



HM Treasury



Department
for Business
Innovation & Skills

Social investment tax relief:

summary of responses

December 2013



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Foreword

Social enterprises play an increasing role in enhancing growth and meeting social and community aspirations. This government has shown a long-standing commitment to support that growth. The Prime Minister, when he launched the consultation on the social investment tax relief at the G8 conference on 6 June 2013, asked how we could create the best possible environment for social investments in Britain.

The tax system is a key part of how we create the best environment. Today we publish the draft legislation that incentivises those willing to put their money where it can make a real difference to society and, perhaps, a financial return.

The proposed tax relief provides income and capital gains tax relief for investment in social enterprises – the first of its kind in Europe. Following comments received during consultation it will also:

- allow tax relief for residential homes, nursing homes and a wider range of activities than the existing venture capital tax reliefs;
- allow tax relief for simple debt as well as equity investments where the debt is the lowest ranking in the organisation. This takes into account the fact that many organisations in the sector do not issue shares, while limiting the scope for tax avoidance; and
- provide tax relief on investment in social impact bonds, where the UK leads the world in developing investment in contracts for public services where returns are based on successful social outcomes.

The result is an innovative tax relief which I believe will act as a powerful catalyst for social investment. However, it is important that we do not stop here. There are a number of other factors affecting the social investment environment which we must address if this relief is to have a truly transformative effect. The government will be publishing a roadmap in January setting out the way forward on further measures across government to support investment in social objectives.

We are very grateful to all who have responded to our consultation questions, nominated themselves to or taken part in our working group and discussed the issues with officials.



David Gauke MP
Exchequer Secretary to HM Treasury

December 2013

1

Introduction

1.1 At Budget 2013 the government announced it would introduce a Social Investment Tax Relief to encourage investment in social enterprises.

1.2 The government recognises the increasing role social enterprises play in the economy and in tackling social problems; and that lack of access to capital holds social enterprises back at various stages of their development. Some social enterprises have been able to make use of the existing venture capital tax relief schemes (Venture Capital Trusts and Enterprise Investment Scheme), but many are unable to take advantage of these schemes as they do not issue shares.

1.3 The government published “Consultation on social investment tax relief” on 6 June 2013, and invited the views of social enterprises, as well as the views of representative bodies, legal and accountancy advisers, investors and financial advisers on the design of the scheme. The consultation set out proposals to address a number of design issues on the investee organisation, the investment and the tax relief, and asked for evidence about the state of the social investment market.

1.4 In response to initial informal consultation with stakeholders, the scheme set out in the consultation document is modelled on the Enterprise Investment Scheme (EIS). In order to be introduced in time for Finance Bill 2014, the scheme will be subject to European Commission Regulations on de minimis State aid. That means that the government does not have to seek EU State aid approval in order to introduce it.

1.5 The consultation included four questions from the Community Interest Companies (CIC) Regulator on the way CICs operate. The response to that part of the consultation is covered in a separate document published by the CIC Regulator’s website www.bis.gov.uk/cicregulator.

1.6 The consultation ran for three months and closed on 6 September. The government received 79 responses from representative bodies, social enterprises, cooperatives, investors and legal and financial advisers.

1.7 The consultation document invited interested parties to send nominations for a working group to discuss the issues in more detail. The government received 35 nominations to the working group of whom 22 were chosen. HM Treasury held three meetings of a working group of interested stakeholders to discuss the consultation document. The working group terms of reference, membership, and minutes of meetings are available at <https://www.gov.uk/government/consultations/consultation-on-social-investment-tax-relief>.

1.8 In addition to the consultation document and working group, Treasury and HMRC officials also held a series of individual meetings with representative bodies in the north east, Scotland and London.

1.9 The government welcomes the responses received and is grateful to all interested parties for their contributions.

Summary of principal decisions

1.10 Decisions set out here have been informed by responses to the consultation and discussions with stakeholders. All decisions have been made having regard to the criteria set out in the consultation document. These are that the scheme should be:

- effective: the proposals help to achieve the policy aim and support the social enterprise sector in the UK;
- affordable: the changes are affordable, in line with the government's objective for long term sustainability in the public finances, and represent value for money for the taxpayer;
- simple and straightforward to administer: the new relief should not result in unnecessary administrative burdens for social enterprises or those administering the reliefs;
- sustainable and not open to abuse: the relief should be designed to be effective for the longer term by reflecting, as far as is possible, the business models of the social enterprise sector both now and in the future. The scheme should not create substantial additional avoidance opportunities or expose social enterprises to undue risk; and
- compliant with EU State aid guidelines for a de minimis scheme.

1.11 Legislation will be introduced in Finance Bill 2014 reflecting the decisions set out below.

The investee organisation

1.12 There was a strong view that the proposal to restrict the Social Investment Tax Relief to charities, Community Interest Companies (CICs) and Community Benefit Societies (Bencoms)¹ would miss cooperatives and many existing social organisations which were companies limited by guarantee or companies limited by shares but were not also CICs.

1.13 The government notes that cooperatives which can fulfil the conditions for demonstrating a community purpose would be able apply to the Financial Conduct Authority to be registered as a Bencom at no extra cost and thus become eligible.

1.14 There was no consensus or sufficiently robust alternative definition for unregulated social enterprises. These will have to adopt one of the regulated or monitored forms in order to be eligible for Social Investment Tax Relief. This is a straightforward procedure. Some of the restrictions on Community Interest Companies are being revisited to make CICs more attractive to social organisations and their investors (see separate consultation response).

1.15 The government has in response to consultation views, widened the range of eligible organisations in terms of size and activity, compared to EIS:

- organisations eligible for investment via the scheme can have fewer than 500 employees rather than the 250 employee limit set out in the consultation document and gross assets of £15 million or less; and

¹ That is, Bencoms which have registered an asset lock using powers under The Community Benefit Societies (Restriction on Use of Assets) Regulations 2006. Community Interest Companies (CICs) have an asset lock. This condition places a similar requirement on Bencoms.

- eligible activities can include nursing homes or residential care homes, leasing or letting assets for hire, and financial activities where the funds are lent to charities, CICs or Bencoms.

The investment

1.16 The government has widened the size and range of eligible investments.

- The maximum amount of tax-relieved investment an organisation can receive will be calculated according to a formula based on the maximum amount of tax which may be foregone by the Exchequer, taking into account the various tax reliefs which will be available, and also taking into account any other de minimis aid received by the organisation. The exact amount will depend on the rate of relief, to be announced at Budget 2014, but the government expects this formula to provide a higher figure than the £150,000 over three years per investee organisation in the consultation document.
- Investment in the form of simple debt products will be eligible provided the debt is unsecured and the riskiest layer of debt, and the return does not exceed a commercial rate of return.
- Initially, indirect investment will only be allowed via an EIS-type 'nominee' scheme. However the government will consult further on other indirect investment options.
- Some respondents said that investment in social impact bonds should be eligible. The government has considered this issue and believes that there is value in making social impact bonds eligible for tax relief under the scheme subject to certain conditions. The government will introduce legislation for Finance Bill 2014 that will allow for the tax relief to be applicable to investment in social impact bonds where the SIB special purpose vehicle is structured as a Company Limited by Shares and is accredited through a government-run accreditation process.

The tax reliefs

1.17 As requested by stakeholders, the tax reliefs will closely follow EIS provisions. They will offer:

- **income tax relief** on qualifying investments which will take the form of a deduction from income tax liability. The rate of relief will be set at Budget 2014;
- as with EIS, the principal **capital gains tax relief** will take the form of a deferral of chargeable gains. A gain will not be taxed if an amount of money equal to it is invested in a social enterprise within a specified time. The deferred gain will instead be treated as accruing and becoming taxable when the qualifying social investment is sold, matures or is redeemed;
- there will be a further **capital gains tax relief** in the form of an exemption from tax of gains **on the disposal** or repayment (redemption) of social investments after a minimum investment period;
- the **minimum investment period** will be three years not five years as proposed in the consultation document;
- **no tax relief on dividends** or similar returns (in line with EIS and the Seed Enterprise Investment Scheme) – returns will be subject to normal income tax treatment;

- **share loss relief** will only be available where an investment is in **shares**, by virtue of the existing share loss relief provisions. Capital losses may be allowable against chargeable capital gains under existing rules. There will be no new loss relief for investments in debt instruments; and
- on **inheritance tax**, there will be no explicit **Business Property Relief (BPR)** or other specific relief for SITR qualifying investments as BPR. SITR equity investments will qualify for BPR anyway (in the same way as they do under EIS), but debt investments will not.
- Capital gains relief will not apply where instruments do not increase in value, such as the withdrawable shares issued by bencoms.

1.18 The minimum investment period of three years would mean that tax would be clawed back on any repayment of principal before that date, as under EIS legislation. The government recognises that that will limit amortisation products. The government will continue to work with stakeholders on this issue.

Next steps

1.19 The government will introduce legislation on these proposals in Finance Bill 2014. Draft legislation was published on 10 December 2013 and there is a period of consultation on this legislation which will close on 4 February 2014. The draft legislation can be found on HMRC's website and includes explanatory notes and Tax Information and Impact Notes. Comments on the draft legislation generally should be sent to:

Kathryn Robertson
 HM Revenue & Customs
 3/63, 100 Parliament Street
 London
 SW1A 2BQ

Email: kathryn.robertson@hmrc.gsi.gov.uk

Questions relating specifically to the capital gains tax relief should be sent to:

Rob Clay
 HM Revenue & Customs
 Capital Gains Technical S1013
 PO Box 204
 Bootle
 L69 9AQ

Email: rob.clay@hmrc.gsi.gov.uk

1.20 The government will consult informally on the legislation to include social impact bonds before the Budget, and include in Finance Bill 2014.

1.21 The government recognises that there is more to do to improve the tax and legislative environment for social investment. Many respondents thought that the relief would have limited impact due to restrictions on the size of investment under EU de minimis rules. Some respondents suggested that there was a need for an indirect investment vehicle like a Venture Capital Trust, which was a separate legal entity.

1.22 The government will publish a **Social Investment Roadmap** in January setting out the timetable for the next steps. These steps will include:

- seeking European State aid clearance for a larger tax relief scheme;
- looking at other options for indirect investment including a VCT-like scheme to see if this should be introduced at a later date; and
- changes to CIC regulations.

1.23 Community Investment Tax Relief will continue in parallel with Social Investment Tax Relief. There are no plans to change it.

2

Summary of responses

2.1 The previous section detailed principal decisions that have been agreed for inclusion in Finance Bill 2014, and which will be effective from April 2014, as a result of the consultation. This section summarises responses to all the questions in the consultation and sets out the government's response.

Criteria for the Social Investment Tax Relief

Question 1: Do you agree with the proposed criteria for assessing options for the social enterprise tax relief? Please provide comments as appropriate.

2.2 The majority of respondents agreed with the proposed criteria. The few that were not in agreement wanted to see the criteria also assess whether the relief would distort existing philanthropic giving.

Government response

2.3 The government has used the proposed criteria to assess options for the relief. Opinions on potential distortion of charitable giving were looked at directly in Question 4.

The investee organisation

Question 2: Would adopting a definition of social enterprise comprising Community Interest Companies, Community Benefit Societies and charities that are registered with the charity (or other principal) regulator and also recognised as charities for tax purposes exclude organisations that might reasonably be included, or include organisations that in your view should be excluded? If so, please say why.

Question 3: Is there an alternative definition of social enterprise that would more accurately reflect the types of organisation that should benefit from the relief, and would be workable in legislation? If so, please provide one.

2.4 A large number of respondents thought that the definition excluded organisations that should be included. The most commonly cited organisations that respondents believed should be included were companies limited by guarantee and wholly-owned subsidiaries, followed by Co-operatives.

2.5 A number of respondents mentioned that companies limited by guarantee made up a substantial proportion of all social enterprises, suggesting that the relief would not have the same impact if they were excluded.

2.6 A small number of respondents thought that the definition had a correct balance of included and excluded organisations.

Government response

2.7 The consultation document stated the government's strong preference for a definition comprising an existing, regulated group or groups, as a practical and cost-effective way of

ensuring that the tax relief is effectively targeted at organisations that operate for a social purpose and need additional investment.

2.8 The government acknowledges stakeholders' comments that many organisations ordinarily considered social enterprises take forms other than those outlined in the definition.

2.9 However, the government does not wish to open up eligibility to organisations that are not regulated by a body checking for social purpose, as this would open up the risk of abuse of the scheme. The government would be reluctant to set up a new regulatory process for these organisations, because this would mean effectively duplicating the process already carried out by the CIC Regulator; this would not represent good value for money for the taxpayer.

2.10 Companies Limited by Guarantee and other organisations outside the definition that wish to take advantage of the tax relief can convert to a CIC for a nominal cost.

2.11 The government discussed other options for defining a social enterprise in the Working Group and discussions with stakeholders. However no alternative was presented that proved, on further examination, workable or which commanded widespread support. The government therefore considers that, on balance, the current definition should be maintained.

2.12 The government also acknowledges stakeholder comments that wholly owned subsidiaries should be eligible to receive investment under the relief. Wholly owned subsidiaries of regulated organisations are regulated only as companies and are not subject to any of the controls imposed on the regulated parent. Again, the government does not wish to open up eligibility to unregulated organisations. The government has decided to allow SITR investment only (via the parent organisation) in subsidiaries that are themselves also eligible organisations – i.e. charities, CICs and Bencoms. Subsidiaries with a social purpose will be able to become CICs for a nominal fee.

Question 4: Are there any particular advantages or disadvantages to making charities eligible for the relief? In particular, is there a risk that donations to charities will be displaced into investments and what would be the consequences of this?

Question 5: If charities are eligible for the relief, it will be necessary for specific anti-avoidance rules to ensure investments do not receive relief as both investments and donations, including the need to account for donations and investments separately. Do you foresee any practical problems with this? Are there any other specific avoidance risks that would arise from allowing charities to be investee organisations?

2.13 This question received mixed responses. A number considered that there were advantages to charities being included within the scope of the relief. These responses tended to focus on charities being an important and sizeable part of the social enterprise sector. Amongst those that saw disadvantages, it was generally felt that the relief risked displacing donations currently made into charities.

2.14 When asked specifically about the risk of donations to charities being displaced, views were again mixed. Some respondents thought that individuals viewed donations and investments differently, so increasing investment would not affect donations. Others thought that it would displace some donations. A number commented that this would depend on how the rate of relief compared to gift aid.

2.15 Respondents generally did not foresee particular practical problems with specific anti-avoidance rules.

Government response

2.16 The government considers that the benefits of including charities within the scope of the relief outweigh the disadvantages.

Question 6: Would a size requirement of up to 250 employees be appropriate for the social investment tax relief, or should a lower limit be introduced initially?

Question 7: What are the benefits and disadvantages of using gross assets or turnover to measure size, and what would the appropriate limits be? Please provide reasons and evidence.

2.17 Responses were mixed on the appropriateness of an employee limit of 250. A number thought that a size requirement of up to 250 employees would be appropriate. However a substantial number thought that a higher limit would be more appropriate. These respondents commented that there are likely to be many social enterprises with over 250 employees who struggle to raise finance and are therefore still deserving of the tax relief. Some mentioned that social enterprises tend to be more labour-intensive than commercial businesses, especially social enterprises engaged in providing employment opportunities.

2.18 Responses were also mixed on using a gross assets or turnover measure to target the scheme. A number were opposed to having a limit on either measure, citing the fact that circumstances of social enterprises vary greatly and inevitably some would be excluded. However between gross assets and turnover, the number of respondents who thought gross assets was the more appropriate measure to use in assessing size in this context, was more than double the number who thought turnover appropriate.

Government response

2.19 In light of the consultation response, the government recognises that the employment-intensity and funding challenges of the social enterprise sector are different to those of commercial organisations. The 250 employee limit was originally proposed as it is equivalent to the Enterprise Investment Scheme (EIS). However the government recognises that a higher employee limit would be more appropriate for the social enterprise sector. **The government has therefore decided to expand the employee limit to 500.**

2.20 Besides employees, the government is of the view that a gross assets test is the most appropriate way to ensure the scheme is well targeted, a view with which a number of stakeholders agreed. As some stakeholders mentioned it is also an advantage that it is the same as EIS and VCTs.

Question 8: Would it be appropriate to exclude particular activities from the social investment tax relief, in order to keep the tax relief well-targeted, or would the existing regulation of the qualifying organisations be sufficient? If the government does introduce exclusions, should specific organisations be entitled to the social investment tax relief that are not currently able to access the venture capital reliefs, for example organisations delivering social care, or arts based organisations? Should any additional exclusions apply? Please give reasons.

2.21 Respondents were strongly of the view that existing regulation would be sufficient to ensure that the schemes were well-targeted, and were broadly opposed to excluding particular activities from the relief. Respondents cited a number of examples where genuine social enterprises would be excluded based on their activities were an exclusions list to mirror that of the existing venture capital reliefs. However a few respondents did agree with the case for certain exclusions.

Government response

2.22 The government recognises that a wider range of eligible activities will help the scheme to have greater impact. However the government also has concerns that some activities do not generally have a risk profile that warrants this form of tax relief, or may increase the exposure of the relief to abuse. Including certain activities would also contravene the European Commission's rules. **Therefore the government will introduce a minimal list of excluded activities that is significantly shorter than that for EIS and VCTs:**

- Trading activities excluded by **EU rules** – ship building, agriculture, coal and steel production.
- Trades that attract small-scale **Feed-in Tariffs** because they are already receiving government subsidy and EIS already allows investment in these activities if carried out by a CIC or Bencom.
- Banking, insurance, money-lending, debt-factoring, hire-purchase financing or other **financial activities except** where the funds are **lent to charities, CICs or Bencoms**.
- Property development and dealing in land, shares, futures and commodities, as these are lower-risk activities which may not merit tax relief.

The investment instrument

Question 9: Do you agree with the general principles (contained in paragraphs 4.1-4.5 of the consultation document) governing the scope of the investment instrument as a means to ensure that the tax relief for social investments is well-targeted and focussed on appropriately high risk investments?

Question 10: What would be the most appropriate way to ensure that tax relief is not provided for less risky debt investments? Do the summary criteria set out in Box 4.A achieve this aim?

Question 11: Would a rule requiring investments not to be secured against assets or subject to guarantee ensure that the tax reliefs are well-targeted? Would this create any substantive difficulties for investors?

Question 12: Is it reasonable to require an investment return at a commercial rate, given the nature of the social investment market? If so, what would be the most appropriate way to ensure that any dividends or interest payments that form a return on the investment are paid at a broadly commercial rate? How can the government best limit opportunities for manipulation of returns?

2.23 Respondents were broadly supportive of the propositions outlined in these questions. Generally the principle that investments should bear a high degree of risk was understood and supported by stakeholders. Requiring investments not to be secured against assets was also generally seen as an appropriate way to do this.

2.24 Some respondents were concerned about the proposal that returns on investment should be payable at a broadly commercial rate. This is addressed directly in the next question.

2.25 Many responses said that it was not reasonable to require an investment return at a commercial rate because it would be difficult to define a "commercial" rate for such a new market, where motivations and expectations differ from those in a commercial environment. Many responses expressed concern that social enterprises would be *required* to provide commercial returns to investors.

2.26 A clear majority of respondents thought that it was not reasonable to require investor returns to be linked to the financial performance of the social enterprise, as this would be complex and in many cases beyond the capacity of social enterprises to use. They emphasised instead the importance of ‘simple debt’ that was straightforward to use.

Government response

2.27 The government is committed to ensuring that the relief focuses on investments that carry a certain degree of risk; stakeholders have not raised major concerns with this principle or with the practicalities. Therefore government will require that investments cannot be secured against assets or subject to guarantee.

2.28 The government would like to clarify that the intention in Question 12 was not to *require* social enterprises to provide investors with commercial rates of return, but to ensure that investors could not use the relief for arrangements in which they made artificially high returns.

2.29 After consultation, the government recognises the benefits of allowing for simpler forms of investment in social enterprises at this early stage of the development of the social investment market. However, the government considers it important that investors do take genuine risk on their investments. So the government has decided that there will not be a requirement for investor returns to be linked to the financial performance of the company, as suggested in the consultation document. Investments will, however, need to meet a number of conditions intended to ensure that only genuinely risky debt investments are eligible for tax relief. One of these conditions is that investor returns do not **exceed a commercial rate of return**. This is not designed to cap returns but to identify investment arrangements that might be abusive. Similar rules exist within the EIS legislation.

The conditions are as follows:

- there is **no security** or guarantee over repayment of the investment;
- the investment must be the **lowest-ranking and/or principal loss absorbing** instrument on wind-up – at least equal to other lowest-ranking instruments;
- the investor has **no right** to require **early repayments**;
- **early repayment (for example, through amortisation) will be subject to similar conditions to EIS investments** – that is, tax relief is withdrawn on the proportion repaid early; and
- the return **must not exceed a commercial rate of return**.

Question 13: Would it be appropriate to allow redeemable shares, or an equivalent for debt-like investments, after the minimum period for investment had been reached?

2.30 The vast majority of respondents who answered this question were in favour of allowing redeemable shares, or an equivalent for debt-like investments.

Government response

2.31 The government will allow shares, or an equivalent for debt-like investments, which are redeemable after the minimum period for investment has been reached.

Question 14: Would the criteria overall result in any damaging, distortive or unintended consequences in the field of private investment into social enterprise? Please give examples where investments would be supported, or where difficulties might arise.

2.32 Generally respondents anticipated no or only minor impacts on private investment into social enterprise. Respondents who did anticipate significant impacts tended to be concerned about a requirement for a commercial rate of return.

Government response

2.33 The government does not believe the criteria would have an unduly distortive impact on private investment. The issue of commercial rate of return is addressed in the government response to question 12.

Question 15: Would a tax relief allowing investments of a maximum of €200,000 per investee organisation over three years be successful in generating additional social investment? If so, what types and sizes of social enterprise would be likely to benefit?

2.34 A substantial number of respondents thought that a limit of €200,000 per investee organisation over three years would be too low to make a significant impact in the social investment sector. However many acknowledged the constraints of getting State aid approval from the European Commission. A small number of respondents thought that the investment limit was appropriate for the sector.

Government response

2.35 The limit of €200,000 per investee organisation over three years was proposed because it was in line with the threshold for a de minimis scheme under the European Commission's State aid rules. That means the scheme can be introduced without seeking approval, which might delay the scheme.

2.36 The government is **actively pursuing other ways of calculating the de minimis State aid threshold with the aim of increasing the investment limit to a slightly higher level** (see paragraph 1.16 above). Until Budget 2014, when the income tax rate will be set, it will not be possible to provide a set figure. It will be higher than the €200,000 limit per investee organisation over three years set out in the consultation document.

Question 16: Is a cap of £1 million of investments per investor per year the right amount?

2.37 The clear majority of stakeholders were in agreement that this was an appropriate level at which to set the investor cap, a number mentioned that it made sense to mirror EIS. A few individuals mentioned that it was disproportionately high compared to the €200,000 limit for investee organisations, however nobody suggested lowering the investor limit.

2.38 The one or two respondents that disagreed with the proposal were in favour of removing the cap altogether, arguing that investors should not be subject to a cap at all if they want to invest their own money in social enterprises.

Government response

2.39 The government considers that a cap of £1 million on investments per investor per year is an appropriate amount for the scheme and is in line with EIS.

Question 17: Should the EIS conditions on how and when the money raised by the investment must be used also apply to the social investment tax relief?

2.40 This question received mixed responses. Some thought that the conditions should be more generous than EIS, in terms of qualifying trades and the time limit on spending money raised. Others thought that the EIS conditions were appropriate for SITR.

Government response

2.41 The government has decided that the SITR conditions on how and when the money raised by the investment must be used will mirror those for EIS. Please note that the government response on the issue of qualifying trades is dealt with under question 8 on “excluded activities”.

The tax reliefs

Question 22: Would the proposed definitions of connected parties create any specific problems for investments into social enterprises? How might the government best ensure that all types of investment instrument were captured through rules on financial connections to a company, without being overly restrictive in the case of emergency financing?

2.42 Views were mixed on this point. Some thought that because the social enterprise and those involved with it were motivated largely by social outcomes, the restrictions were unnecessary. However a significant number thought that it made sense for these rules to mirror EIS.

Government response

2.43 The government has decided that the SITR conditions on connected parties will mirror those for EIS – with the additional exclusion of trustees of charities, in line with the general principle that it is a role undertaken voluntarily for the benefit of the charity and for no financial benefit of the trustee

Question 23: Would the proposed five year time period for minimum investment be appropriate? If not, what would be a more appropriate investment period and why?

2.44 Many respondents told us that a five year minimum holding period was too long, and that a shorter period would be advantageous in attracting new investors into the market. Generally respondents were keen to mirror EIS and have a three year minimum holding period.

2.45 Some respondents however did consider the five year time period appropriate. Reasons were mixed: some referred to it mirroring the Community Investment Tax Relief and Venture Capital Trusts, whereas others mentioned that there is a trade-off between investors who generally wanted shorter restrictions and organisations who may be in need of patient capital that allowed them time to develop and innovate.

Government response

2.46 The government recognises the concerns of stakeholders about the length of holding period and the value of mirroring EIS. **Therefore government will reduce the minimum time period for investment to three years**, in line with EIS.

Question 24: The government welcomes views on the appropriate balance to be struck on offering any tax reliefs in addition to initial income tax and reinvestment reliefs. If in addition the government were to offer a tax relief on disposal of qualifying social investments, would a tax relief on gains, or a new rule to encourage serial investments into social enterprises be preferable?

2.47 Respondents were generally in favour of additional tax reliefs, though they had mixed views on exactly which would be the most appropriate. Many suggested that the range of reliefs should mirror EIS, to avoid additional complexity.

Government response

2.48 The government has decided to offer a capital gains tax reinvestment relief. This will operate in a similar way to the EIS reinvestment relief: the payment of tax on a capital gain can be deferred where the gain from that disposal is reinvested into a qualifying social enterprise. The gain can

arise from the disposal of any asset. Capital gains on the disposal or repayment (redemption) of social investments will also be free from tax after the minimum investment period.

Question 25: Do you agree that the government should not introduce a new set of rules specifically to support indirect investment into social enterprises via a separate legal entity such as an LLP? What are the potential effects of using the nominee approach outlined above? Are there likely to be fund managers who are able to offer nominee investments?

2.49 Of those that responded to this question, there were mixed views. Those who agreed that the government should not introduce a new set of rules commented that EIS funds had successfully generated significant investment, and there were advantages in keeping the legislation similar to EIS. They thought that nominee arrangements would work as a means of securing indirect investment in social enterprises, and had the benefit of keeping the overall scheme design simpler. A number of respondents suggested allowing separate legal entities to raise indirect investment in social enterprises, for example similar to the VCT model, should be considered in time once the impact of the current scheme on the market was apparent.

2.50 However a number respondents argued that catering for indirect investments by allowing for separate legal entities was very important to expand the market. It was simple for investors to use intermediaries to invest into social enterprises, and would widen the pool of investors. A number of stakeholders raised the question of Social Impact Bonds, arguing that they were very important for the growth of the social investment market.

Government response

2.51 The government considers that there is value in making social impact bonds eligible for tax relief under the scheme. Therefore government intends to introduce legislation for Finance Bill 2014 that will allow for the tax relief to **be applicable to social impact bonds where the special purpose vehicle is structured as a company limited by shares and is accredited by a government-run accreditation process**. This legislation will be published in draft in early 2014.

2.52 The government will consult further on options for indirect investments for inclusion in legislation at a later date. The timetable for looking at these will be included in the Social Investment Roadmap.

Question 26: What are the advantages and disadvantages of continuing to operate both the Community Investment Tax Relief (CITR) and a new tax relief for investment in social enterprise?

2.53 Respondents who answered this question presented a range of reasons for operating both schemes together. Many highlighted the fact that the two schemes served different markets and different investors; therefore they were complementary in purpose and the ways they operated. No respondents considered that would be significant problems in them operating together. A small number of respondents mentioned that the disadvantage would be in complexity, it is harder for investors to understand two different schemes rather than one.

Government response

2.54 The government recognises that CITR and SITR can serve complementary needs. Therefore CITR will continue to operate alongside SITR.

Question 27: Would any of these anti-abuse measures be likely to have unintended adverse consequences? Please also list any further anti-abuse measures that might be needed.

2.55 The vast majority of respondents who answered this question were of the view that the anti-abuse measures proposed would not have unintended adverse consequences, and a number recognised the advantage of using EIS legislation as a basis.

Government response

2.56 The government has decided to include the proposed anti-abuse measures which mirror EIS anti-abuse measures (the first three bullets of paragraph 5.20 of the consultation document). The government is not, on reflection, including any extension of the tainted charities donations legislation as these are sufficiently covered by the EIS measures.

A

List of respondents

A.1 The government is grateful to all those who took the trouble to respond to this consultation. Their names are below.

AAT
Anthony Collins Solicitors LLP
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If you require this information in another
language, format or have general enquiries
about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

E-mail: public.enquiries@hm-treasury.gov.uk

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