A Simple Guide to Tax Reliefs for Charities and Social Enterprises:

An overview of tax reliefs for investing into charities and social enterprises

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A Simple Guide to Tax Reliefs for Charities and Social Enterprises

This briefing is a summary of the tax reliefs available when investing into charities and social enterprises (or in the case of gift aid, when making donations).

Charities and social enterprises can obtain finance in many ways – through donations, grants or contracts from local authorities, trading with businesses or the public, and by raising investment.

In many cases, a charity or social enterprise will get the funds it needs without needing to consider raising investment (such as by way of shares or loans). To understand more about what social investment is Good Finance have produced a short video to illustrate.

The choice to raise investment may be more appropriate for some organisations than others, and should be based primarily on the ability to repay the investment and any interest that might be due on the investment. A regular, reliable income stream from an asset or trading activity will often be a key financial consideration.

Once the choice to raise investment has been made, there are a number of available tax reliefs that might encourage investors to participate. This briefing focuses on the tax reliefs available to those investing in charities and social enterprises, including Social Investment Tax Relief, Community Investment Tax Relief and the Enterprise Investment Scheme.

Aside from tax reliefs available to investors, charities and social enterprises also need to be aware of the legal considerations for communicating the investment opportunity to investors. Bates Wells Braithwaite and Big Society Capital have produced A Simple Guide to Financial Promotions which summarises these requirements.

This briefing is a practical summary of the law. It should not replace legal advice tailored to your specific circumstances. While every effort has been made to ensure its accuracy and completeness, Bates Wells Braithwaite gives no warranty in that regard and accepts no liability for any loss or damage incurred through the use of, or reliance upon this publication. This briefing is based on tax law and practice current at the date of publication. It is, therefore, subject to any change in law or any change in the attitude or practice of HMRC occurring after this date.

Section 1

The Tax Reliefs

Below we summarise each tax relief covered by this note along with its key characteristics. For a table summary, see Appendix A.

Many of the reliefs have complex rules and **so it is always worth considering the proposed investment in detail against the relevant rules before progressing the investment plans too far**. Many of the complexities stem from the need for some of the reliefs to currently comply with EU state aid rules, discussed further below at section 5.

A. Social Investment Tax Relief ("SITR")

SITR is a tax relief designed to encourage individuals to invest in charities and regulated social enterprises and help these organisations access new sources of finance for their trading activities. SITR was introduced in 2014 to help level the playing field for charities and regulated social enterprises, which could not always take advantage of other tax advantaged schemes. The legislation setting out the criteria for SITR was based on the legislation for investments under the Enterprise Investment Scheme but with a few key differences. A leaflet summarising SITR can be found here.

Who can benefit and how?

SITR is available to individual investors investing in charities and regulated social enterprises. Individuals can deduct 30% of the amount they invest from their income tax for that year or the previous year. Investors pay no capital gains tax on the eventual sale of their investment, and if they invest capital gains from other investments into a SITR investment, they can also defer paying that capital gains tax until they sell the SITR investment.

SITR is aimed at investors who are not currently involved with the charity or social enterprise. An investor, or anyone closely connected to the investor, cannot:

- Have a "material interest" in the organisation (broadly, an interest of more than 30% of the shares, voting rights or loan capital)
- Be a director, trustee or employee of the organisation or a subsidiary of the organisation (although there is an exception for non-executive directors who are not paid and certain executive directors who do not become a director until after the investment is made); or
- Have an existing investment in the organisation (unless that investment was also made under the SITR, EIS or SEIS schemes or the investor was one of the original subscribers in the organisation).

What organisations are eligible?

Investments must be made into organisations which are either charities, community interest companies or community benefit societies (with the statutory asset lock).[1] The organisation must have less than 250 employees and less than £15m in gross assets before the investment is made.

If the organisation is not a charity, it must be a social enterprise which is carrying on a trade and whose activities do not include, to a substantial extent, non-trading activities (which will include investment activities and other non-trading activities) or excluded activities (that is certain excluded trades which are discussed below). Charities do not need to satisfy this test although the charity or a subsidiary of the charity will still need to be carrying on a trade which the investment is used for.

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[1] The statutory asset lock is an optional component for community benefit societies, and can be found in the Rules of the community benefit society. For further information see: communityshares.org.uk/resources/handbook/asset-lock-provisions.

Section 1

The Tax Reliefs

The organisation must be "independent" and so cannot be a subsidiary of another organisation or in partnership (in the formal legal sense) with other organisations. At the time the investment is made, the organisation cannot be in financial difficulty.[2]

It is possible for unincorporated charities (such as trusts or unincorporated organisations) to use SITR to raise investment, but those organisations should be careful of the risks of raising investment without the benefits of limited liability offered by an incorporated form. If the activities funded by the investment do not produce the income expected and the organisation gets into financial difficulty, the trustees themselves may be personally liable to make up any financial loss.

How much can organisations raise using SITR?

For organisations which have been carrying on the trade for which the money will be used for less than 7 years at the time the first investment is made, the lifetime limit which can be raised using SITR is £1.5million. Not all investments must be made within that 7 year period as long as the first qualifying investment is made in that period. If the organisation has previously raised money qualifying for other "risk finance" tax reliefs (like EIS or SEIS) or received other forms of state aid including some grant funding, those amounts will count towards the £1.5million limit.

For organisations older than this, the limit is approximately £290,000.[3]

What type of investments are eligible?

SITR is distinctive amongst the available tax reliefs because it applies to both investment in the form of debt instruments (loans and bonds) and shares. This is particularly useful for charities and social enterprises which are structured as companies limited by guarantee and so cannot issue shares.

How much can an individual invest?

Investors can claim SITR on up to £1million of eligible investments per year.

How long do you have to hold the investment?

In order to benefit from SITR the investor must hold the investment for a minimum of three years. Many of the conditions relating to SITR will apply for three years. After that, the investor is free to deal with the investment as they wish subject to anything they have agreed with the organisation.

What must the money be used for?

The money which is raised from the SITR must be used for the purposes of a trading activity carried on by the organisation or a subsidiary of the organisation. If the organisation carries on both trading and non-trading activities (or trading activities which are excluded activities), it is important that the organisation retains evidence to

[2] The interpretation of "financial difficulty" is based on a European Directive, and can be a complex matter. Broadly, an organisation will be in financial difficulty if, even with the help of its shareholders and creditors, it is likely to go out of business in the short or medium term.
[3] We say "approximately" here because the precise amount is set by reference to the EUR/GBP exchange rate at the relevant time.

show that the money has been used for the purposes of a qualifying trade. The money must be spent within 28 months of when the investment is made.

Any excluded activities?

Organisations whose businesses "substantially"[4] include "excluded activities" are not eligible for SITR. The excluded activities are generally those which the government believes involve lower risk activity and so do not need to be incentivised by a tax relief. For example: asset backed activities like property development or renewable energy generation, or those which already receive government subsidy, such as farming, will not qualify. They also include lending and leasing activities, including leasing of assets like sports centres and community spaces although some organisations involved in the provision of sporting facilities and community spaces may be able to benefit depending on exactly what services they provide. The test is similar to EIS and SEIS relief but there are some activities which are permitted for SITR purposes but not EIS or SEIS purposes. These include the provision of legal services and the operation of management hotels and similar establishments. The government has also announced an intention to introduce an accredited scheme for the provision of affordable social care including for some care homes. As a result some organisations (for example law centres) may qualify for SITR purposes but not EIS purposes.

Checking whether your organisation conducts any excluded activities is a key part of assessing eligibility for SITR (and EIS and SEIS).[5] Note the list of excluded activities was extended in 2017 as part of receiving state aid clearance for SITR. New excluded activities, including lending to other social enterprises and operating a care home, were added in 2017. For further information on the 2017 changes, see this note from Big Society Capital.

What other conditions apply?

The investment cannot:

- Benefit from more than one type of tax relief on the same investment (so an investor cannot claim both SITR and EIS on the same investment) although this would not prevent investments being offered under more than one scheme at the same time.
- Be used by the organisation to pay off existing loans
- Be secured against any assets or be preferred to any other investment on a winding-up.

For more information, guidance and support about SITR: www.bigsocietycapital.com/get-sitr.

B. Enterprise Investment Scheme ("EIS")

EIS was introduced in 1994 to encourage individuals to invest in small, higher-risk trading companies to help alleviate the problems such companies have in raising equity finance. It is designed to help companies raise money to grow their business. EIS is typically aimed at commercial companies rather than charities and social enterprises, but it can also apply to some social enterprises including community interest companies, community benefit societies and co-operatives provided they are limited by shares. **Importantly, EIS only applies to investments in shares, so many charities and social enterprises will not be able to benefit from it.**

[4] There is no statutory definition of "substantial" but HMRC have interpreted it in relation to EIS to mean 20% or more. It is likely HMRC would apply a similar analysis to SITR.
[5] Unfortunately a full list of the excluded activities for SITR is not yet available on legislation.gov.uk. For a summary see: SITR FAQs.

Section 1

The Tax Reliefs

Who can benefit and how?

EIS is available to individual investors investing in eligible organisations. Like SITR, individuals can deduct 30% of the amount they invest from their income tax for that year or the previous year. Investors pay no capital gains tax on the eventual sale of their investment, and if they invest capital gains from other investments into an EIS investment, they can defer paying that capital gains tax.

As with SITR, EIS is targeted at investors not currently involved with the organisation and there are conditions about the relationship between the investor and the organisation which are broadly similar to those applying to SITR.

What organisations are eligible?

Investments can only be made into an organisation with share capital, but there are also detailed criteria on the age and financial status of the organisation. Broadly, the organisation should be less than 7 years old and have fewer than 250 employees and fewer than £15million in gross assets before the investment is made.

The organisation must be carrying on a qualifying trade or be the holding company of a group which is carrying on a qualifying trade and its activities or the activities of the group must not to a substantial extent include non-trading activities or excluded activities. This is similar to the test which applies to non-charities for the purposes of SITR. However, for charities the EIS regime is harder than the SITR regime in this respect because they do not have to satisfy the trading test for SITR purposes but they do for EIS purposes.

The list of excluded activities is similar to SITR but slightly wider. There are some activities which are excluded for EIS purposes such as the provision of legal services which are not excluded for SITR purposes. Organisations carrying out these activities may be able to qualify for SITR purposes but not EIS purposes.

The organisation must be "independent" and so cannot be a subsidiary of another organisation or in partnership (in the formal legal sense) with other organisations. At the time the investment is made, the organisation cannot be in financial difficulty.[6]

How much can organisations raise using EIS?

For most organisations the limit is £5million per year and £12million over their lifetime. Investments using other "risk finance" reliefs such as SEIS and SITR and other forms of state aid count towards this limit.

How much can an individual invest?

Investors can claim EIS on up to £1million of eligible investments per year.

How long do you have to hold the investment?

The investor must hold the investment for three years. Many of the conditions relating to EIS will apply for three years. After that, the investor is free to deal with the investment as they wish.

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[6] The interpretation of "financial difficulty" is based on a European Directive, and can be a complex matter. Broadly, an organisation will be in financial difficulty if, even with the help of its shareholders and creditors, it is likely to go out of business in the short or medium term.

Any excluded activities?

Like SITR, organisations whose businesses “substantially” include “excluded activities” are not eligible for EIS. The excluded activities are generally the same as for SITR.

What other conditions apply?

Many of the other SITR conditions also apply to EIS. In addition, the organisation must satisfy the risk to capital condition. This is a new requirement introduced in the Finance Act 2018. There are two limbs to this condition: (1) The organisation must have objectives to grow and develop and (2) there must be a significant risk that the trade will result in a loss of capital of an amount greater than the net investment return. This is a “gateway” condition and it should normally be considered at the start of considering EIS. The aim of the condition is to ensure EIS is targeted at trades carrying a significant element of risk, rather than those which could still pay investors a return even if the trade failed. The risk to capital ratio also applies to SEIS but does not apply to SITR. Organisations with significant grant funding for a project which wish to raise EIS or SEIS for the same project will need to consider the risk capital ratio carefully.

For more information, guidance and support about EIS: www.gov.uk/guidance/venture-capital-schemes-apply-for-the-enterprise-investment-scheme

C. Seed Enterprise Investment Scheme (‘SEIS”)

SEIS is the “little brother” of EIS, and is designed to encourage individuals to make equity investments in start-up trading companies. The rules are designed to mirror the EIS rules – it is anticipated that companies that grow will then seek investments under EIS. Consequently many of the same rules apply as with EIS (including the new risk to capital condition mentioned above).

The important differences between SEIS and EIS are that:

- The relief available to investors is 50% income tax relief, exemption from capital gains tax on the sale of SEIS shares and full relief from capital gains tax on a gain reinvested in SEIS shares up to a maximum of 50% of the gain being deferred. This is more generous than EIS and SITR where reinvested gains are only deferred.
- Investors have an annual SEIS limit of £100,000.
- The maximum the organisation can raise is £150,000 in any three year period.
- The organisation must have been trading for less than 2 years, have no more than £200,000 in gross assets and fewer than 25 employees.

For more information, guidance and support about SEIS: www.gov.uk/guidance/venture-capital-schemes-apply-to-use-the-seed-enterprise-investment-scheme

D. Community Investment Tax Relief (“CITR”)

CITR encourages investment in disadvantaged communities by giving tax relief to investors (both individuals and organisations) who invest in accredited Community Development Finance Institutions (‘CDFI’)[7]. CDFIs provide

[7] Accreditation of a CDFI does not guarantee the safety or success of any investment in that body. It simply means that it currently satisfies the requirements enabling investors to qualify for relief under the CITR scheme.

finance to enterprises within disadvantaged communities. CITR is different to SITR, EIS and SITR in that investments are not made directly into enterprises, but via CDFIs.

How much money can an individual or organisation invest?

There is no limit on the amount of investment on which an individual may claim relief. However, the CDFI in which they are investing may be limited in the amount of CITR capital they are accredited to raise.

Organisations investing into CDFIs using CITR will also have to consider how the investment might affect their state aid position. Calculating that position can be a complex exercise, but the following government guidance might be a useful starting point:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/699978/Calculation_of_de_minimis_aid_for_companies.pdf

How much money can an organisation receive?

The amount of CITR-derived investment by a CDFI to a single enterprise at any one time is limited to £100,000 for profit distributing enterprises and £250,000 to non-profit distributing enterprises (including Community Interest Companies).

What is the rate of tax relief and how is it paid to the individual or company?

- up to 25% of the value of the investment in the CDFI;
- This is spread over 5 years starting with the year in which the investment is made;
- An individual benefits from relief against their income tax liability. Note that this relief is also available to companies – a company obtains relief against corporation tax;
- It cannot be used to offset Capital Gains Tax.

Conditions for obtaining the relief:

- CDFIs must be accredited by the Department for Business, Energy and Industrial Strategy to be able to offer CITR. They have ongoing obligations to satisfy requirements of the scheme and accreditation is granted on a rolling yearly period based on satisfactory performance evidenced by an annual report. The CDFI's principle objective must be to provide (directly or indirectly) finance, alone or together with access to business advice, for enterprises for disadvantaged communities
- The investment must remain with the CDFI for the full 5 years in order to obtain the full relief (partial relief may be obtained if the full 5 years is not met in some circumstances)
- The investment must be a:
  - Subscription for shares in, or securities of, the CDFI;
  - Loan to the CDFI;
  - Deposit with a CDFI that is a bank.

For more information on CDFIs and CITR, visit: responsiblefinance.org.uk and www.gov.uk/hmrc-internal-manuals/community-investment-tax-relief-manual/citm9900.

E. Innovative Finance Individual Savings Account ("IFISA")

The IFISA is a type of Individual Savings Accounts (more commonly known as "ISAs") that relates to investments made via accredited crowdfunding platforms. Whilst the majority of investments made via crowdfunding platforms are into commercial businesses rather than charities and social enterprises, charities and social enterprises are also eligible.

The effect of holding an investment in the IFISA is that the investor will not pay tax on any interest or capital gains.

The IFISA is the third "type" of ISA, after the two more commonly known ISAs relating to cash and stocks and shares, and the recently introduced fourth ISA known as the "Lifetime ISA". Currently, the IFISA only applies to investments made as bonds or as "peer-to-peer" investments, and does not apply to equity investments.

Investments held in IFISAs cannot qualify for the other types of tax relief described in this note.

For more information, see: www.gov.uk/individual-savings-accounts. For information on peer-to-peer investments held within an IFISA, see: innovativefinanceisa.org.uk/the-isa/. For an example of a crowdfunding platform offering bonds via an IFISA, see: www.abundanceinvestment.com/isa.

F. Gift Aid

Gift Aid only applies to donations to charities, and so technically should not be included in a note on "investing" into charities and social enterprises.

However, for charities it is a useful comparator when deciding whether or not to ask supporters for investments or donations. It may be that some of the capital you need can come from donations, and some from investment. Of course, a donation cannot be repaid, and so differs significantly from an investment.

Gift Aid may be particularly relevant when dealing with high net worth supporters of the charity, who may be attracted by the tax relief available when donating to the charity via Gift Aid. The donated amount will reduce the individual's taxable income, and so effectively grant 45% relief for those on the additional rate for income tax. Some supporters may also find it administratively easier to contribute donations as opposed to investing, particularly if they can do so through an existing vehicle like a foundation or donor advised fund.

If the money raised will not be used for the purposes of a trade, gift aid may be the only option.

For more information, see: www.gov.uk/government/publications/charities-detailed-guidance-notes/chapter-3-gift-aid.

Section 2

Key Questions to Consider

These key questions assume that you have already made some headway in identifying possible sources of investment, and are now considering how to enhance the potential investment offer by offering tax reliefs to the investors. There are a wide range of potential sources of investment from institutional investors such as charitable foundations, to crowdfunding or a small group of individuals already known to the organisation investing via a "private placement". www.goodfinance.org.uk is a useful place to start considering sources of investment or for more general information on the use of repayable finance.

A. Which type of investment am I offering?

The type of investment a charity or social enterprise can offer will depend firstly on the legal form of the organisation, and secondly on its financial circumstances.

Many charities and social enterprises cannot offer shares because they are structured as companies limited by guarantee, and so they can only offer debt instruments. That means the tax reliefs focused on shares – EIS and SEIS – will not apply.

If both the issue of debt instruments and shares are available options, the financial circumstances of the organisation and the attitude of investments will dictate which is more appropriate. In most circumstances, a debt investment will provide greater comfort to the investor regarding repayment than an investment in shares, but result in less flexible repayment obligations for the organisation. Investors may also expect a higher return on an investment in the form of shares to reflect the higher level of risk. For example, many community benefit societies have the option of issuing shares or debt instruments, and the choice of investment often depends on the nature of the project requiring investment and the length of time the organisation has been established for.

B. How much do I need to raise?

This question will no doubt be considered at the very start of discussions about raising investment, and it is relevant for the tax reliefs that might accompany the investment. For example, a community interest company issuing shares for more than £1.5million will not be able to use SITR for the whole investment and therefore may wish to consider using EIS (or a combination of the tax reliefs or alternative sources of funding: see Section 3 below). A community interest company which is more than 7 years old may not be able to issue shares which qualify for EIS or SEIS relief and so SITR might be the only option (though the lower SITR limit of £290,000 would apply).

If the organisation is raising a relatively small amount, such as £30,000, it may be that the costs spent on managing the tax relief process internally, and obtaining professional advice, are not considered proportionate to the benefit the tax reliefs would bring the investors. (This should also be considered in tandem with how many investors will want to invest and claim the relevant relief).

C. Who are my potential investors?

The identity of potential investors will affect how important offering and arranging the tax reliefs will be to encouraging investors. Investors who do not pay a large amount of income tax may be less likely to be interested in the reliefs than those who pay larger amounts, and so it may not be proportionate to offer the reliefs. However, it is likely that in most investment scenarios there will be at least a handful of investors who wish to take up the opportunity of claiming the reliefs, and those investors are likely to make up a larger portion of the total amount that needs to be raised. Some investors may also be specifically attracted to an investment because of its social impact and may be prepared to sacrifice or compromise on financial return as a result. A useful way of demonstrating this is to offer the investment using a "socially focused" tax relief such as SITR or CITR (or Gift Aid in the case of donations to charities).

Key Questions to Consider

A key distinction also relates to whether the investors are individual persons or institutions, as some reliefs (SITR, EIS, SEIS) are only available to individuals.

D. What activity is being funded?

As above, many of the reliefs depend on the organisation or a subsidiary of the organisation carrying on a qualifying trade and the money being used for the purposes of that trade and so the organisation will need to consider this as a key question when thinking of the relevant tax reliefs. If the organisation wants to raise money for a non-trading activity or for a trade which is an excluded activity it will not be able to use SITR, EIS or SEIS.

E. How much help can I give investors to follow the process required to claim the relief?

There will be some administration required of the organisation to ensure forms are correctly submitted by and some assistance required to investors with questions about the process. You should consider how this will be resourced internally and what type of communications you will use to explain the process to investors.

F. Are tax relief questions becoming too dominant?

When considering how to structure an investment it is important not to become too focused on arranging the investment to fit within one of the available tax reliefs. The reliefs could make a large difference to the number of investors that take up the investment, and the amount they invest. However, it should not become the main driver of the organisation’s activities or financial planning.

Section 3

Using More Than One Relief

Organisations can generally raise investment using more than one relief for the same investment opportunity, but investors cannot use more than one relief on the same investment. For example, a community benefit society raising £500,000 could offer SEIS to investors taking up the first £150,000 and the other investors EIS or SITR on the remaining £350,000.

However, organisations will need to be mindful of how using different types of reliefs (and other grant support they may have received from public authorities) might affect the limits that they can raise under each relief. These limits are driven by the need for state aid compliance, explained further below.

Section 4
State Aid

"State aid" is the name given to financial assistance provided to private businesses by the government. There are European Union laws regarding the use of state aid by EU governments (to prevent businesses receiving anti-competitive subsidies from governments), and those laws extend to the tax reliefs which governments offer for investing into businesses. The effect of the state aid laws on each relief depends on whether the relief has been formally approved by the EU Commission, or whether it is operated under the "de minimis" rule that allows a certain amount of state aid to exist without formal approval. For example, EIS has been formally approved as a "risk capital" tax relief scheme for the purposes of state aid, but SEIS has not. This means SEIS could never be used by businesses to raise more than the de minimis limit of £290,000 even if the government wanted to raise the current SEIS limit of £150,000. In 2017 SITR received formal approval (also as a risk capital tax relief scheme), on the condition that only social enterprises which were less than 7 years old could raise more than the de minimis limit.

State aid rules also mean that organisations that use more than one tax relief, or who receive other forms of state aid such as grants under the de minimis rules will have to consider all those sources of funding before working out how much they can raise in each investment offer using a tax relief.

If you want to know more there is a useful guide entitled the Basics of State Aid.

Section 5

Advance Assurance

“Advance Assurance” is the process by which organisations can tell HMRC how they plan to use a tax relief on a proposed investment, and seek HMRC’s assurance that the investment would qualify for relief once it is issued.

As the rules for these tax reliefs are complex and detailed, using the advance assurance process is highly recommended. There is no requirement for the organisation to apply for advance assurance, but many investors will expect to benefit from advance assurance so they have a degree of certainty the relevant tax relief will be available. As HMRC may take some time to deal with the application for advance assurance this should always be done as early as possible in the process.

Big Society Capital, as part of the GET SITR campaign, have produced a Guide to Advanced Assurance and an accompanying webinar which may offer additional support.

Section 6

Claiming the Reliefs

In the case of each of the tax reliefs in this note both the organisation and the investor must take steps to claim the relevant relief.

In the case of EIS, SEIS, SITR and CITR, it is up to the organisation to ensure that it registers the investment with HMRC and obtain suitable forms for each of the investors[8]. Depending on the investor's individual circumstances, it may be possible to either claim the relief via a self-assessment tax return or via an adjustment to their PAYE code.

For the Innovative Finance ISA, the crowdfunding platform listing the investment will offer the facility for an investor to open an Innovative Finance ISA. The investment is then made as a contribution to that ISA, in the same way as purchasing stocks and shares in a Stocks and Shares ISA. For more information on the limits relating to investing in an Innovative Finance ISA, see: www.gov.uk/guidance/manage-isa-subscriptions-for-your-investors.

For Gift Aid, only registered charities can offer Gift Aid relief on donations, and they should provide information on request as to how donors can claim the Gift Aid. Typically, this can be carried out by the donors completing the relevant section on their self-assessment tax returns. The charity itself will also wish to claim Gift Aid for its own benefit in a separate process with HMRC.

[8] For example, the EIS form is known as EIS3 and will be sent to investors by the organisation. Guidance on filling in the form should be provided by the organisation, and can also be found here.

Section 7

Examples of using the tax reliefs

Social Investment Tax Relief[9]

Freedom Bakery CIC used SITR to raise funds in 2016 for its social business. As Part of Big Society Capital's Get SITR campaign, Freedom Bakery explained the story of that investment, which you can read here.

Enterprise Investment Scheme

Community Foods Limited is a community benefit society that now operates three food outlets since forming 6 years ago. It has a wide membership of regular customers and supporters of its mission. Surplus income is donated to projects addressing food poverty. Community Foods wants to open two new outlets and needs investment to do so. Community Foods wants new members who are local to the new outlets to participate in the investment. Community Foods plans to issue £1.8million in new shares and can offer EIS on those shares, allowing investors to reduce their income tax liability by 30% of the investment amount. Community Foods has policies regarding how shareholders can be repaid their share capital, and this policy includes the requirement that those who have EIS on their share purchase cannot withdraw their share capital until at least three years after they are issued. Shareholders can receive interest on their shares, but the interest rate must be set according to FCA guidance for community benefit societies.

Community Foods did consider using SITR but wished to raise more than the £1.5million limit applying to SITR.

Community Investment Tax Relief

Community Lending Limited is a finance provider based in North West England that makes loans to local businesses in economically deprived areas. Community Lending is seeking to raise further capital to expand its lending, and decides to apply for accreditation as a community development finance institution (CDFI) in order to offer its investors the chance to claim CITR on investments into Community Lending. After achieving accreditation, Community Lending approaches a group of individuals who it knows are interested in making social investments in the region that Community Lending operates in. The individuals agree to make loans of £10,000 each to Community Lending with 5% interest, repayable at the end of the five year term. The investors can claim CITR on the loans via their self-assessment tax returns. The result is that each investor can claim relief of £500 against their income tax liability in each of the five years, and then at the end of the term be repaid their loan capital and interest. The interest received is taxed in the normal way.

Innovative Finance ISA

Community Energy Limited is a community benefit society that owns a solar farm in south west England. Following the recent changes to EIS and SITR, Community Energy can no longer raise funds using SITR and EIS. Instead, Community Energy offers a tax incentive to its investors by placing a new bond investment on a crowdfunding platform accredited for the Innovative Finance ISA. Investors who purchase the bonds through their Innovative Finance ISA will not pay tax on the interest on their bonds or any capital gains tax if they sell their bonds to a third party at a profit. Although the Innovative Finance ISA does not offer the same level of tax reliefs as EIS and SITR, it does still provide an incentive to investors.

Gift Aid

Our Space is a charity that owns a community centre. The centre offers sports and leisure spaces and rents out these spaces to local groups offering recreational and educational activities. Our Space wants to make some improvements to the community centre, and needs £80,000 to do so. As it has regular revenue streams from its

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[9] Please note these are fictional (unless otherwise stated) and are provided for illustration only.

operations, it can consider raising funds through a bond offer. However, because Our Space's activities include the excluded activity of asset leasing, the bond will not be eligible for SITR, and it cannot raise funds using SEIS and EIS because it does not have any share capital. Our Space knows there are some wealthy local people who would be interested in receiving tax relief on their support, if that is available. Our Space decides to split the fundraising between a request for donations (including Gift Aid), and a bond offer (which cannot offer any tax relief to investors). Those supporters who are keen on tax relief but do not necessarily wish to make an investment on this relatively small scale may be attracted by the Gift Aid relief. Those who are happy to make an investment on a relatively small scale, and do not have a large income tax liability they would like to offset, can take up the bond offer. Those choosing the Gift Aid donation option are forgoing the chance to earn interest and have their capital repaid (as is planned under the bond offer), because their Gift Aid donation cannot be repaid. However, they do receive the income tax relief from the donation in the same year as it is made, and may be happy not to have their donation repaid.

Appendix A

Table of Tax Reliefs

Tax Relief	Type of organisation	Type of investor	Type of investment	Rate of relief to investor	Maximum each organisation can raise/each investor can invest	Holding period	Key Points
SITR	Charity, Community Interest Company, Community Benefit Society (with an asset lock)	Individuals only	Shares, Loans or Bonds incl. Social Impact Bonds (SIBs)	30% income tax relief, CGT exempt, deferral relief for capital gains reinvested into SITR investments	£1.5 million (or £290,000 if more than 7 years old)/£1 million per year	3 years	Available to a wider group of organisations including those without share capital Can cover both shares and loans Must be used to fund a qualifying trade
EIS	Any form with shares, subject to size of organisation (including Community Benefit Societies, Community Interest Companies Limited by Share)	Individuals only	Shares	30% income tax relief, CGT exempt, deferral relief for capital gains reinvested into EIS shares	£5 million a year and £12 million over lifetime/up to £1 million per year	3 years	Only available to organisations with share capital who are carrying on a qualifying trade.
SEIS	Any form with shares, subject to size of organization (including Community Benefit Societies, Community Interest Companies Limited by Share)	Individuals only	Shares	50% income tax relief, CGT exempt, IHT relief, exemption for capital gains reinvested into SEIS shares	£150,000 in a three year period /up to £100k across all investments per year	3 years	SEIS is more generous than the other reliefs but is only available to organisations who have only been trading for less than 2 years and have no more than £200,000 in assets and fewer than 25 employees
CITR	Accredited Community Development Finance Institutions (CDFIs)	Individuals and organisations	Shares, loans or deposits	Up to 25% income tax or corporation tax relief, spread as 5% each year	No limit for investors/CDFIs can lend up to £100,000 to for profit distributing enterprises and £250,000 to non-profit distributing enterprises	5 years to receive full relief	CDFIs may be a source of finance for enterprises within disadvantaged communities. Unlike SITR, EIS and SEIS the investment is not made directly by the taxpayer into the enterprise.

Appendix A

Table of Tax Reliefs

					(including Community Interest Companies)		
IFISA	Any – but investment must be made via an accredited crowdfunding platform	Individuals only	Loans, Bonds	Investment is held in an ISA, so income and capital gains are tax exempt	An individual can invest up to £20,000 in ISAs including IFISAs each tax year	n/a	IFISAs are ISAs which allow individuals to invest via crowdfunding platforms in debt and peer to peer investments
Gift Aid	Charities only	Individuals and organisations	Donations	Higher and additional rate income tax payers can obtain relief at their applicable rate	No maximum	n/a	Gift Aid is different from the other reliefs in that only donations and not investments can qualify for tax relief and only donations to charities can qualify.

About the author

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Oliver specialises in advising charities, social enterprises and businesses with a social purpose on a range of legal and commercial matters, including social investment.

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