

Social Investment Tax Relief (SITR)

Social Investment Tax Relief (SITR) is designed to help social enterprises raise finance. It achieves this by offering a range of tax reliefs to people who make qualifying investments into social enterprises. This factsheet looks at the requirements to qualify for relief and the tax benefits that can be obtained.

When is SITR available?

SITR applies to 'qualifying investors' who make a 'qualifying investment' in a 'social enterprise'. SITR relief is available for qualifying investments made between 6 April 2014 and 6 April 2019.

Am I a 'qualifying investor'?

A qualifying investor is an individual who:

- has subscribed for new shares or debt, in cash, in a qualifying social enterprise;
- owns no more than 30% of the social enterprise's share capital, loan capital or voting rights in the period of one year before the investment and three years afterwards; and
- is not employed by the social enterprise, nor a trustee, partner or paid director of the social enterprise.

For how long must the qualifying investor conditions be met?

These conditions must be met for three years from the date of the investment otherwise tax relief will be withdrawn.

Is the social enterprise a qualifying investment?

There are a number of conditions which must be met by the social enterprise in order for the investor to be able to claim SITR.

Conditions to be met at the time of the investment

The investment vehicle must:

- be a social enterprise which includes community interest companies, community benefit societies and charities;
- be unquoted (the social enterprise can be listed on the Alternative Investment Market for the purpose of this relief);



- employ fewer than 500 full-time employees (where it is a parent company, the group must have fewer than 500 full-time employees);
- have gross assets of less than £15 million immediately before the investment and £16 million immediately after the investment; and
- not have raised more than €344,827 from SITR. This maximum amount is expected to be increased to £5m per annum, up to a maximum of £15m following state aid approval.

Conditions to be met continuously from the time of the investment

The social enterprise must:

- not be controlled by another company, or by a company and another person connected with it;
- not be a member of a partnership;
- in the case that it is a parent company, have control over any subsidiary companies that it holds;
- in the case that it is not a parent company, either be a charity or exist solely to carry on a qualifying trade; and
- use the funds raised from the share or debt issue in a qualifying trade, either by it or a 90% subsidiary (which is also a social enterprise), within 28 months of the investment. If the trade has not yet commenced it must do so within two years of the investment.

Social Investment Tax Relief (SITR)

What form can the investment take?

Shares

The shares must be full-risk ordinary shares. They must not include rights to a fixed dividend nor any preferential rights to assets in a wind up over other share classes or debts.

Debt

The debt must be in the form of a debenture. It should not be secured on any assets of the social enterprise and the return must not exceed a commercial rate. It must be subordinated to other debts and rank pari-passu to the lowest ranking shares.

What is a qualifying trade

A qualifying trade must be carried on by the social enterprise throughout the investment period and for at least four months before a claim is made. A trade is broadly defined as 'being conducted on a commercial basis with a view to the realisation of profit'.

Qualifying trades include all forms of trade except certain excluded activities such as: dealing in land; financial activities; property development; fishery and aquaculture activities; road freight activities; and trades including the benefit of Feed in Tariffs.

If the above excluded activities account for, broadly, 20% or more of the activities of the social enterprise as a whole it will not be a qualifying trade.

Are there investment limits?

The maximum investment by an individual in one or more social enterprises in any given year is £1 million. This limit is separate to any other investments made, for example, under the Enterprise Investment Scheme or Seed Enterprise Investment Scheme.

What are the tax benefits?

30% income tax relief

The income tax relief is 30% of the sum invested, which is set against the individual's income tax liability for the tax year in which the investment was made.

Subject to the annual investment limit of £1 million, an election can be made for all or part of the investment in the current year to be treated instead as arising in the previous year. This may be useful if the current year liability is insufficient to use all the relief. However, as SITR was only introduced in April 2014 there is no scope to carry back an investment made in the 2014/15 tax year to 2013/14.

CGT exemption

Assuming you are a qualifying individual and you hold the investment for more than three years from the issue date, any capital gain on the disposal will be tax free.

CGT deferral relief

Capital gains tax on a gain from any asset disposal made in the period 6 April 2014 to 5 April 2019 can be deferred against an SITR share or debt investment. The SITR qualifying investment must be made either one year before or 3 years after the gain arose. SITR income tax relief does not need to be claimed to qualify for CGT deferral relief.

The tax on any gain deferred in this way becomes payable on disposal of the SITR investment or if the social enterprise loses its SITR status. If, however, an amount equal to the gain is then reinvested in new shares or debt qualifying for SITR the gain can be deferred again.

When the deferred gain becomes chargeable on the disposal of the SITR investment the gain will be taxed at the rate of CGT in force at that time. However, for any gains arising on or after 3 December 2014 that would have qualified for Entrepreneurs' Relief at the time of the original disposal but are then deferred into SITR, they will continue to qualify for the 10% tax rate at the point the gain becomes taxable.

This release has been prepared as a guide to topics of current financial business interests. We strongly recommend you take professional advice before making decisions on matters discussed here. No responsibility for any loss to any person acting as a result of the material can be accepted by us.

Hazlewoods LLP is a Limited Liability Partnership registered in England and Wales with number OC311817. Registered office: Staverton Court, Staverton, Cheltenham, Glos. GL51 0UX. A list of LLP partners is available from each office. Hazlewoods LLP is registered as auditors by the Institute of Chartered Accountants in England & Wales.