Call: **01424 730000**
Email: info@mcphersons.co.uk
www.mcphersons.co.uk

How to pay interest to a director or individual lender (CT61)

Most property businesses will require investment from their directors or from individual lenders, whether for startup costs, renovations or expansion.

In this case, the lender can charge interest on any money that the company has borrowed but not yet repaid. For the business, the interest can be deducted as a business expense for Corporation Tax. For the lender, any interest earned will be subject to income tax.

What is a CT61 form?

If a business pays interest on a loan from a director or individual lender, it must submit quarterly CT61 returns. The CT61 should not be used for business-to-business interest payments.

The CT61 form is used to report interest, royalties, alternative finance payments and other similar recurring payments to HMRC.

How to request form CT61

It's not possible to simply download the CT61 form. Rather, it needs to be requested via an [online form on the HMRC website].

Please note that if you're an LLP, you must send a letter to HMRC with your unique taxpayer reference (UTR) and details of the payment(s) made.

Nil returns

Unlike most taxes, it is not required to submit a nil return if no payments were made. You only need to submit a CT61 if you made interest payments within the calendar quarter.

Deadlines and penalties

If interest payments are made, the CT61 must be submitted on a quarterly basis. Normally, this aligns with the calendar year and the periods ending on the last day of March, June, September and December.

The form and any related payments must be submitted within 14 days from the end of the reporting period. If it is submitted 1 day - 3 months late, HMRC may charge you £100. If it is 3 - 6 months late, they may charge an extra £100. From 6 - 12 months, HMRC will charge an additional 10% of any unpaid tax.

Example

If a director lends their company £25,000, they can charge the standard commercial interest rate based on the size of the loan. In this scenario, the standard interest rate is 2%.

The business would record £500 of interest in the annual accounts (25,000 x 0.02) and the director would record £500 of interest on their Self Assessment return.

The director would not pay interest on this amount if they are a basic rate taxpayer and did not receive any other interest payments in the tax year.

This example is a tax-efficient way of extracting the interest amount from the business. However, each situation will differ. Don't hesitate to contact us if you would like some advice.