



## Director's Loan Account: Year-End

The **Director's Loan Account** tracks the flow of money between a Director and a company. Because the company is a separate legal entity, any money the Director takes out or puts in must be recorded accurately to avoid unintended tax consequences.

### How to Access the Ledger

1. Navigate to **Reports > Ledger Reports**.
2. Select **Nominal Activity Report (v2)**.
3. In the **Nominal** dropdown, select your **Director's Loan Account** nominal code.
4. Set the **Date Range** for your full financial year and click **Apply**.

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### What Needs to be Checked?

- **Opening Balance:** Verify that the start-of-year balance matches the closing balance of the previous year's signed accounts.
- **Personal Spend vs. Business Spend:** Ensure personal expenses paid with a company card are coded to the Director's Loan Account, while business expenses paid from a personal account are credited to the Director's Loan Account.
- **Lump Sum Transfers:** Identify and label any large round-sum transfers between your personal and business accounts to ensure they are not misclassified as revenue or expenses.
- **Salary vs. Drawings:** Cross-reference with payroll software to ensure net wages are in the Wages account, while any "extra" cash withdrawals are sitting in the Director's Loan Account.

### 1. Claiming Expenses the Right Way

The Director can be reimbursed tax-free only for costs that pass the "Wholly, Exclusively, and Necessarily" test.

#### 1.1 The Golden Rules

- **Business Purpose:** The expense must be 100% for business. If there is a personal element ("dual purpose"), it fails the test.
- **Vouched Receipts:** You must have a physical or digital receipt for every claim. No receipt means no tax-free reimbursement.
- **Commuting:** Travel from home to your main office is personal commuting and is not a business expense.

## 1.2 Common Claimable Items

Category	Rule for Reimbursement
Travel & Meals	Claim for visiting clients or suppliers. You can use receipts or the <a href="#">Civil Service Rates</a>
Remote Working	You can claim a <a href="#">portion of household bills</a> (heat/light) based on office size, or a flat tax-free allowance.
Professional Fees	Fees for accountants, lawyers, and essential professional training are legitimate.
Assets	Desks, chairs, or laptops are company assets. These are not running costs but receive tax relief over eight years via <a href="#">Capital Allowances</a> .

## 2. Understanding Risks: The Overdrawn Director's Loan Account

A major risk occurs if the Director's Loan Account has a Debit Balance (meaning you owe the company money).

- **Tax Surcharges:** If the account shows a **Debit balance** (you owe the company money) and it is not cleared within a specific timeframe, the company may be liable for a heavy tax surcharge. It's advisable to **repay the loan before the company's year-end** to avoid [tax charges](#).
- **Benefit-in-Kind (BIK):** If a company provides an interest-free loan to a director, it is treated as a taxable perk (BIK) on the "notional interest".
- **Insolvency Risks:** If a company becomes insolvent while a director owes a large sum to the Director's Loan Account, liquidators can demand immediate repayment to settle creditor debts.
- **Audit Red Flags:** Large, unexplained fluctuations in the Director's Loan Account often trigger closer scrutiny from tax authorities, as they can be used to hide undeclared income or dividends

## 3. Red Lines: What the Director CANNOT Claim

Revenue is strict about these exclusions. Do not record these as business expenses:

- **Personal Items:** Groceries, holidays, or non-uniform clothing.
- **Client Entertainment:** Taking clients to dinner or sporting events is not tax-deductible for the company.
- **Fines:** Parking or speeding tickets are never business expenses.

**Important Note:** Always discuss any **Debit balance** in the Director's Loan Account with your accountant. They will need to determine if a Dividend or Bonus needs to be declared to clear the balance before the tax deadline.



### Director's Loan Reconciliation Checklist

Item	Action Required	Checked?
<b>Opening Balance</b>	Matches last year's finalised accounts.	<input type="checkbox"/>
<b>Expense Test</b>	All P&L claims meet the "Wholly & Exclusively" business test.	<input type="checkbox"/>
<b>Out-of-Pocket</b>	Business costs paid personally are added to the Director's Loan Account.	<input type="checkbox"/>
<b>Debit Balance</b>	Flagged to the accountant if the director owes the company.	<input type="checkbox"/>
<b>Asset Check</b>	Large purchases (laptops/furniture) for business moved to Capital Allowances.	<input type="checkbox"/>