SOCIAL INVESTMENT TAX RELIEF: FACTSHEET

GET SITR
A tax break for charities and social enterprises

INFORMATION FOR PROFESSIONAL ADVISERS

SITR – an overview

Introduced in 2014, and expanded in 2017, **Social Investment Tax Relief (SITR)** allows individuals to help social enterprises grow by offering a tax relief on investments.

Under SITR an individual can subscribe for shares in, or lend money to, a social enterprise and claim 30% income tax relief. So, for example, if an investor lends £1,000 to a social enterprise, the real cost to the investor is only £700. But the social enterprise receives £1,000 of much needed funding to help it grow, become more financially secure and achieve more positive social impact.

Charities, community interest companies, certain kinds of community benefit societies and so-called "accredited social impact contractors"[1] qualify as "social enterprises" for the purposes of SITR.

Social enterprises that have been generating sales revenues for less than 7 years can raise up to £1.5m under SITR. Older enterprises can raise up to around £280k-£290K[2].

Tax Reliefs – a bit more detail

Here are the tax reliefs that an investor, under SITR, may enjoy:

- **Income Tax Relief** – 30% of the amount invested is deducted from the investor's income tax liability for the year in which the investment is made.
- **Capital Gains Tax Deferral** – if a chargeable gain is re-invested into a SITR-qualifying investment, the CGT liability on that gain is deferred until the SITR investment is disposed of.
- **Tax Free Gains** – gains made on disposal are free of capital gains tax. But this only applies to capital gains – e.g. on sales of shares. Interest and redemption premium on debt would be taxed as income, so are not tax free.

[1] Newly-incorporated private companies that enter into social impact contracts and are accredited by DCMS

[2] The exact cap is calculated by reference to the exchange rate with the Euro, and the highest UK rate of capital gains tax, so will fluctuate

- **Inheritance Tax Relief** – investments in shares may qualify for exemption from inheritance tax if they have been held for at least two years before death. Investments by way of loans will not qualify for any exemption from IHT.
- **Loss Relief –** investments in shares may qualify for loss relief against income or capital gains tax, but debt will not qualify for loss relief against income tax and only qualifies for relief against capital gains in certain circumstances.

SITR Funds

Investors looking to make investments under SITR may invest in individual social enterprises, or may invest via a SITR "fund".

SITR funds work in exactly the same way as an unapproved EIS fund, namely:

- Each investor signs some form of investment management agreement which gives a mandate to the fund manager to invest the investor's money into social enterprises eligible for SITR.
- Investors' monies are invested over a period of time (usually spanning two or three tax years).
- Each time a SITR-qualifying investment is made by the fund, each investor is allocated a proportion of the investment and tax relief is then claimed on that investment.
- The investment is typically held in the name of a nominee on behalf of each of the investors in the fund.

Unlike EIS, there is no concept of an "approved" SITR fund. So tax relief can only be claimed as and when qualifying investments are made via the fund – there is no tax relief when an investor initially commits monies to the fund. However, an investor may be able to carry back an investment to the previous tax year in order to accelerate the claim for income tax relief.

Comparison with other forms of tax relief on investments into businesses

The following table sets out where the SITR sits in comparison to other tax efficient investments into businesses (SEIS, EIS and VCT), by way of illustration. Please bear in mind these will depend on individual circumstances.

	SITR	EIS	SEIS	VCT
Income Tax Relief	30%	30%	50%	30%
Capital Gains Tax Deferral	Yes	Yes	No	No
Capital Gains Tax Reinvestment Relief	No	No	Yes – over 50% of the chargeable gain[3]	No
Inheritance Tax Relief	Yes – over shares	Yes	Yes	No
Loss Relief Against Income Tax	Yes – over shares, but not debt	Yes	Yes	No
Loss Relief Against Capital Gains Tax	Yes – over shares, but only in more limited circumstances for debt	Yes	Yes	No
Tax Free Dividends	No	No	No	Yes
Tax Free Sale Proceeds	Yes – over shares	Yes	Yes	Yes
Limits, per tax year, on amount invested	£1,000,000	£1,000,000	£100,000	£200,000
Minimum Holding Period	3 years	3 years (2 years for IHT)	3 years (2 years for IHT)	5 years

[3] SEIS reinvestment relief exempts half of the gain reinvested up to the SEIS maximum investment of £100k i.e. for a gain of £100k reinvested in an SEIS investment, £50k of the reinvested gain is exempt.

SOCIAL INVESTMENT TAX RELIEF: FACTSHEET

GET SITR

A tax break for charities and social enterprises

GET SITR: raising awareness about SITR

GET SITR is an initiative led by Big Society Capital and supported by the Department for Culture, Digital, Media and Sport (DCMS) to raise awareness of Social Investment Tax Relief. The initiative offers a package of support to help more charities and social enterprises raise investment using SITR.

For more detailed information and guidance on SITR, visit www.bigsocietycapital.com/get-sitr.

Resources include:

- A guide to Advance Assurance
- A guide to SITR on property development
- Restrictions on leasing, letting assets on hire or licensing
- Issues with subsidiaries
- Guidance on operating concessions