HM Revenue & Customs

Income tax and capital gains tax: Social investment tax relief- enlarging the scheme

Who is likely to be affected?

Social enterprises and individuals who invest in such organisations.

General description of the measure

Subject to EU State aid clearance, the maximum amount that can be invested in an organisation that is a qualifying social enterprise for the purposes of social investment tax relief will be increased and the range of qualifying social enterprises will be broadened to include certain small horticulture and agriculture projects that will no longer qualify for subsidy as a result of the forthcoming Common Agricultural Policy (CAP) reforms.

The range of eligible social impact bonds (SIBs) will also be widened to include certain spot purchased and sub-contracted SIBs.

The Government will consult on further changes to provide for qualifying investments to be made indirectly, through a social investment form of a venture capital trust scheme, a 'Social VCT'.

Policy objective

The aim of these measures is to help smaller, riskier social enterprises, and contractors delivering different types of social impact bonds, compete for finance.

Background to the measure

The social investment tax relief (SITR) scheme provides income tax relief and capital gains tax benefits for individuals who make qualifying investments in eligible social enterprises.

These changes were announced following consideration by the government of responses to the consultation document *Social investment tax relief: enlarging the scheme,* published on the Government website on 10 July 2014. A summary of responses to the consultation, and the Government's proposals, were published on 10 December 2014 on GOV.uk.

Detailed proposal

Operative date

The increase to the investment limit will have effect for investments made on or after a specified date, as soon as possible on or after 6 April 2015, once State aid clearance is received for the SITR scheme.

The change to include certain small horticulture and agriculture projects as qualifying investments will have effect for investments made on or after a specified date, as soon as possible on or after 6 April 2015, once State aid clearance is received for the SITR scheme.

Current law

Part 5B of the Income Tax Act (ITA) 2007 specifies the rules applying to SITR.

Section 257MA of ITA 2007 limits the amount of eligible investment an organisation may receive to reflect the *de minimis* requirements for State aid. Section 257MB provides that HM Treasury may alter this limit through secondary legislation.

Section 257MQ excludes from the scope of the relief organisations whose trade consists in a substantial part of the production of agricultural products.

Proposed revisions

Subject to State aid clearance being received for the SITR, secondary legislation will be made under the power in section 257MB of ITA 2007 to increase the restrictions on amounts that can be invested in an individual organisation. The current limit of £275,000 over a three year period will be replaced with a new annual investment limit of £5 million with an overall limit of £15 million on total investment.

Legislation will be introduced in Finance Bill 2015 to permit secondary legislation to be made to amend the definition of excluded activities for the purposes of SITR. Subject to State aid clearance being received, secondary legislation will be introduced to allow certain small agricultural and horticultural projects that will not be eligible for direct payments under the CAP reforms to be qualifying trades for the purposes of SITR. Broadly, land holdings of below:

- 5 hectares in England and Wales; and
- 3 hectares in Scotland and Northern Ireland

will no longer qualify for direct payment subsidies under the CAP but will become eligible for SITR.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td><td>2019-20</td></tr>
<tr><td>-</td><td>nil</td><td>-10</td><td>-15</td><td>-20</td><td>-25</td></tr>
<tr><td colspan="6">These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Autumn Statement 2014.</td></tr>
<tr><td>Economic impact</td><td colspan="6">The Government believes that the measures will address the lack of supply of investment to the sector and help to close an identified funding gap for such organisations. The social investment market in the UK is largely separate from the private investment markets, limiting the potential for distortions to private competition.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="6">Individuals investing under the SITR scheme benefit from a range of tax reliefs including income tax relief on the amount subscribed for shares in eligible companies or qualifying loans, and favourable capital gains tax treatment on eligible investments.

This measure is not expected to have an impact on family formation, stability or breakdown.</td></tr>
<tr><td>Equalities impacts</td><td colspan="6">Investors are expected to be similar to those investing in the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT). It is envisaged that the scheme will not have any impact on those groups affected by equality legislation.</td></tr>
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Impact on business including civil society organisations	The measure should increase the amount of investment available to social enterprises seeking finance. A social enterprise is a community interest company, a community benefit society that is not a charity, a charity or accredited social impact contractor.
Operational impact (£m) (HMRC or other)	The additional costs for HM Revenue and Customs (HMRC) in implementing this change are anticipated to be negligible.
Other impacts	Small and micro business assessment: SITR is expected to increase the supply of risk finance for small and medium sized social enterprises, addressing an identified funding gap for this sector. Competition assessment: these changes should not have any impact on competition. Environmental impact: no direct impact as changes to include certain small agricultural and horticultural projects as eligible investments for SITR will benefit such business. Other impacts have been considered and none have been identified.

Monitoring and evaluation

The Government will be monitoring the uptake of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment. The Government is also committed to evaluating the impact of the scheme on social enterprises' performance and the associated social benefit.

Further advice

If you have any questions about this change, please contact Marc Connolly on 020 7270 5276 (email: marc.connolly@hmtreasury.gsi.gov.uk) or contact Cathy Wilson on 03000 536678 (email: cathy.wilson@hmrc.gsi.gov.uk).