

How much can you pay your spouse and get tax relief against the expense?

You can't pay your spouse an excessive wage and claim full tax relief against the expense. The question therefore is how do you calculate a reasonable wage that keeps on the right side of the tax authorities?

The first thing to emphasise is that there are no rigid rules and the revenue will tend to look at each case for reasonableness and the following suggested procedure should help.

1. Assess exactly what it is that your spouse actually does for the business. Can the work be classified into a job that is comparable with jobs currently being advertised? This would include bookkeeping, reception work, payroll processing and so on.
2. Create a job description and perhaps issue an official contract of employment.
3. If similar jobs in the area are being advertised with rates of pay, then keep the advertisements. Also contact freelance service providers to obtain their fee rates. You can also find out from specialist employment agencies what sort of rates of pay someone undertaking the work could expect. Keep this information for evidence to provide if it is later challenged.
4. When you have arrived at a reasonable hourly rate, apply a discount to prove to the authorities that you are not attempting to claim an unfair rate.
5. Calculate the average number of hours spent by your spouse on business activities. Ideally this should be in the form of timesheets, but diary notes could be acceptable. It is important to keep evidence in case the expense is ever challenged.
6. Check that the gross pay is at least the National Minimum Wage (NMW). Unincorporated businesses that pay family members living at home do not have to comply with the NMW.
7. Ensure that wage payments are actually made. For clarity this should be made from the business bank account directly to your spouse's account and be paid with the remainder of the payroll payments.
8. You should account for any PAYE and NI in the normal way.

If your spouse has income from another job or business, which covers their personal allowance, it may not be tax efficient to also pay them a wage from your business. In this case, you should take some advice from your accountant.

This is all about balancing the income for tax purposes, whilst ensuring that the authorities can have no argument about whether or not the pay rate provided to your spouse is reasonable.

Disclaimer

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