Financing your company through a loan or a capital increase?

You want to invest in your company. Different possibilities exist. You can loan your private money in return for interest. Or you can do a capital increase whereby you receive new shares and possibly dividends. What would you choose? We put the two possibilities next to each other with their pro's and contra's. Note that we only focus on the situation in which you invest in your company. Off course other possibilities exist: you can look for other shareholders or ask your bank for a loan.

First possibility: loaning money to your company

You can loan money to your company. You become a creditor. As a debtor your company will sooner or later have to repay the money. In return your receive interest. These are considered as movable income on which you are taxed. Your company should withhold withholding tax of 25%.

Pro

Entering into a loan with your company is not difficult, this can be done with a normal contract. No special formalities should be taken into consideration so you do not e.g. have to pass by a notary public. But you should make sure to comply with all conflict of interest rules: you represent at the same time your own interests (as a private person) and the interests of your company (as a director or manager you will sign the contracts for your company). If you do not respect these rules, you will be held liable. It is better to have someone else (a manager ad hoc acting specially for this transaction) looking after the interests of the company.

We already mentioned that you will be taxed on the interest received. The positive flip side of the coin is that the interest payments are deductible expenditure in the hands of your company. But beware: do not charge excess interests since they can be partly requalified in dividends, meaning that the tax deductibility partly disappears for the company.

Contra

The company enters into an extra loaning agreement. This means she will have more debts and more creditors. Other creditors may not like this. If you want to obtain extra financing of your company through a bank loan, this might be a problem (or the reason for the bank to charge higher interest rates).

On the interests received, 25% withholding tax is due (=normal tax rate for withholding tax).

COMPTAFID-Benelux NV SA
Brussels
Bld. Edmond Machtensl. 180/100
B-1080 Brussels
Tel: +32 (0)2 410 75 75
www.comptafid.be

COMPTAFID-Benelux NV SA
Antwerp
Schijnparklaan 45
B-2900 Antwerp (Schoten)
Tel: +32 (0)3 658 89 02
www.comptafid.be

COMPTAFID (Schweiz) AG
Zürich
Seefeldstrasse 19 – Postfach
CH-8032 Zürich
Tel.: +41 44 250 2929
www.comptafid.ch

Second possibility: capital increase

You can perform a capital increase. This means that you actually put your money into the company. You will not receive any interests in return. On the other hand you will receive new shares. Possibly you will also receive more dividends, if your company chooses to distribute these.

Pro

By increasing the capital, the calculating base for the notional interest deduction is also increased. Your company has an immediate advantage, since it benefits from a higher notional interest deduction.

In some cases only 20% or 15% withholding tax is due on the distributed dividends (instead of the standard rate of 25% for interests). These beneficial rates only apply to new shares which are distributed at the occasion of a capital increase by an SME (a small company as defined in the Belgian Companies Code) after 1 July 2013.

But a higher capital not only generates tax advantages. It is also interesting from an economical point of view. You will also strengthen your financial position by increasing your own capital. This implies that you will obtain easier a loan with the bank if this would be necessary in the future.

Contra

Increase the capital is subject to a lot more formalities than entering into a loan. On significant moments (such as the establishment of a company, but also at the occasion of a capital increase) in the 'life' of a company you should pass by a notary public. He will draft a notarial deed. These formalities are time consuming, but also cost money.

By putting your money in your company, your (earlier) private money is actually in the company. This means that you cannot easily withdraw your money from the company. You can off course recuperate a part of your money by paying a salary, distributing dividends or charging rent ... For all these methods there will have to be a fiscal reckoning. Only other alternative is a capital decrease.

What to choose?

What you choose depends on your personal situation and on your company.

Clearly the possibility to distribute dividends at 15% or 20% is an important advantage for the capital increase. Also when your company already has a lot of loans, entering into a new loan is not so interesting.

If you do not know whether you can miss your private money over a long period, is investing through a loan probably better (it is easier to get the money back) than a more permanent investment through a capital increase.

COMPTAFID-Benelux NV SA
Brussels
Bld. Edmond Machtensl. 180/100
B-1080 Brussels
Tel: +32 (0)2 410 75 75
www.comptafid.be

COMPTAFID-Benelux NV SA
Antwerp
Schijnparklaan 45
B-2900 Antwerp (Schoten)
Tel: +32 (0)3 658 89 02
www.comptafid.be

COMPTAFID (Schweiz) AG
Zürich
Seefeldstrasse 19 – Postfach
CH-8032 Zürich
Tel.: +41 44 250 2929
www.comptafid.ch