

CLIENT GUIDE

Overdrawn Director's Loan Accounts and s455 Tax

The cost of getting it wrong on your company tax return

In brief

- If you owe your company money at its year end and do not repay it within 9 months, the company must pay **s455 tax** on the balance.
- If that tax is paid late, HMRC charges **interest**. If the return is wrong as well, for example by stating the loan was repaid when it was not, HMRC can also charge a **penalty** of up to 100% of the tax.
- Reporting the loan correctly matters more than anything else. In our worked example, an accurate return costs about **£4,300 in interest**. The same facts with an incorrect return could cost **over £42,000**.
- If you think a return may be wrong, talk to us **before HMRC contacts you**. Telling HMRC first significantly reduces penalties.

1. What is s455 tax?

When a director or shareholder of a close company (broadly, a company controlled by five or fewer people) borrows money from the company, this is recorded in the director's loan account. If the account is **overdrawn at the year end** and is not repaid within 9 months, the company must pay a temporary tax charge under section 455 of the Corporation Tax Act 2010.

Point	What it means for you
Rate	33.75% of the outstanding loan for loans made before 6 April 2026, and 35.75% for loans made on or after that date.
Due date	9 months and 1 day after the company's year end (for companies that are not "large").
Getting it back	The tax is refundable once the loan is repaid, released or written off. However, it is not returned straight away: it becomes due back 9 months after the end of the accounting period in which the loan was repaid.

2. Interest if the tax is paid late

- **Rate:** Bank of England base rate plus 4%. This was 7.75% from 9 January 2026 (8% before that). The rate changes when base rate changes.
- **Period:** interest runs from the normal s455 due date until the tax is paid.
- **If the loan has since been repaid:** interest stops on the date the refund would have become due, even if HMRC only finds the problem later.
- **Not tax deductible:** the company cannot claim a deduction for this interest.

3. Penalties if the tax return is wrong

The company tax return (CT600) asks whether loans to directors and shareholders were repaid within 9 months of the year end. If the return says the loan was repaid when it was not, the return is inaccurate and

HMRC can charge a penalty. The penalty is a percentage of the tax that should have been shown on the return:

Why the error happened	You told HMRC first	HMRC found it
Careless (a genuine mistake)	0% – 30%	15% – 30%
Deliberate	20% – 70%	35% – 70%
Deliberate and concealed	30% – 100%	50% – 100%

Why stating the loan was repaid is so serious

Telling HMRC that a loan was repaid when the director knew it was still outstanding is likely to be treated as **deliberate**, not careless. That brings further consequences:

- **No suspension:** careless penalties can sometimes be suspended (cancelled if conditions are met). Deliberate penalties cannot.
- **Personal liability:** HMRC can make a director personally liable for the company's penalty.
- **Publication:** where the tax involved is over £25,000, HMRC can publish the company's details as a deliberate tax defaulter. A full disclosure that earns the maximum reduction avoids this.
- **Longer look-back:** HMRC can normally go back 4 years, 6 years if the error was careless, and **20 years** if it was deliberate.

Where a penalty falls within the range depends on how fully you co-operate: telling HMRC about the error, helping them work out the tax, and giving them access to records.

4. Worked example: two outcomes from the same facts

The facts

- Overdrawn director's loan account of **£162,000** at the year end of 31 January 2025.
- The loan was repaid in full on 10 November 2025, just 9 days after the 9-month deadline.
- No s455 tax was paid.

The tax and interest (the same in both cases)

	Detail	Amount
s455 tax	£162,000 × 33.75%	£54,675
Due date	9 months + 1 day after 31 January 2025	1 November 2025
Refund becomes due	9 months after 31 January 2026 (the year in which the loan was repaid)	1 November 2026
Interest to 8 January 2026	69 days at 8.00%	£827
Interest from 9 January 2026	296 days at 7.75%	£3,436
Total interest	Stops when the refund becomes due	≈ £4,263

Because the loan has been repaid, the £54,675 itself comes back to the company (HMRC sets it against the refund). The real cost is the interest, plus any penalty.

Outcome A: the return correctly shows the loan, but the tax is not paid

The return is accurate, so there is **no penalty**. Corporation tax, including s455, does not carry late payment penalties. The cost is **interest only, about £4,263**. HMRC can still chase the unpaid tax in the meantime.

Outcome B: the return wrongly states the loan was repaid

On top of the same interest, HMRC can charge a penalty. If the behaviour is treated as deliberate, and the penalty is based on the full £54,675:

Situation	Penalty range	Penalty
You tell HMRC before they contact you	20% – 70%	£10,935 – £38,273
HMRC contacts you first	35% – 70%	£19,136 – £38,273

Total potential cost	Interest + penalty
Outcome A: accurate return	≈ £4,263
Outcome B: incorrect return, you tell HMRC first	£15,198 – £42,536
Outcome B: incorrect return, HMRC finds it	£23,399 – £42,536

In some cases it may be possible to argue that the tax was only paid late rather than lost, because s455 is always refundable once the loan is repaid. If HMRC accepted this, the penalty would be calculated on a much smaller figure (roughly £550 to £1,900 in this example). HMRC may not accept this argument, so it should not be relied on.

5. Repaying and re-borrowing (“bed and breakfasting”)

Some directors clear their loan account just before the deadline and then borrow the money again shortly afterwards. Anti-avoidance rules (section 464C) stop this working. If they apply, the repayment is matched against the new borrowing instead of the old loan, so the original balance is treated as still outstanding and **no refund of s455 is given**. Either of two tests can apply:

The 30-day rule

- You repay £5,000 or more, and within 30 days new loans of £5,000 or more are made to you or someone connected to you.
- This applies automatically. It does not matter what you intended.

The arrangements rule

- The loan was £15,000 or more just before the repayment, **and** when you repaid it there was a plan or intention to borrow £5,000 or more again.
- There is no time limit. It applies even if the new borrowing happens more than 30 days later.

When the rules do not apply

The rules do not apply where the loan is cleared by something that is taxed on you as income, such as a **dividend or bonus**. Repaying from personal savings or from money borrowed elsewhere gives no protection if the money is then drawn back out.

If the rules apply

- The s455 refund is reduced by the amount re-borrowed.
- Interest on that part of the tax keeps running until it is paid or the loan is properly cleared.

- A pattern of repaying and re-borrowing makes it more likely that HMRC will treat any incorrect return as deliberate.

Similar rules (section 464A) catch indirect arrangements, for example where money reaches a director through a third party or a connected company.

6. Other points to be aware of

- **Benefit in kind:** if the loan was over £10,000 at any time in the tax year and you paid less than HMRC's official rate of interest, this is a taxable benefit. It must be reported on form P11D, and the company pays Class 1A National Insurance. Late or incorrect P11Ds carry their own penalties and interest.
- **Writing off the loan:** if the company writes off the loan instead of you repaying it, the amount is taxed on you as income (usually as a dividend) and National Insurance may also be due.
- **Claiming the refund:** the s455 refund must be claimed within 4 years of the end of the accounting period in which the loan was repaid.

7. What to do if this applies to you

1. **Speak to us straight away.** We will review the position and the returns already filed.
2. **Correct the return.** If you are within 12 months of the filing deadline, we can amend the return. Otherwise we will make a disclosure to HMRC on your behalf.
3. **Pay what is owed.** Paying the s455 tax and interest stops further interest building up.
4. **Clear the loan.** Repaying the loan (or formally writing it off) starts the clock for the s455 refund.

Telling HMRC before they contact you gives the best chance of the lowest possible penalty, and in careless cases a penalty of nil or a suspended penalty.

Important: this guide is general information based on the law and HMRC interest rates as at October 2026. It is not advice on your specific circumstances. Rates change, and the right course of action depends on your facts. Please contact us before acting on anything in this guide.