Headlines

- Can Your Company Pay into Your Spouse's Pension Tax Efficiently?
- Can You Waive a Director's Loan Without Paying National Insurance?
- Top Tax-Free Perks Every Business Owner Should Know
- Challenging an HMRC Decision? Make Sure You Use the Right Route

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Can Your Company Pay into Your Spouse's Pension Tax Efficiently?

Making pension contributions is one of the most tax-efficient ways to extract profits from a company. But what happens if you've already used your own pension annual allowance? Can your company start paying into your spouse's pension instead?

The answer depends on your spouse's relationship with the company, and getting it wrong could lead to an unnecessary tax bill.

Can anyone contribute to a pension?

Yes. Anyone can contribute towards another person's pension.

Where your spouse has little or no earnings, contributions of up to **£3,600 a year** can still be made into their pension and qualify for tax relief.

For example, if your spouse has no taxable income, a gross pension contribution of **£3,600** would only cost **£2,880**, with the pension provider claiming basic rate tax relief from HMRC.

Can the company make the contribution instead?

This is where many business owners are caught out.

Employer pension contributions made on behalf of employees and directors are generally exempt from income tax and National Insurance, and the company can usually claim corporation tax relief.

However, these tax advantages do not apply if your spouse is not an employee or director of the business.

If your company pays directly into the pension of a spouse who has no role within the business, the payment may be treated as additional remuneration to you, resulting in an unnecessary tax charge.

A more tax-efficient solution

If your spouse genuinely works in the business, employing them can provide a much more efficient outcome.

The role could involve administration, bookkeeping, customer support or even serving as a fellow director, provided the remuneration package is commercial and appropriate for the work performed.

Once your spouse is an employee, the company can generally make employer pension contributions on their behalf without creating an income tax or National Insurance charge.

An added advantage is that **employer pension contributions are not limited by the employee's level of earnings,** although the normal pension annual allowance rules still need to be considered.

What if your spouse is a shareholder?

Another option may be available where your spouse owns shares in the company.

If you transfer a small shareholding to your spouse and the company makes a pension contribution, the payment may instead be treated as a distribution rather than employment income.
Where your spouse has little or no other taxable income, the overall tax cost can be significantly lower than if the payment were treated as salary.
However, unlike employer pension contributions for employees, the company would generally **not receive**

corporation tax relief on this type of payment.

Example

Suppose your spouse has no taxable income and is not currently working.

You could personally contribute **£3,600** into their pension each year. After basic rate tax relief, this would cost **£2,880.**

Alternatively, if your spouse genuinely works in your business as an employee, the company may be able to make employer pension contributions directly into their pension, potentially providing a more tax- efficient outcome for both the business and your family.

Final thoughts

Pension contributions remain one of the most effective ways to build long-term wealth tax efficiently. However, when contributing to a spouse's pension, the route you choose matters.

If your spouse is not connected to the business, personal contributions are generally the safest option. If they genuinely work for the company, employer pension contributions can offer significant tax advantages.

Before making contributions, it is worth reviewing the structure carefully to ensure you maximise the available reliefs while avoiding unexpected tax charges.

Can You Waive a Director's Loan Without Paying National Insurance?

Many directors use their director's loan account to withdraw funds from their company. If the loan remains outstanding and repayment is unlikely, writing off the balance may seem like a simple solution. However, doing so without careful planning could trigger an unexpected National Insurance liability.

What happens when a loan is written off?

The tax treatment depends on your relationship with the company.

For employees or directors who are not shareholders, a loan waiver is generally treated as employment income and taxed in the same way as salary.

For shareholder-directors, the position is usually different. A loan written off is normally treated as a distribution, meaning it is taxed as a dividend rather than employment income. This often results in a lower overall tax liability.

The National Insurance trap

While the income tax rules may treat the write-off as a dividend, the National Insurance rules are not always aligned.

HMRC may argue that the loan was provided because of the individual's employment rather than their shareholding. If this argument succeeds, the amount written off could become liable to both employer's and employee's Class 1 National Insurance contributions.

This can significantly increase the overall cost of writing off the loan.

How to reduce the risk?

The way the write-off is approved can make a difference.

Rather than simply approving the waiver through a board meeting, businesses should consider whether it is more appropriate to approve the transaction through a shareholders' resolution. This helps demonstrate that the write-off is being made because the individual is a shareholder rather than an employee.

As with many tax matters, the legal documentation should reflect the commercial reality of the transaction.

An alternative approach

In many cases, there is a simpler and more tax-efficient solution.

If the company has sufficient distributable profits, it may be preferable to declare a dividend and use it to clear the overdrawn director's loan account.

Instead of paying the dividend in cash, it can simply be credited against the outstanding loan balance. This generally produces a clearer tax outcome and reduces the risk of a National Insurance challenge.

Example

A director owes the company £20,000 through their director's loan account.

Rather than writing off the loan, the company declares a £20,000 dividend and credits it directly to the loan account. The loan is cleared without any cash changing hands, and the payment is treated as a dividend rather than employment income.

Provided the company has sufficient distributable reserves, this approach can often be more straightforward and tax efficient than writing off the loan.

Final thoughts

Writing off a director's loan is not always as simple as it appears. While it may seem like an easy way to remove an outstanding balance, the National Insurance implications can easily be overlooked.

Before taking action, it is worth reviewing whether a dividend or another method of clearing the loan would produce a better tax outcome. A small amount of planning beforehand could help avoid an unexpected tax bill later.

Top Tax-Free Perks Every Business Owner Should Know

Many business owners focus on reducing corporation tax and income tax but overlook some of the valuable tax-free benefits their company can provide. Used correctly, these perks can increase the value of your remuneration package without creating an unnecessary tax bill.

Here are some of the most valuable tax-free benefits available to directors and employees.

Employer pension contributions

Employer pension contributions remain one of the most tax-efficient ways to extract profits from a company.

The company can make contributions directly into your pension, usually receiving corporation tax relief while avoiding income tax and National Insurance for the employee. Pension funds also grow free from income tax and capital gains tax, making them an effective long-term planning tool.

Interest-free director's loans

A company can lend up to **£10,000** to a director or employee without charging interest.

Provided the balance does not exceed this limit, there is no taxable benefit in kind. This can provide useful short-term funding without the cost of commercial borrowing.

If the balance exceeds £10,000, however, a taxable benefit may arise unless interest is paid at HMRC's official rate.

Company mobile phone

A company can provide one mobile phone, together with the associated contract, completely tax free.

The exemption applies even where there is private use, provided the contract is between the mobile network and the company rather than the individual employee.

Trivial benefits

Small gifts can often be provided without creating a tax charge.

A business can generally provide **trivial benefits** costing no more than **£50 each**, such as:

- Birthday gifts
- Flowers
- Hampers
- Bottles of wine
- Gift vouchers that cannot be exchanged for cash

For directors of close companies, the exemption is usually limited to **£300 per tax year,** allowing up to six £50 gifts each year.

Workplace parking

Providing employees with workplace parking is another valuable tax-free benefit.

Whether the business owns or rents the parking spaces, there is generally no income tax or National Insurance charge where parking is provided at or near the employee's workplace.

For employees who commute into busy town or city centres, this can represent a significant annual saving.

Cycle to Work scheme

Employers can also provide bicycles and cycling safety equipment under the Cycle to Work scheme.

Where the qualifying conditions are met, employees can use the equipment for commuting and business journeys without creating a taxable benefit.
This can encourage healthier travel while providing tax savings for both employers and employees.

Workplace electric vehicle charging

As electric vehicles become more common, another useful exemption is employer-provided charging facilities.

Employees can charge their own electric vehicles at the workplace without creating a taxable benefit, helping reduce running costs while supporting greener travel.

Final thoughts

Salary and dividends are only part of the picture when it comes to tax-efficient remuneration. Making use of available tax-free benefits can provide valuable savings for both businesses and employees.

Reviewing your remuneration strategy regularly can help ensure you're taking advantage of all the reliefs and exemptions available while remaining fully compliant with HMRC's rules.

Challenging an HMRC Decision? Make Sure You Use the Right Route

Receiving an unexpected tax assessment or an unfavourable decision from HMRC can be frustrating, but acting quickly without understanding your options can make matters worse. One of the most important decisions is not whether HMRC is right or wrong, but how you challenge the decision.

Choosing the wrong route could result in unnecessary delays, additional costs and, in some cases, losing the opportunity to have your case heard altogether.

Most tax disputes belong in the Tax Tribunal

If you disagree with an HMRC assessment or decision, the first step is usually to determine whether you have a statutory right of appeal.

Most tax disputes are dealt with by the First-tier Tax Tribunal, an independent body that considers whether HMRC has correctly applied the tax legislation. This is the appropriate forum for disputes involving income tax, corporation tax, VAT, capital gains tax and many other tax matters.

In most cases, if a statutory appeal is available, this should be your first course of action.

Judicial review is different

Judicial review is often misunderstood.

It is not another opportunity to argue that HMRC has calculated your tax incorrectly. Instead, it focuses on whether HMRC acted lawfully, fairly and within its legal powers when making a decision.
For example, judicial review may be appropriate where:

- HMRC has acted outside its statutory powers.
- There is no right of appeal through the Tax Tribunal.

- The decision-making process was unfair.
- Relevant evidence was ignored.
- HMRC acted irrationally or failed to follow the correct legal process.

These situations are relatively uncommon, which is why judicial review is generally considered a remedy of last resort.

Why choosing the right route matters

Many taxpayers assume that if they disagree with HMRC, they can simply ask the High Court to intervene. In reality, the courts will usually expect taxpayers to use the statutory appeals process where one exists.

Starting the wrong type of proceedings can waste valuable time and increase legal costs, while leaving the underlying tax dispute unresolved.

Understanding the correct procedure from the outset can significantly improve your chances of achieving a successful outcome.

Don't miss the appeal deadline

HMRC decisions are usually accompanied by strict time limits for making an appeal.

Missing these deadlines can severely restrict your options and, in some cases, prevent an appeal altogether. Even where a late appeal is accepted, additional hurdles and costs may arise.

Reviewing your position as soon as you receive an HMRC decision will help ensure your rights are protected.

Final thoughts

Successfully challenging an HMRC decision is not just about having strong technical tax arguments. It is equally important to follow the correct legal process.

Whether your dispute belongs before the Tax Tribunal or, in exceptional circumstances, is suitable for judicial review, understanding the correct route from the outset can save significant time, cost and frustration. If you are unsure how to proceed, seeking professional advice early can make all the difference.

Interesting Reads

How to start as a Self-Employed Carer in the UK

If you currently work as a carer, considering self-employment gives you control over the clients you work with, your schedule, and your pay.

What is the VAT Domestic Reverse Charge?

The VAT domestic reverse charge (DRC) was introduced to combat fraud on the UK VAT system. In this mechanism, the responsibility for accounting for VAT is shifted from suppliers to customers on their VAT returns.

Complete VAT Guide for Businesses in the UK

A value-added tax (VAT) is a universal consumption tax based on the value added to goods and services at each stage of production and sale. It applies to almost all goods and services bought and sold for use or consumption in the UK.

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