SOCIAL INVESTMENT TAX RELIEF: FAQS

Topic	Question or Learning Point	Response	Source
SITR – The tax relief			
SITR	How much money can I raise using SITR?	Currently the level of money that can be raised is covered by EU rules governing the initial introduction of SITR, individual enterprises can only receive a certain amount of government subsidized investment. The limit is €344,827 (about £290,000 at current exchange rates) over 3 years (the "**current 290K limit**"). The exact sterling equivalent is the spot exchange rate on the date of investment. HM Treasury has announced a series of changes to the SITR rules, which, although not yet enacted, are due to be back-dated to 6 April 2017 (the "**2017 Rule Changes**"). Under those changes a new £1.5m lifetime limit (the "**new £1.5m limit**") would be introduced for social enterprises that have been trading for less than seven years, For more details on the 2017 Rule Changes, click here.	Social Investment Tax Relief Factsheet State Aid: the basics guide
State Aid	I understand that there is a maximum amount that my organisation can raise using SITR and this amount is subject to conditions around 'state aid'. How does state aid relevant to SITR?	The only state aid that we are concerned about with regards to the current £290K limit is so-called "de minimis state aid". This is defined as follows: *(3) In this section "de minimis aid" means de minimis aid which fulfils the conditions laid down—* *(a) in Commission Regulation (EU) No 1407/2013 (de minimis aid) as amended from time to time, or* *(b) in any EU instrument from time to time replacing the whole or any part of that Regulation.* *(4) For the purposes of subsection (1), the amount of any de minimis aid is the amount of the grant or, if the aid is not in the form of a grant, the gross grant equivalent amount within the meaning of that Regulation as amended from time to time.*	State Aid: the basics guide

		However businesses seeking to take advantage of the new £1.5 limit also need to take into account any previous investment under the risk capital schemes (VCT, EIS, SEIS and SITR) and also risk finance state aid, which is defined as: *any aid (whether by way of investment, loan, grant funding or otherwise) which was received by the recipient pursuant to a measure approved by the European Commission as compatible with Article 107 of the Treaty on the Functioning of the European Union in accordance with the principles laid down in the European Commission's Guidelines on State aid to promote risk finance investment (as those guidelines may be amended or replaced from time to time)* In order to understand if any of the funding that you have received previously is de minimis or risk finance, you will need to look at the actual grant funding agreement in each case. That agreement should include a statement confirming if it is de minimis or risk finance state aid. If it doesn't, the next step is to ask the funder whether or not the grant amounts to de minimis or risk finance state aid. If it is, they should know and you will be able to calculate how and if this impacts on the amount of money you can look to raise to which SITR will apply	
FCA Regulation and Financial Promotions	When looking at SITR I often see the disclaimers or generic guidance such as "there will be legal and regulatory considerations for organisations who are seeking to secure social investment (such as the restrictions on the making of 'financial promotions'). Specific advice should always be sought on these matters from someone who is suitably qualified to provide that advice."	The Financial Conduct Authority (FCA) rules around financial promotions are lengthy. In order to try and help social enterprises and charities understand how this regulation might affect their planning when considering SITR we have collaborated with Bates, Wells and Braithwaite to produce a Simple Guide to Financial Promotions which is fully downloadable and free to access. This may help you understand more about what a financial promotion is, when it might apply and help you to ensure you comply with the regulations. This guidance is not designed to replace the need for professional legal or authorised and regulated support.	A Simple Guide to Financial Promotions

	I am concerned that this will be expensive and I am not sure at what stage of the process I need to seek advice and who is qualified to give this to me?		
Pre-Assurance	I know that it is possible to gain Pre-Assurance for an SITR scheme which may help to give investors' confidence. Is there an easy guide or form to fill in to help me with this process?	HMRC do not have a standard template document that is published for you to complete. We published with the support of Matt Fountain from Freedom Bakery 'A DIY Social Entrepreneur's Guide to Social Investment Tax Relief' this has information about the preassurance process and what is required which you might find useful. This is something we are frequently asked about and we are currently working on a paper with additional guidance on the pre assurance process. Sign up to our GET SITR emailing list to be notified as soon as this is available.	A DIY Social Entrepreneur's Guide to Social Investment Tax Relief Big Society Capital – GET SITR
SITR and Trading			
Trading activities	Are there any activities for which SITR cannot be used?	Yes there are some activities for which SITR is not applicable: To be a qualifying trade, the service or product must be run commercially and with a view to making a profit. The trade doesn't have to be carried on in the UK to qualify. Most trades qualify. But a trade doesn't qualify if it consists wholly, or substantially, of excluded activities. HMRC won't normally view activities as 'substantial' unless they amount to more than 20% of the trade. These trade activities are excluded: • dealing in land, in commodities or futures, in shares, securities or other financial instruments • banking, insurance, money-lending, debt-factoring, hire-purchase financing or other financial activities (with the exception of lending money to another social enterprise) • property development • activities in the fishery and aquaculture sector that are covered by Council Regulation (EC) No 104/2000 of 17 December 1999 on the common organisation of the markets in fishery and aquaculture products • the primary production of products listed in Annex I to the Treaty on the Functioning of the European Union (agricultural products) • generating or exporting electricity which will attract a Feed-in-Tariff • road freight transport for hire or reward • providing services to another person where that person's trade substantially consists of excluded activities, and the person controlling that trade also controls the company providing the services Please also note that under the 2017 Rule Changes the following trades will be added to the list of excluded activities, and so cannot be supported with SITR funding: • lending money to another social enterprise	HMRC Guidance on SITR Finance Bill 2017: legislation and explanatory notes

		• Leasing or letting assets on hire • Generating license fees or royalties • Nursing homes or residential care homes • The generation or export of electricity or other forms of energy	
Property	Many social enterprises and charities rely on using property as part of their trading activity. Why is this excluded and how can I find out more about what might or might not qualify for SITR to be used?	Social Investment Tax Relief (or in deed any tax relief) is designed to incentivise investors who might therefore look to make riskier investments. Property development is the excluded activity as raising money against property is a recognised, understood and relatively safe for of investment. SITR can be applicable in some cases but setting out your case to HMRC in a detailed and thorough way will be essential. In March 2015 we published and SITR and Property Development Paper this can help to give further detail. As more case studies have been published we have learnt from applications by Piers and Homelessness Charities that there are some activities involving the use of property which may allow for SITR to be used. We have now published an updated property update paper as part of our GET SITR legacy work which you can access here.	SITR and Property Development Big Society Capital – GET SITR
SITR and company structure			
Regulated social enterprises and charities	Can any type of social enterprise or charity use SITR to raise investment?	Unfortunately not. The tax relief applies to charities and 'regulated social enterprises' During the whole of the qualifying period for the investment (that is, not only at the point when the investment was made), the social enterprise must be 1 or more of the following: • a community interest company • a community benefit society, with an asset lock • a charity - which can be a company or a trust • An accredited social impact contractor More information can be found in our Essential Guide to SITR	HMRC Guidance on SITR
Subsidiaries	What are the rules around ownership if a subsidiary wanted to raise SITR or if my organisation has a stake in another company? Will this affect any SITR application?	SITR rules and subsidiaries will need to be explored fully before progressing any SITR plans. For a subsidiary to be a 90% social subsidiary, the following must apply: • the subsidiary must be a social enterprise • the parent enterprise must own at least 90% of the subsidiary's issued share capital and voting rights • the parent enterprise must be beneficially entitled to at least 90% of the assets available for distribution to equity holders of the subsidiary • the parent enterprise must be beneficially entitled to at least 90% of any profits of the subsidiary which would be available for distribution to equity holders (Equity holder has the same meaning as in CTM81010 - Groups & consortia: groups - entitlement to profits or assets available for distribution: definitions of terminology • no person, other than the parent enterprise must have control of the subsidiary • There must be no arrangements that would mean any of the above conditions would stop being met A company is still a 90% social subsidiary if it is held indirectly by a company that is a qualifying 100% subsidiary of the company.	HMRC Guidance on SITR

		We have now published a more detailed paper as part of our GET SITR and removing barriers legacy work which you can access here.	
SITR and raising investment			
Investment	Where do I go to find SITR investors	There are several different options for raising investment using SITR: • There are fund managers who have raised specialist SITR funds for this purpose • Crowdfunding platforms can also feature investment raises that will qualify for SITR • Or you can go direct to investors (subject to observing the financial promotions regulations) if they are known to you For more information on where to find investment visit Good Finance or sign up to our GET SITR mailing list for more information	A Simple Guide to Financial Promotions Big Society Capital – GET SITR
	What about if I know my potential investors and I want to go direct to raise my investment?	It is possible to organise your own investment and to potentially 'do it yourself' ensuring that you observe the financial promotions regulations. As part of our GET SITR campaign legacy we published with the support of Matt Fountain from Freedom Bakery 'A DIY Social Entrepreneur's Guide to Social Investment Tax Relief' this has lots of examples, links and template documents which you might find useful.	A DIY Social Entrepreneur's Guide to Social Investment Tax Relief