

Employing your wife shouldn't cause strife

Peter Harrup, tax partner at PKF, said: "You can employ your spouse in your business and pay them up to £4,895 a year tax-free. However, the Inland Revenue will take an interest if the payment is not commensurate with their duties, so do your homework."

1. If a spouse is paid between £4,264 and £4,895 there will be no resulting National Insurance liability but they will be treated as if they had paid contributions for that period. This will count towards their pension and other state benefits. Make sure you complete a P60 form for the spouse and include them on the annual P35 return.
2. If you are already a higher rate taxpayer because of your income from the business but your spouse is not, rearranging the workload between you allows you both to draw the same income and will use both sets of lower and basic rate tax bands so, as a couple, you will pay less at 40%.
3. It's always sensible to keep good records of the work your spouse does for your business in case the Inland Revenue challenge their role. For example, if secretarial services are provided an itemised telephone bill and paper records of correspondence can be helpful.
4. If you are establishing a business as a company it is sensible for both spouses to contribute to the original ordinary share capital from a separate source. This can help to avoid a challenge from the Inland Revenue under the "settlement rules" on the subsequent payment of dividends.
5. Shares in established companies can be transferred to spouses to reduce income tax liabilities and ultimately capital gains tax liabilities (although care needs to be taken over the possible loss of business asset taper relief). However, the Inland Revenue may look very closely at this arrangement, particularly if the company's income derives solely from services provided by one spouse.
6. It's possible for a spouse to build up a pension in their own right by paying up to £2,808 in to a personal pension plan, grossed up to £3,600, even though they may have no earning from employment. If they have earnings over £20,571, higher contributions can be made.
7. A spouse employed by your company can take part in its pension scheme, so the company can claim a tax deduction for pension contribution made for them. Such contributions are not a taxable benefit in kind for your spouse.