

## How to pay your spouse or children wages to reduce the tax you pay

Your spouse/civil partner may not have any income at all, and almost certainly your children don't. This means their personal allowance is being wasted every year.

Even children are entitled to a personal allowance. If the amount up to the level at which employee national insurance becomes payable of £7,592 in 2012/13 was paid to them as wage, they would pay no tax on it and your business profits could be reduced. If you pay just 20% income tax and 9% Class 4 National Insurance this would save you **£2202 every year** on each salary.

Employing your spouse is particularly important where you are paying higher rate tax. You may be able to avoid this by splitting your profits, earnings, or dividend income with your spouse to use up their basic rate band as well.

## National Minimum Wage (NMW)

The employment of spouses or children must respect National Minimum Wage rates. See the rates on our website, [http://www.simpleaccounting.co.uk/resources/tax\\_centre/tax\\_rates\\_and\\_allowances/tax\\_rates.php?r=13](http://www.simpleaccounting.co.uk/resources/tax_centre/tax_rates_and_allowances/tax_rates.php?r=13)

## Get the Admin Right

- ❑ Payment must be for **work actually done**. Draw up a list of your spouse or child's responsibilities. Maybe they do the books, answer the phone, stuff envelopes, clean the office etc. Don't forget to prepare staff appointment letters; your family deserve no less than any other employee!
- ❑ At present your children or spouse may do the work for free because it's a family business but they should and can be paid for it. It's reasonable to pay them a salary commensurate with what they actually do. How much would it cost to get someone in to do that job? The National Minimum wage level may be a good place to start but you can pay more if you can justify it.
- ❑ The amount must actually be **paid**. It's no good the accountant just putting it through the accounts at the end of the year. Pay it, ideally through the bank rather than cash so that it's easy to prove it's been paid and record it in your accounting records.
- ❑ Comply with any **PAYE procedures** such as getting a P46 signed, completing an end of year PAYE forms as you would do for normal staff. Remember, it may also help keep up their National Insurance contribution record even if they don't pay any National Insurance on the salary.

### **How many hours can children work?**

Children under the minimum school leaving age can only work a limited number of hours per week and local by-laws may restrict their working hours further. They may be able to work longer hours in some occupations (eg theatre). They are more restricted in some areas (eg bar work).

During term time children (from the age of 13) may work a maximum of 12 hours per week. During school holidays 13 to 14 year olds may work a maximum of 25 hours per week, 15 to 16 year olds may work a maximum of 35 hours per week.

For full details of the restrictions see page on Direct Gov website:  
[http://www.direct.gov.uk/en/Parents/ParentsRights/DG\\_4002945](http://www.direct.gov.uk/en/Parents/ParentsRights/DG_4002945) .

### **More Information**

Have a look at the tax briefing on our website, *How to pay less Tax*, which has a full explanation.

[http://www.simpleaccounting.co.uk/resources/tax\\_centre/special\\_tax\\_reports.php](http://www.simpleaccounting.co.uk/resources/tax_centre/special_tax_reports.php)

Note: You have to be logged in to our website to access these briefings – use your email address and password, initially set as ‘*accountant*’.

Our tax busting checklist may also be helpful

[http://www.simpleaccounting.co.uk/resources/tax\\_centre/taxbusting\\_checklist.php](http://www.simpleaccounting.co.uk/resources/tax_centre/taxbusting_checklist.php)