# Withdrawal of capital from a business: changes to HMRC’s manual

OMB | Personal tax | Property Tax | Professional standards

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HMRC have changed their guidance in the Business Income Manual at BIM45700 and related pages, concerning the deduction of interest costs and the withdrawal of capital from a business. CIOT and ATT are concerned that taxpayers may not be aware of this change, which may give rise to uncertainty.

In July 2026, HMRC changed their guidance on the deduction of interest costs and the withdrawal of capital from a business in the Business Income Manual at BIM45700 and related pages.

The previous guidance indicated that when capital introduced into a business was withdrawn and replaced by a loan, HMRC accepted that the interest payable on the loan would be an allowable deduction. This was on the basis that the purpose of the additional borrowing was to provide working capital for the business, provided that the proprietor’s capital account was not overdrawn.

The revised guidance appears to indicate a change of interpretation by HMRC, so that simply exchanging existing capital for loan finance will not satisfy the ‘wholly and exclusively’ test where the borrowing is not used for business expenditure.

CIOT and ATT are concerned that taxpayers may not be aware of this change and that the changes give rise to uncertainties for taxpayers who may have relied on the previous guidance when preparing Self-Assessment returns. They have contacted HMRC and been advised that an update will be provided in November’s Agent Update, which should clarify matters further. The CIOT has also written to HMRC setting out the concerns: tinyurl.com/mr2cnvmt.

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