INFORMATION SHEET

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Moving income to your children for tax advantage

Parents often transfer shares in their companies to their younger children to try to avoid tax by making use of the child's tax free allowance and lower tax rates. These attempts can of course be overturned by HMRC using 'settlement legislation' which means that the dividends paid to children (minors) count as the income of the parent.

However there is merit in the arrangement, as the tax that the parent pays won't be any more than it would have been otherwise and when the child reaches 18 the rules won't apply; the parent won't be paying tax on the dividend and the child can potentially begin to receive a tax free income (a great help for University fees).

Capital gains tax needs to be considered when the shares are transferred, but with planning the issue can be minimised, especially if the transfers take place in the early years of the business.

Another benefit - the company can buy back the shares when the child is older or they can be sold to the parent; both routes offer tax free opportunities and can help get some very useful funds to a child.

At OCL we have been looking after SMEs (start ups to turnovers of £3 million) for more than twenty years; we would be pleased to meet you to discuss any tax, financial and accounting matters that would help you, including how we can help you save money.

Please call or email to make an appointment – NO OBLIGATION OR CHARGE – to discuss your own situation and to see how we might help.

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