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Forrester Boyd
CHARTERED ACCOUNTANTS

CHARITY

Making the most of charitable giving

Charities carry out vital work in the community and have recently been much to the fore. They support almost any field you can think of – medical research, social justice, the environment, animal welfare and the arts, to name but a few. Most charities depend heavily on donations from individuals so it's common sense to maximise the impact of your gifts.

A regular monthly commitment gives charities a reliable income stream and allows you to budget for your donations. For greatest effect, provided you pay enough tax (at least one quarter of your total donations in the tax year), make sure you tick the gift aid box, which will let the charity claim gift aid tax of £25 for every £100 you give. If your top rate of tax is more than 20%, you can also claim tax relief yourself. No details of your tax affairs will be disclosed to the charity.

Be careful if you donate from a joint bank account, especially if the account holders pay tax at different rates, or one of them is not a taxpayer. The gift aid declaration must be from the actual donor, or a joint declaration could be made if both are taxpayers.

> *Make sure you tick the gift aid box. That will let the charity claim gift aid tax of £25 for every £100 you give.*

Another potential pitfall comes where the donor receives some benefit from the charity. Gift aid relief is due only if the benefit is minor, for example free admission to heritage properties with the National Trust does not usually prevent gift aid. However paying for membership for another person is always outside gift aid relief, because your payment is a gift to the other member, not to the charity.

You should report your gift aid donations on your tax return. You can also include donations you are making in the current year and carry them back, provided your return is not late. For example you could claim relief in your 2022/23 tax return on donations made from 6 April 2023 up to the date you submit your return. You may wish to do this if you want tax relief sooner or if you will not pay higher rate tax in 2023/24, but you did in the previous year.

TAX

Property tax time bomb

HMRC is writing to taxpayers subject to the annual tax on enveloped dwellings (ATED) reminding them of the need to revalue their properties at 1 April 2022 ready for 2023/24. Properties are revalued every five years.

ATED is mainly payable by companies owning UK residential property valued at more than £500,000. The ATED year runs from 1 April, and the return and payment for 2023/24 will be due by 30 April 2023.

Various reliefs and exemptions – in particular, letting the property out on a commercial basis – can mean no ATED is payable.

Banding

For 2023/24, the charge starts at £4,150 for properties valued between £500,001 and £1 million, increasing to £269,450 for properties valued over £20 million. Moving up a banding at least doubles the amount of charge.

Property prices have gone up on average 29% for the five years to April 2022, with higher regional increases. Many taxpayers will therefore see their property moving up an ATED band, and they will need to budget for the increased charge. For example, in 2022/23 the charge on a property valued at £1,900,000 was £7,700, but will become £28,650 for 2023/24 if the property is now worth over £2 million.

New to ATED

Property previously valued under £500,000 might now fall into the ATED reporting regime, and owners will not receive any warning from HMRC. Penalties are charged for late filing or payment.

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BUSINESS

Changes to company share option plans

Changes to company share option plans (CSOPs) from April 2023 will widen access and offer greater benefits to employees. But for most smaller companies, enterprise management incentive options (EMI) will remain preferable.

A CSOP allows a company to grant tax-advantaged share options to selected directors and employees. The option must be granted at an exercise price that is not less than the market value of the shares at the date of the grant. When the option is exercised, any increase in the value of the shares between the grant and the exercise is free of income tax and national insurance contributions.

The maximum market value of shares over which a company can grant CSOP options to any individual will double to £60,000 from 6 April 2023. The new limit is still much lower than the £250,000 EMI limit but the conditions the company must meet for an EMI scheme are more restrictive.

The current 'worth having' restrictions on share classes for a CSOP will also be lifted from 6 April 2023. The restrictions prevent companies backed by venture capital, and others with multiple share classes, from operating a CSOP.

Remuneration benefits

CSOP options can form a useful part of a remuneration package for employees and directors.

- Options can be limited to selected employees, but directors working fewer than 25 hours a week cannot be included.
- Employees must exercise their option between three and ten years after the grant except in limited circumstances such as retirement or redundancy.
- The company could require employees to achieve specified performance targets before they can exercise their options.
- Employees may be liable to capital gains tax if they hold on to their shares after exercising options.

Allow time to get set up

Companies interested in establishing a new CSOP will need time to formulate the scheme rules and prepare employees, so don't wait until April to get started. Companies not listed on a stock exchange will also need to negotiate a valuation of their shares with HMRC.

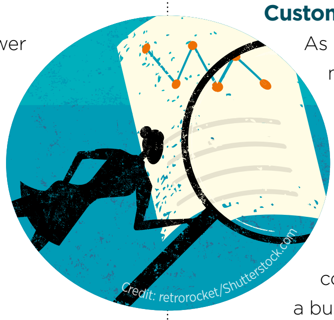
BUSINESS

Insolvencies spike exposing fraud

Company insolvencies are soaring, highlighting the impact of the energy crisis and inflation. The rise in cases is bringing a worryingly significant amount of fraud to light. What should you look out for?

Protecting assets

Company owners obviously want to prevent misappropriation of company assets. Smaller businesses are especially at risk because they generally have fewer controls in place than larger organisations and can be disproportionately affected because fraud can often be significant in relation to income.



There are various types of fraudulent activity, for example:

- **Employees:** Financial pressures can lead to otherwise honest employees abusing the company's trust. The fraud might not be outright theft, but the use of company assets for personal gain.
- **Inventory theft:** Stealing goods for resale is made much easier if there are poor inventory controls in place, such as where employees can easily change records to cover for shortages.
- **Directors:** The scope for errant directors to carry out fraud is wider still and could include selling off assets to a company – related to the director – at below market value.

Customers

As difficult as it can be, businesses need to avoid dealing with fraudulent customers and avoid extended credit where possible.

If caught up in a phoenix company fraud, the financial cost can be so great that a business ends up insolvent. The assets of a failing company are transferred at below market value to a new 'phoenix company' before insolvency, with little funds remaining to pay creditors.

Mitigation

There is no way to prevent fraud completely, but vigilance, for example spot checks and especially due diligence, can help. This applies particularly for new customers. It's not infallible, but checking directors' credentials could well highlight serial abusers of the phoenix company arrangement. Review information on the Companies House website.

TAX

Online CGT service errors

Non-resident taxpayers disposing of UK residential property may be paying incorrect amounts of CGT due to the way the online UK property service works.

Disposals of UK residential property must be reported to HMRC via a UK property account, with tax due at the same time. However, for non-resident taxpayers, HMRC has confirmed the service may not calculate the gain correctly, and might even say there is no tax to pay. This is not a bug as such, just the way the system is designed.

The problem arises because non-resident taxpayers can use a rebased value – 6 April 2015 for residential property – instead of acquisition value and the help sections of the UK property service do not give guidance for non-residents to calculate gains.

The system will always calculate the gain on the figure entered as the initial gain or loss, so an accurate calculation is dependent on non-resident taxpayers inserting the correct figure based on the rebased value at the outset.