

## Let's Talk About .... Claiming Tax Deductions for Payments to Family Members for Services Provided to Your Business

### To be able to claim a tax deduction for payments to family members for services:

- the family member must provide services to your business;
- the amount paid must not be excessive; and
- if the family member is your spouse or partner, you must have Inland Revenue Department (IRD) prior approval for a deduction unless you run your business through a company.

### Family members are defined by IRD as:

- your spouse or partner;
- your parents, children, sisters, brothers, grandchildren, and grandparents and the spouses and partners of those persons;
- your spouse or partner's parents, sisters, brothers, grandchildren, and grandparents;
- your and your spouse or partner's adoptive parents, adopted siblings, children, and grandchildren;
- the trustee of a trust that any of these people has or can benefit under.



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**If a family member provides services to your business,** you must be able to show that the family member provided services to your business. Depending on the circumstances, the types of evidence that might be relevant include:

- a wage book or diary (manual or electronic) recording the dates, hours worked, and type of services provided by the family member;
- a vehicle log book recording the dates and nature of business travel undertaken by the family member;
- copies of any PAYE payment information;
- an employment contract or contract for services;
- if the family member is an independent contractor, invoices detailing the nature of the services provided;
- bank statements or other documents showing the amounts you paid to the family member for the services provided.

## **Payments must not be excessive**

- Payments made to family members should be at market rates

## **IRD prior approval**

If the family member is your spouse or partner, you must have IRD prior approval for a deduction, unless you run your business through a company. Approval is required whether you pay your spouse or partner a salary or wages, a commission, or another amount for services. The IRD will only grant approval if:

- the payment is for services rendered;
- the services are not domestic services or otherwise services connected with the home, although, if you are a farmer, the IRD may approve a deduction for amounts you pay your spouse or partner to cook for farm employees;
- the services are provided in earning income from your business;
- a deduction for the payment has not been claimed.

**To apply for approval**, you will need to send the IRD details of:

- the nature of your business;
- full details of the services your spouse or partner provides;
- the average number of hours your spouse or partner works each week and the number of weeks worked each year;
- if others provide the same services to your business as your spouse or partner, details of the services the others provide and the payments you make for them; and
- the amount you pay your spouse or partner and how the amount is paid (for example, at regular intervals or periodically or by crediting an account).

As it is important to ensure that the criteria is met to ensure the payment to a family member can be claimed as an expense. We suggest you contact us for advice, or visit the IRD website for further details – [www.ird.govt.nz](http://www.ird.govt.nz)

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