

# Social Investment Tax Relief (“SITR”)

A decorative graphic consisting of a white circle on the left, from which a white arc curves upwards and to the right, ending at the right edge of the slide.

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# Recap

- It's a way in which investors can support social enterprises, and enjoy tax relief on their investments
- Works like this:
  - **Individual** invests money into a **social enterprise** by way of **shares or debt**
  - Individual claims **tax relief** on the amount invested
  - The social enterprise applies the funds in a **trading activity**
  - After **three years** (or longer) the investment is sold or repaid
- Key point: this is a tax relief to support trading activity. Not gift aid

# The Tax Reliefs

- **Income tax relief** – 30% income tax relief (with carry back facility for investments made after 5 April 2015)
- **Capital Gains Tax deferral** – if a chargeable gain (made after 5 April 2014) is re-invested into an SITR-qualifying investment, the CGT liability on that gain is deferred until the SITR investment is disposed of
- **Tax free Capital Gains** – gains made on disposal of shares are free of capital gains tax

# EIS for social investors?

- **Debt: can invest in unsecured debt** – addresses investors’ concerns around liquidity, and ability to find an exit route
- **Must invest in “social enterprises”:**
  - **Charities** – can be a trust or a company
  - **Community Interest Companies** – again, can take any form of CIC
  - **Community Benefit Societies** – Not registered social landlords. Must be a “prescribed” bencom (i.e. incorporate, in its rules, the asset lock)
  - **Accredited Social Impact Contractor** (typically a special purpose vehicle that will issue social impact bonds to raise finance for a particular project – also includes “spot purchase” SIBs)

# EIS for social investors?

## o **Limits:**

- An individual limit of **£1m per tax year**
- A social enterprise cannot raise more than around **£307K\* in any rolling three year period** (“de minimis” State Aid counts towards that £307K limit)

\* Assuming exchange rate of £1 = €1.12

# The story so far – Part 1

**At the last SIA, on 2 March, the picture looked like this:**

**Over period from 6 April '14 to March '16:**

- **70** applications for advance assurance had been made to HMRC
- Of those 70: **35** had been agreed and **20** were still in progress [so **15** didn't meet the criteria]
- Fewer than **15** compliance statements (SITR1s) had been received, of which half have been accepted.

# The story so far – Part 2

## Now, the picture looks like this:

- **150** or so applications for advance assurance have been made to HMRC
- Of those 150: **70** have been agreed and **50** are still in progress [so **20** didn't meet the criteria]
- **45** compliance statements (SITR1s) have been received, of which **30** have been accepted and **5** are still in progress [so **10** didn't meet the criteria so were rejected].

# The story so far – Part 3

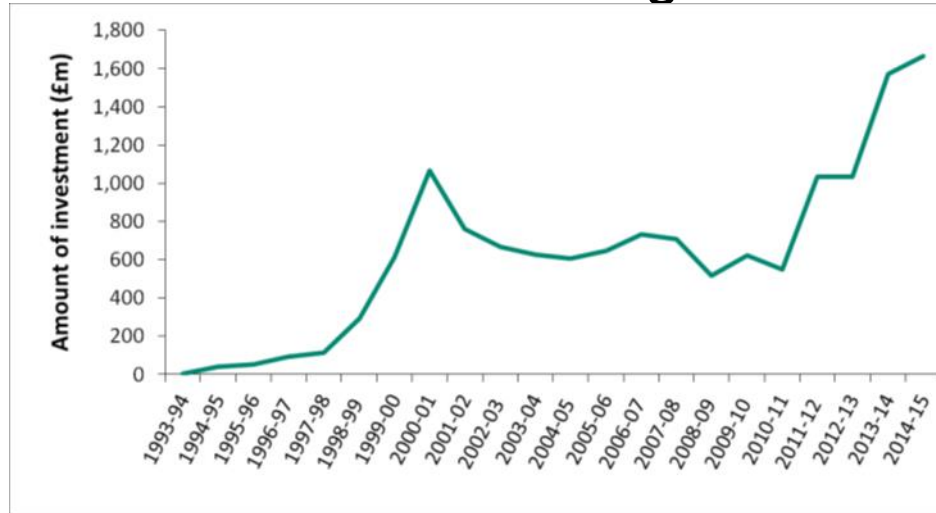
So this means in the last **six months**:

- The number of applications for advance assurance has more than **doubled** (from 70 to 150)
- The number of advance assurances given by HMRC has more than **doubled** (from 35 to 70), with another 50 still being processed
- The number of compliance statements (SITR1s) submitted to HMRC to claim the relief has **tripled** (from less than 15 to 45)



# Why bother?

- EIS raise of £1.6bn in 2014-15. But in the first year of EIS (93-94), £3.9m was raised. And growth looked like this:



# Now is the right time..

- Unlike EIS, SITR is a new tax relief for a new sector – so not a bad start..
- For IFA's clients looking for tax relieved-products:
  - Not much else around?
  - £1m individual cap *in addition to* SEIS, VCT, EIS caps...
  - Like EIS, SITR is “blessed” by HMT
- Growing interest in “profit with purpose” investing
- Is Brexit a threat or an opportunity to SITR?
- Growth in investment opportunities

# More Investment Opportunities (1)

- A lot of work now being done to get enterprises **investor-ready**
- **Existing funds** now investing
- **More funds** in the pipeline:
  - New entrants
  - Increase in limits - expect to see more funds being raised if annual limit increases to **£5m**
  - Social VCTs?

# More Investment Opportunities (2)

- **Joint ventures** between charities or social enterprises for specific projects
- **New vehicles** being established to take over the running of facilities from local government, raising SIFR finance
- **Social Impact Bonds**: at last SIA Govt. Minister said he expected the SIB market to be worth more than £1b by mid-2020 and went on to say:

*“The growth of SIBs will continue into the next Parliament and will become the norm for the way many public services are funded. Social impact bonds are barely mentioned in the media today. In a few years’ time they will be the most talked about funding mechanism for government social projects.”*

# Interested in knowing more?

- HMRC:  
[www.gov.uk/government/collections/social-investment-tax-relief](http://www.gov.uk/government/collections/social-investment-tax-relief)
- Big Society Capital website has some detailed information and links to other useful resources, as well as examples of SITR fund raises:  
[www.bigsocietycapital.com/social-investment-tax-relief](http://www.bigsocietycapital.com/social-investment-tax-relief)
- A lot of people in this room today have done SITR deals, or worked on them
- Breakout sessions later
- SITR component to Worthstone's ACT training

# thank you



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