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Are you sure you can make that environmental claim?

It is often misunderstood that you can simply withdraw as much money as you want from the company's bank account since it is your company and therefore, the company's money is yours. Although this partially true, the company is a separate legal entity and withdrawing funds can lead to unintended tax consequences.

Your company, not your money

When you form a company and put more funds than the share capital cost, it is called a 'funds introduced' and this creates the 'shareholder current account'. As the company continues to operate, you may deposit more funds (funds introduced) or withdraw funds (drawings). Once you make more drawings than funds introduced, the shareholder current account becomes a 'overdrawn shareholder current account'.

What happens now?

Overdrawn shareholder current account means you have borrowed money from the company and it is not a free loan.

1. Either you pay FBT to the IRD
2. Or charge interest at the IRD prescribed interest rate, currently at 5.77%

Please note that the interest charged on an overdrawn current account is taxable income of the company.

So, how do we fix this?

1. Put more funds into the company until the shareholder current account is not overdrawn
2. Declare a shareholder salary
3. Declare a dividend to the shareholder

The above options can be used together but there are conditions and limitations. Please also bear in mind that shareholder salaries and dividends are taxable income of the shareholder.

If you have a history of withdrawing funds and have concerns about your shareholder current account balance, please contact us. We will guide you to choose the best option.

If you would like to know more or require assistance please contact Kirit or Alannah.

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