

## Is there tax back on business loans?

**Martin Brennan looks at the tax implications that different types of loans can have on your business.**

### **Scenario one: The start-up loan from family or friends**

Many new businesses get a helping hand in the start-up stage from family and friends.

Chances are the loan is interest-free. Therefore, there is no tax deduction allowed as no interest is charged. Payment against the loan does not affect your profit and loss but goes on the balance sheet, reducing the current or non-current liabilities.

### **Scenario two: Loans from a financial institution**

Loans that have been taken out in the *business name* mean the interest *can* be taken as a tax deduction.

(However, what happens when a partner in a partnership, or a director of a company, borrows personally and lends the funds to their business?)

### **Scenario three: A partner takes out a personal loan for a partnership**

There is no longer a deduction on loan interest on such loans taken out after October 15, 2013, unless the new loan is replacing an existing loan made before October 15, 2013.

As of January 1, 2017, there is no tax deduction on personal loans even if they were taken out before October 15, 2013.

This rule does not apply to farming partnerships. In practical terms, the best solution to funding the partnership may be to take out a personal loan.

However, no tax deduction is allowed on a personal loan.

### **Scenario four: A director takes a loan and gives it to a company**

If a director takes a personal loan and lends it to their company, the interest payable on the loan is allowed, but the director must declare the interest receivable as taxable income.

For example, Mick personally borrows €35,000 and lends it to his company, where he is a director. The annual interest is €2,400 a year.

The repayment of the loan from the company reduces the loan on the balance sheet. However, the interest of €2,400 must be declared as interest received and is taxable under PAYE, PRSI, and the USC.

(I have not commented on the possible closed company issues that are relevant in this example.)

### **Conclusion – don't assume loans are tax deductible**

It's a common mistake that business owners *think* they can take out a personal loan for their partnership or company and enjoy a reduction on the interest paid. Before you take any action, you should consult your accountant.

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