

HOW TO LAWFULLY EMPLOY YOUR CHILDREN IN YOUR PROPERTY BUSINESS & SAVE TAX

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Most landlords and property developers need help with managing their business, and involving their children has a number of potential benefits, both financially and otherwise.

This article looks at how investors can get a tax deduction for employing their children / child in their property business, and how to ensure that this is done lawfully.

Why would I want to employ my child(ren) in my property business?

Save income tax / corporation tax

Payments made to children to help with managing a property business are tax deductible for the business, and so a lower tax bill can be achieved – clearly a good result!

Children receive an income tax Personal Allowance (2024 tax year: £12,570 per person), and any income up to this threshold is tax-free. So, paying children for services provided can result in a 'one-sided' tax result, ie a tax deductible expense for the business, but NO tax bill arising on the income.

Show the benefits of work and self-employment

Bringing the children into the property business at an early stage allows them to see the day-to-day reality of running a business – both the benefits and challenges. This can have an inspirational effect on children, and give a taste of self-employment which they may not otherwise experience. Think 'Rich Dad Poor Dad' – do you want your child's only influence to be 'get good grades, get a good job, join the rat race'?!

Legacy planning

Many property investors assume that they will pass on their property portfolio to their children – but, will they be interested in that? By involving the children at an early age, this allows time to show them the ropes, inspire them, give them responsibility, and learn about all aspects of business management.

If the children take to the property business, the investor can then plan to handover a 'going concern' business – and so a wholesale sell-off of properties may not be required, since the children will take over the running of the business.

Alternatively, if the children want no part of the property business in the long term (which is sometimes what we hear from the children of our clients!), then at least the sell-off process can be planned, since it will be 'wealth', rather than a business, that will be passed on.



What kind of work can my children) legitimately do for me?

Typical work that can be done by children includes:

- ▶ Help with accounts work – logging income and expenses etc
- ▶ Help with filing tasks and general office administration
- ▶ Help with completing tenancy agreements, preparing inventories, checking invoices
- ▶ Help with sourcing and selecting materials from online sources, doing internet price comparison checks etc
- ▶ Help with preparing a property for rental, clearing furniture, old carpets, pre-tenancy cleaning / sweeping etc

Obviously, it makes sense to ease your new 'employee' into their new role gently! And ensure that you supervise closely. But, given time and training, it's often the case that teenagers quickly get to grips with the day-to-day tasks that a typical property investor deals with.

And, beware ... many children are now very computer-literate, and it's common in my experience for parents to see their children still as small children, when the reality is often that they are capable of far more than their parents imagine!

OK – but what are 'the rules' about employing children?

There are plenty of rules in place to protect children while employed – we don't live in the Victorian era!

Age 13-15

Age 13 is the minimum legal age at which a child can be 'employed' (assuming the role is not one of 'performance' i.e. acting, modelling etc). From age 13-15, a child may only work part-time, and there are restrictions of both the amount of work possible, and its timing: for example, working before 7am, or after 7pm, is banned, as is working in school hours, and working in inappropriate locations, eg factories, building sites. Thankfully, working in the typical property investor's home office is allowed.

School-aged children are not entitled to the National Minimum Wage. Children under 16 do not pay National Insurance. There are also special rules around term times, and school holidays:

Term-time rules

During term time children can only work a maximum of 12 hours a week. This includes:

- ▶ a maximum of 2 hours on school days and Sundays
- ▶ a maximum of 5 hours on Saturdays for 13 to 14-year-olds, or 8 hours for 15 to 16-year-olds

School holiday rules

During school holidays, 13 to 14-year-olds are only allowed to work a maximum of 25 hours a week. This includes:

- ▶ a maximum of 5 hours on weekdays and Saturdays
- ▶ a maximum of 2 hours on Sunday

During school holidays 15 to 16-year-olds can only work a maximum of 35 hours a week. This includes:

- ▶ a maximum of 8 hours on weekdays and Saturdays
- ▶ a maximum of 2 hours on Sunday

Age 16-17

Children from age 16 can work on a full-time basis up to 40 hours per week. Young workers aged 16 to 17 are entitled to at least £5.28 per hour. If you pay any employee (whether your children or otherwise) over £123 a week (£6,396 a year) (2024 tax year), you must be registered as an employer and operate a PAYE scheme.

Age 18+

The National Minimum Wage of £7.49/hour (as at January 2024) applies – your child is now an adult! As well as being entitled to a pay rise, all the employment rights and rules affecting adults now apply.

What about payroll taxes and PAYE deductions?

For payments up to £6,396 per year per person, there is no need to operate a formal PAYE scheme (as at January 2024).

Most property investors – certainly those not operating through a company – don't have a PAYE scheme in place, and given the above fairly generous threshold, don't need a PAYE scheme. Those investors who already operate a PAYE scheme would add the new employee to the payroll and administer the wages in the usual way (ie, if you have a PAYE scheme, this applies to all employees).



For those investors who don't operate a PAYE scheme, it is still important to keep proper records of hours worked, wage rate paid, total paid, etc. Remember, by including wages paid to children in your accounts and tax returns, you make these payments business expenses which can be scrutinised by all relevant authorities, as well as HMRC.

For example, some local councils say that businesses intending to employ school-aged children must apply for a child employment permit before they can be employed, as otherwise the employer may not be insured against accidents involving the child.

And finally ...

It goes without saying that wages paid to children must be for actual work done – it would be tax fraud to include fictitious payments in business accounts to claim these as a tax deduction. In particular, it is important that payments are actually made, and ideally direct to the bank account of the child, to evidence payment.

Records of the work done should be kept, and of course pay a wage rate that is sensible, bearing in mind the work being done, and age and experience of the employee (no £100/hour payments made to your 13-year-old for undefined "admin")!

Summary

Involving children in your property business can be a great way to utilise your child's Personal Allowance, receive a tax deduction in your accounts, provide genuine paid work to a young person, and motivate and inspire the next generation of property investors.

Knowing the rules around employing a child is essential to stay compliant with the law as well as on the right side of the taxman!

Get in touch

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