



3 November 2006

## Tax efficient children

**According to Liverpool Victoria Friendly Society, the average cost of raising a child from birth to the age of 21 is £165,000. So what help can you get from the Tax Man?**

Make sure you claim your entitlement to **Child Benefit**. It is not means tested or taxable. If you fail to claim, you are missing out on £907.40 a year for your eldest child, and £608.40 a year for each other child. It could also mean the child will not receive the £250 voucher to open a Child Trust Fund account. Additionally, Home Responsibilities Protection (which prevents the parent's time away from work from reducing their state retirement pension) is linked to the receipt of Child Benefit.

Even if your family income is currently high (normally over circa £58,000), submit a claim for the **Child Tax Credit** if you have a child under 16 years old. If your income suddenly drops, you can amend your existing claim to receive the tax credit right from the start of the tax year, whereas if you wait until your income reduces below this level, your claim will only be backdated for three months.

Contribute up to £1,200 each year into each child's tax free tax- free **Child Trust Fund** savings account. Investment income and capital gains in the fund are tax free. When the child reaches 18, the funds can be withdrawn. Every child living in the UK and born after 31 August 2002 should receive a voucher from HMRC to open a Child Trust Fund.

Contribute to a **child's pension scheme** – instead of giving cash or other investments. If you make the maximum net contribution that qualifies for tax relief (£2,808 – ie £3,600 gross) each year

until the child is 18, it will give your child's fund a huge boost.

Your company or business could **employ your teenage child**. If the work is safe and does not require heavy lifting, it may be legal to employ children aged 13 and over. The hours worked must not impinge on school time and should not be before 7am or after 7pm. Contact your local authority to see if you require a permit to enable you to employ anyone below 16 years of age.

Saturday is the obvious day, when you can employ your teenage son or daughter to do some of those jobs which always need doing, such as filing, updating records, cleaning company vehicles etc.

Children under 16 are not liable to National Insurance contributions, but will be liable to Income Tax if their income exceeds £5,035 in the current tax year. It is advisable to complete a form P46 as you would for any other employee and request a National Insurance number so that you can enter them on the end of year returns. The wages they earn should be fully tax deductible in the business (provided the wages are realistic).

There is no reason why your business should not provide your child (its employee) with a **mobile phone**, but the business must contract directly with the phone provider if the phone is to be tax exempt. You should also make the same benefit available to other employees to minimise the risk of a challenge from HM Revenue and Customs.

If you would like to know more please contact Alan Curry at [alan.curry@asmhorwath.com](mailto:alan.curry@asmhorwath.com)

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*Health Warning – You should take independent financial advice when making investments. You may wish to discuss the arrangement for employing your children in your business with your tax adviser.*

*This Tax Tip is intended to act only as a guide and cannot be fully comprehensive. Each business and/or individual should consider their own position and if necessary consult a professional advisor. Therefore ASM Horwath does not accept any liability for any action taken or not taken on the basis of this Tax Tip.*