What are the tax consequences of a current account showing a credit position?

Earlier we commented on the current account showing a debit position. Here we will focus on the tax consequences which a credit position will have for you as a company director. In a credit position your current account is 'positive' meaning that the company owes you more than you owe the company.

Reminder: what is a current account exactly

The current account is a balance sheet account where amounts you owe to your company are entered, as well as the amounts the company owes to you. If the account is negative (debit position), you have more debts towards the company than it owes you. If the current account is positive (credit position), the company owes you.

When should you credit a current account

The current account should be credited when you as company director lend money to your company for an undetermined period. The company consequently owes you money. Note: if you lend money to your company for a determined period, this should be recorded in a separate liability account and not in the current account.

Next to loans to the company, there are other situations which lead to crediting the current account:

- if you as a director pay for company expenditure with private funds: e.g. you have paid a supplier with your own means. In this case you should keep sufficient proof and supporting documentation;
- if the company did not pay the amounts it was due: e.g. the company did not pay your salary.

Consequences of a credit position: the company owes interest, which can sometimes be considered as dividends

The interest a company pays to its director on loans (the legislation uses the word 'advances') he has provided, can under certain circumstances be re-qualified as dividends. Also the credit position of the current account can be a loan (although there is some discussion in case law).

The re-qualification only applies in case:

(1) you charge an interest which is higher than the 'normal' market interest rate. The normal market interest rate is not a fix amount, but depends on the nature of the loan, the period, the repayment conditions, ...

Only the part above the market interest rate is re-qualified.

Example

The normal market interest rate is 10%. You lend 50.000€ to your company and charge 13% interest. The company pays 650€ interest per year. 150€ will be re-qualified as dividend (in other words 10% or 500€ remains interest).

Experts in Accountancy & Tax
COMPTAFID

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

(2) the amount of the loan exceeds a certain threshold. This threshold is: the total of the actually paid capital at the end of the taxable period and the taxed reserves at the beginning of the taxable period.

Example

On 1 January 2013 the taxed reserves amount to 12.000€. On 31 December 2013 the actually paid capital of your company amounts to 28.000€. Total: 40.000€. You lend 50.000€ to your company. This exceeds the threshold with 10.000€. The interest paid on these 10.000€ will be considered as 'dividend'.

Consequences: although dividends and interest are both subject to 25% withholding tax, the re-qualification remains relevant. There are after all also other consequences: distributed dividends are part of the taxable basis of the company, while interest is deductible.

The same rules apply when the loan is granted by your spouse or children.

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