



E-Update: September/October 2011

This month Robert Bradley looks at why it's worth paying directors fees.

Dear Colleagues.

Welcome to the November edition of my E-Update. This month I look at why it's worth paying directors' fees

HM Revenue & Customs look at companies using "income shifting" and are ready to attack if the opportunity arises. HMRC manuals state that officers should look out for companies which pay a salary to a director's spouse, or other family members, just to make use of their lower tax rates. This is considered unfair avoidance. HMRC cannot object where your spouse or other family member provides a service and your company pays the going rate but excessively high salary payments won't qualify for a tax deduction. Furthermore HMRC can treat the salary paid to your spouse or other family member as if it was paid to you, under trust legislation. You might also face a penalty for trying to evade tax.

You could create a job in your company for your spouse as the job could be something they do at home for activities such as sales calls, credit control and market research but if they don't have much time to spare the amount you can legitimately pay them will be minimal. A possible solution is to invite them to join the board of directors in a non working (non-executive capacity). This means that their active role will be limited to attending board meetings and occasionally signing a documents. It seems a good strategy to divide Directors Remuneration between fees and salary. Have a consistent approach for all directors so that HMRC can't argue that the arrangement to pay your spouse is just a sham to avoid tax. How much you pay is at your discretion but somewhere between £500 a month and £1,000 a month seems reasonable.

It's not easy for HMRC to attack the level of director's fees, like they can the rate of pay for a regular job. With the latter he can check the going rate with employment agencies to see if you're paying over the odds but there is no such benchmark for director's fees because they are not linked to the amount of work carried out,. Being a company director can be quite onerous and fees are intended to compensate directors for this burden as well as for managing the company.

Hope you have a good Christmas.

Regards,

Robert Bradley

Bradley & Associates is the trading name of Robert J Bradley Limited. Registered in England and Wales Company No. 04387789, Registered Office: Office 5, 16 New Street, Stourport-on-Severn, Worcestershire DY13 8UW. Visit us on the web at www.bradleyandassociates.co.uk. No responsibility can be accepted for any action undertaken or refrained from as a consequence of using this material.

'delivering benefits through support and advice'