

Can I borrow money from my wholly owned business?





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Question:

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Answer:

Yes, you can borrow money from your wholly owned business. Generally speaking, the terms of the loan must be reasonable and must be properly documented. Otherwise, you run the risk that the IRS could reclassify the proceeds of the loan as compensation or dividends, leaving you with an unanticipated tax bill.

Troubles may arise if you fail to structure a loan that is reasonable, based on current market conditions. The IRS can impute interest on the loan if the interest rate is too low, which would result in the business paying taxes on interest that was not received.

The loan should be documented with a promissory note signed by you and an authorized representative of the business. The note should include details regarding the amount loaned, the repayment schedule, and the interest rate. You should make the payments as required under the agreement to avoid the reclassification of the loan. Consult your tax professional to make sure that your loan will pass muster in case of an audit.

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