TAX UPDATE

July 2014

Social Investment Tax Relief

In April 2014 the UK introduced a social investment tax relief (SITR), which is intended to make the UK one of the easiest places in the world to invest in social enterprises.

In general terms, social enterprises are businesses that trade for social good or public benefit, and often undertake projects in the local community. They make up about 7% of the SME population and exist in a range of sectors such as employment, healthcare and sport and leisure.

These businesses often face a funding shortage, and SITR provides a tax incentive to help bridge this gap. Here are some of the headline features for individual investors:

- Maximum investment per individual will be £1 million in each tax year
- Minimum investment period of three years
- 30% income tax relief and exemption from capital gains tax

The relief will be available for private investment into qualifying social sector organisations: charities, community interest companies and community benefit societies. The social enterprises must have fewer than 500 employees and less than £15 million gross assets.

As a means of attracting investment, SITR creates a more level playing field for social enterprises when compared with other small companies. The table below compares the headline position of the three main tax advantaged schemes for investors.

	Social Investment Tax Relief (SITR)	**Enterprise Investment Scheme (EIS)**	**Seed Enterprise Investment Scheme (SEIS)**
Maximum raised per entity	Eur 344,827 (approx. £283,000) [1]	£5,000,000	£150,000
Maximum investment per individual	£1,000,000	£1,000,000	£100,000
Nature of investment	Share capital, debt instruments	Subscription for ordinary share capital	Subscription for ordinary share capital
Income tax relief [2]	30%	30%	50%
CGT exemption available on sale [2]	Yes	Yes	Yes

1 This maximum limit applies over a rolling three year period. The government hopes to increase this cap, although this will require EC State Aid approval.
2 Minimum 3 year holding period

As SITR is a government approved scheme, as might be expected, there is a considerable amount of legislation behind the headlines. For instance, an investor cannot be an employee, trustee or remunerated director of the social enterprise, nor can they hold more than 30% of the share/loan capital or voting power.

Tax relief is closely aligned to the Enterprise Investment Scheme, although one key difference is the nature of the qualifying investments. SITR includes qualifying loans, as some social enterprises do not have equity capital. These debt instruments must not carry any charge over assets or offer more than a commercial rate of return.

SITR will be an attractive scheme for social entrepreneurs looking to raise funds, as well as for investors looking for investments that reflect their social and ethical values. Hopefully, in the future SITR will become an integral planning tool for both investors and social enterprises.

Further information

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