# Business Loans to Owners

By Gina L. Gwozdz, CPA
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When you own a small business and the owners have loans to or from themselves and the company it is very important that the company properly document the loan(s) so the IRS doesn't come back and reclassify them (as either a distribution, salary, capital, dividend, etc.).

Write up a promissory note to help substantiate that the transaction was in fact a loan. You do not need an attorney to do this, but you should probably use either software or a sample promissory note purchased from a local office supply store to make sure all pertinent information is included in the note. Pay special attention to the following:

- Unconditional promise to pay (This means you can't say that they only have to pay if they win the lottery or you only have to pay if your sales increase by 300%)
- The date the money is due or that it's due on demand
- State what the interest rate will be or how it can be determined. Loans, by their nature charge interest. If you do not charge interest then the IRS will either not view it as a loan or assume the interest was “gifted” (imputed interest)
- When payments must be made

Beware that even with doing the above, the IRS may still reclassify your loan for various reasons. For example, the IRS may not view the transaction as a loan if the borrower was not “credit worthy” and the loan was not secured.

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***Gina L. Gwozdz*** *is a CPA who has chosen to specialize in taxes.* Visit her website at http://GLGcpa.com to view more Tax Tip Articles.