Social investment tax relief consultation working group: Note of second meeting 15 July 2013

The group agreed the note of the first working group meeting. Officials reminded members that, to encourage free discussion, working group meetings should not be reported in the press.

The group discussed the issues on 'The investment' in Chapter 4 of the consultation document.

General principles

Members agreed with the proposal that the relief should be for more risky types of investment. Eligible investments in practice would be debt or equity investments with the features outlined in the consultation document, including being unsecured.

Rate of return

Officials explained that the intention behind imposing a cap was not to prevent genuine high returns but to prevent manipulation of tax advantaged returns for gain. Some members thought this would deter investors and there should be a mechanism for dealing with returns above the cap. A number of members asked about whether the Government also intended to impose a minimum rate of return. They expressed concern that new enterprises might have a 0 per cent return, and a minimum rate would prevent investors from providing below-market rate finance for philanthropic reasons. Any cap or floor would need to be simple for the enterprise to use, for example, it would be easier if it were applied over the life of the instrument rather than annually.

Redeemable shares

Members were content that some form of redeemable shares should be allowed. (Debt would be redeemable on a repayment date agreed by investor and investee.)

De minimis scheme

Members discussed the €200,000 maximum investment over three years in the investee organisation under EU rules. Members from large organisations wanted something on a larger scale if the EU Commission would allow it, but understood that in order to introduce the relief quickly it would have to be subject to the EU's de minimis rules. As the €200,000 cap applied to all de minimis reliefs, some organisations receiving grants to make themselves 'investment ready' would not be able to access the social investment tax relief as well. The group agreed that they would need to gather evidence for an application to the EU for a larger scheme. Members also said they saw some disconnect between the €200,000 maximum investment in an investee organisation and the proposed £1 million cap per investor.

The next meeting would be on 25 July.