA) need to be declared. These expenses will typically be reported on a P11D form at the end of the tax year, leading to potential Income Tax and National Insurance contributions for both you and the company.

HMRC Guidance: <https://www.gov.uk/guidance/p11d-guide-what-to-report-and-when>

## 4. April 2026 Update: Upper Dividend Rate Tax Charge on Unpaid Overdrawn DLAs

From April 2026, if an overdrawn DLA is not repaid within nine months of the company's year-end, the tax charge will be aligned with the higher rates of dividend tax (currently 37.5%).

This represents a significant increase in the potential tax liability for directors who fail to repay overdrawn loans within the specified timeframe. It aims to prevent directors from using company funds indefinitely without tax consequences.

HMRC Guidance: <https://www.gov.uk/hmrc-internal-manuals/company-tax-manual/ctm61600>

## 5. The Crucial Need for Regular Monitoring and Review

It is essential to keep a close eye on your DLA throughout the year and focus on clarity and accuracy in your accounting records, adding notes and calculations as you proceed through the year mindful of the key dates, the end of each tax year and nine months after the end of your trading year.

- Regularly Review DLA Transactions: Understand the flow of money in and out of your DLA.
- Ensure Personal Expenses are Logged Separately: Keeping a clear distinction between business expenses and personal drawings.

Accurate record-keeping is vital to avoid accidental breaches of the rules and to correct and timely completion of tax returns.

HMRC Guidance: General good practice for record keeping is highlighted throughout its guidance for businesses and individuals.

**Disclaimer:** This information is a summary and not exhaustive. Always consult with a qualified accountant or refer to HMRC guidance

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