



# NEWSLETTER - Feb'20

## WELCOME

"With each unique client we challenge ourselves to ensure you achieve strategic growth within your organisation"

We achieve this with emphasis on  
clear and concise reporting

HELPING YOU MAKE THE CONNECTION BETWEEN  
SALES, FINANCE & PROFITS

**F D** OUTSOURCE

more than accountants

# BORROWING TO LEND TO YOUR COMPANY - |WHAT'S THE TAX POSITION?

If you borrow money to inject into your company, you can claim tax relief for the interest you pay. But not all borrowing or interest qualifies and there are pitfalls that can cause you to lose the tax relief.

How can you avoid these problems?

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## **Personal business loans and tax relief**

If you pay interest on borrowing which you use to support your business, you can claim a tax deduction, but not in all situations. There's a surprising number of limitations and conditions that must be met relating to you, your company and the type of borrowing.

### **Is it for a qualifying business purpose?**

You're entitled to tax relief on interest you pay on borrowing which you use for a qualifying purpose, specifically to:

- purchase 5% or more of the ordinary capital of a company which is a close company. Broadly, one controlled by five or fewer individuals. It must also be a trading company, i.e. one where its main activity isn't owning and managing investments for itself; or
  - lend money to a close trading company for use in its business, i.e. as working capital.
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## **Not All Interest Is Equal**

You won't obtain tax relief for some types of interest. Specifically no relief is allowed for personal overdraft interest or interest payable on personal credit card balances.

**Tip:** Rather than incurring personal overdraft or credit card interest, apply for a company credit card or overdraft instead. That way the company receives a tax deduction for the interest because the restrictions which apply to personal borrowing don't apply.

## **Tax Efficient Credit Card Borrowing**

If you only need relatively short-term borrowing, it's possible to use credit card or overdraft borrowing and still obtain tax relief for interest.

**TIP:** If you can't meet the interest conditions, your partner or spouse could use their credit card or overdraft to pay costs for your company. They could turn this into a flexible loan to you and charge loan interest which would meet the conditions and so qualify for tax relief. However, because your spouse is taxable on the interest you pay them, this scheme will only work if they pay a lower rate of tax than you.

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## **Watch Out For Repayments**

There are anti-avoidance rules that prevent directors from using their companies to obtain tax relief on interest that would otherwise not qualify.

**Example.** Danny is a director shareholder of Acom Ltd. When he set up the company he borrowed £50,000 from the bank and used it to provide working capital. The interest on the loan was £6,000 in the first and second years for which Danny received tax relief. After two years Acom could afford to repay Danny £20,000. Instead of using it to repay some of the money he borrowed, Danny used it towards the cost of an extension to his home. As a result, interest on £20,000 of his bank borrowing no longer qualifies for tax relief.

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If you borrow to lend to your company you're only entitled to tax relief on interest you pay until the company repays what it owes you. For tax efficiency use repayments from your company to repay your borrowing. As personal credit card and overdraft interest doesn't qualify for tax relief, use a company credit card or overdraft instead.

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To Our Stakeholders

FD Outsource is committed to working directly with Sales Driven MD's within their specialised sector to ensure they achieve continual strategic growth.

The Strategic Growth can be measured against the business plan using quantifiable financial measures.

These financial measures can be within Sales/Revenue, Gross Margins, Cashflow, Profitability and Net Worth.

The milestones set in the business plan will be monitored and reviewed at regular intervals through the business life cycle with continual focus on succession planning with the management team.

Our internal core values can be seen within our 5c Guarantee provided to all clients. These are:

- Communication
- Creativity
- Coherence
- Commitment
- Conclusion

### Analyse , Identify and Plan

Our priority is that cash flow doesn't become a Barrier to Growth and business profits be converted in to personal wealth.

Sincerely

A handwritten signature in white ink that reads 'Mark Terrington'.

Mark Terrington  
Founder & CEO

WE WORK WITH SALES DRIVEN  
BUSINESS OWNERS

HELPING YOU MAKE THE CONNECTION  
BETWEEN  
SALES, FINANCE AND PROFITS



**OUTSOURCE**  
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For a Free discussion on how you can  
make the connection and convert  
business profit in to personal wealth.  
Contact us today

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