

FINANCE ACT 2010

EXPLANATORY NOTES

INTRODUCTION

Section 31 Schedule 7: Gifts of Shares Etc to Charity

Background Note

Example 1

Mr Jones enters into an agreement with Company X to buy £200,000 of shares in a FTSE 100 company from Company X for £30,000. The shares come with an option attached for Company X to buy them back after three years for £1.

Two days after purchasing the shares Mr Jones donates them to Charity B and claims under section 431 of ITA that this is a donation of £200,000 – the market value of the shares. He claims that the fact that the option to buy the shares back for £1 exists is not taken into account in valuing the shares because the option is a contingent liability which is ignored under section 440(2)(b) of ITA.

However new section 437(1A), (1B) & (1C) of ITA will apply because the shares were acquired within four years of the date of disposal and the reason Mr Jones purchased them was so he could donate them to Charity B and claim tax relief. As the cost of buying the shares was only £30,000, compared to their market value of £200,000, Mr Jones is only entitled to relief of £30,000 under section 431 of ITA.