



## FACTSHEET 10

### Employment of a Spouse in the Business

Many business people ask whether there are any benefits from employing their spouse in the business. There are undoubtedly tax advantages to be had but as ever care has to be taken as the Inland Revenue look closely at this area. The Inland Revenue expect that any remuneration paid to a spouse is in line with the duties they perform and not set at an inflated rate of pay.

The under noted are factors to consider when paying a wage to your spouse:

If a spouse is paid between £4368 and £5044 there will be no national insurance liability but their national insurance fund will be credited with notional contributions as if they had actually paid them. This will therefore maintain that person's entitlement to state pension and certain other state benefits.

Make sure that the rate of pay complies with the national minimum wage legislation. Where you are already a higher rate tax payer because of your income from the business but your spouse is not, then rearranging the workload and remuneration between you could save tax. Both of you can utilise the lower and basic rate bands of tax, thereby paying less tax at forty per cent.

Consider keeping good records of the work undertaken by your spouse as often the Inland Revenue will request this during a compliance visit. A spouse employed by your company can join its pension scheme and the company could claim a tax deduction for the contributions paid in respect of that spouse.

In regard to a limited company situation where the spouse is to hold shares you should consider the following:

If you are setting up a limited company it is sensible for both spouses to contribute to the ordinary share capital of the company from a separate source. This would help with any subsequent challenge by the Inland Revenue, under the 'settlement' rules, on the payment of dividends

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Shares can be transferred to a spouse to reduce overall income tax and capital gains tax liabilities ( but watch out for possible loss of business asset taper relief ). Again, though, the Inland Revenue may look closely at this especially if all of the company's income derives from the services of one spouse only.

**For further advice and before taking any action please give me a call.**

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