HM Treasury

Social investment tax relief: enlarging the scheme

summary of responses

December 2014

HM Treasury

Social investment tax relief: enlarging the scheme

summary of responses

December 2014

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gsi.gov.uk

ISBN 978-1-910337-55-4
PU1734

Contents

Foreword

This year has been a landmark year for social investment in the UK. The Government has enacted the first tax relief of its kind to incentivise individuals to invest in high risk social enterprises; Government departments and local authorities have increased to 17 the number of social impact bonds; and countries have worked together to share knowledge and ideas in the first report of the G8 Taskforce, to make social investment a global phenomenon for improving lives, communities and the environment and supporting economic growth.

The tax relief for social investment was brought in as a 'de minimis' scheme, with tight limits on the amount of incentivised investment any one organisation can receive. I am delighted that, within those limits, a number of social enterprises are already launching funds which will be eligible for the tax relief.

However, to enable more organisations to benefit, and for bigger investment plans, there was widespread demand for an increase in the investment limit. We consulted stakeholders over the summer on what that increase should be and what evidence there was to support an increase to that level. We also asked how a VCT-like option for social investment would work and about other ways in which we could ensure an enlarged but well-targeted relief.

As a consequence of that process:

- the Government announced at Autumn Statement that it will be seeking State aid clearance to increase the maximum SITR investment per organisation to £5 million per year up to a maximum of £15 million. That would be over fifty times the current cap, and equal to the maximum allowed per year under the Enterprise Investment Scheme. It can be implemented under secondary legislation using existing statutory powers
- today we publish draft legislation to
  - extend SITR to community farms and horticulture which will be too small to receive direct payments under the Common Agricultural Policy reforms, subject to State aid clearance
  - extend SITR to community energy generation by qualifying organisations when the schemes expands. It will then cease to be eligible for EIS, SEIS and VCTs
- the government will also make SITR appropriate for spot-purchase and sub-contracted social impact bonds.

We also want to explore how to increase the supply of investment by expanding the number and type of investor who can benefit from the relief by consulting further on introducing a new Social VCT. Like SITR, the legislation will be tailor-made for the social enterprise sector. Officials will be consulting further on some of the more detailed design questions to ensure that we have a workable and attractive scheme that can be legislated at the earliest opportunity.

These changes fulfil the government's commitments to improve the environment for social investment in the Social investment roadmap published in January.

We are very grateful to all who have responded to our consultation questions, consulted their members and discussed the issues with officials.

David Gauke MP
Financial Secretary to HM Treasury
December 2014

1 Introduction

Background

1.1 In Finance Act 2014, the government introduced a Social investment tax relief (SITR) to encourage investment in social enterprises. The Social Investment Roadmap, published in January 2014, explained how the scheme would be expanded in future.

1.2 The government published a consultation paper *'Social investment tax relief: enlarging the scheme'* on 10 July 2014 and invited the views on outstanding issues raised in the original consultation on the scheme in summer 2013. These issues were principally whether there is a need to increase the amount of investment permitted for each organisation beyond the existing limit of approximately £275,000 over three years and what form a scheme to introduce indirect investment for social investments similar to the Venture Capital Trust (VCT) scheme, might take.

1.3 The government also used the opportunity to review its support for renewable energy projects through the venture capital and SITR tax schemes to ensure that the reliefs continue to provide good value for money for the tax payer. The consultation on SITR and a parallel consultation on changes to the venture capital schemes '*Tax-advantaged venture capital schemes: ensuring continued support for small and growing businesses'* both sought views on this issue.

1.4 The SITR consultation ran for ten weeks and closed on 18 September. The government received 43 responses from representative bodies, social enterprises, investors and legal and financial advisers.

1.5 In addition to the consultation document, Treasury and HMRC officials also held a meeting of the Social investment tax relief working group and individual meetings with social enterprise representative bodies, financial advisers, VCT fund managers and platforms in London and Edinburgh, community energy and community agriculture representatives and investors.

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

Summary of principal decisions

1.7 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
- compliant with EU State aid rules.

1.8 The decisions will be implemented using existing and where necessary new statutory powers as set out in 'Next steps' below.

The investment limit

1.9 Stakeholders had said that the current investment limit of approximately £275,000 per organisation over three years was too low to have a transformative effect on the social investment market. The consultation asked stakeholders to nominate a suitable limit per investee organisation for an expanded SITR and asked for evidence that organisations were seeking that amount to support their activities.

1.10 Most of the consultation responses to this question argued for a £5 million per year limit or a total limit of £15 million. The others asked for smaller increases ranging from a total limit of £5 million per organisation to £500,000 – £1million per year. One respondent thought that the existing limit was adequate.

1.11 The government announced on 3 December 2014 that it will seek State aid clearance for a new investment limit of £5 million per year, up to a total of £15 million per organisation. The £5 million per year is in line with most stakeholders' views and will help social organisations to access the funds they need to grow and participate in public contracts. The government also announced a total cap to reflect the fact that EU State aids are commonly subject to a total cap on investment and that SITR includes debt as well as equity investments.

1.12 For comparison, a £15 million limit would be more than 50 times the existing limit of 344,827 Euros over three years. The £5 million limit per year is more than double the initial £2 million annual investment cap for the Enterprise Investment Scheme (EIS) and equivalent to the current annual limit for EIS.

1.13 The government will use evidence provided in consultation and subsequently to support its notification of the measure to the EU Commission. The Finance Act 2014 included statutory powers to increase the investment limit once State aid clearance is received through secondary legislation.

Community agriculture

1.14 Agriculture and market gardening are excluded from de minimis schemes like SITR on the grounds that they already receive substantial public money through the Common Agricultural Policy (CAP). Under UK implementation of changes to the CAP, holdings of less than 5 hectares in England and Wales, and 3 hectares in Scotland and Northern Ireland, will become ineligible for direct payment subsidies.

1.15 The consultation asked whether investments in community farms and similar enterprises under the threshold should be made eligible for SITR. All stakeholders who answered this question said that these schemes should be included.

1.16 The government will take a power in Finance Bill 2015 to include, through secondary legislation, small-scale agricultural and horticultural activities, which are ineligible for CAP direct payments, as qualifying activities under the SITR. The change will be subject to State aid clearance and will be made only when that approval is received.

Community energy

1.17 The government recognises that community energy schemes, as social enterprises, currently experience particular difficulties compared to commercial renewable energy projects in accessing finance. They are therefore eligible for tax advantaged investment through SITR and the venture capital schemes (the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs)). In practice, investment in most community energy schemes is made through EIS and VCTs due to these schemes' earlier establishment, their higher investment threshold relative to SITR and the exclusion of organisations receiving feed-in tariffs from SITR.

1.18 Going forward, SITR will be more appropriate for organisations with a social benefit than the tax-advantaged venture capital schemes. SITR has been specifically designed to meet their needs and, for example, allows tax relief for the lowest form of unsecured debt as well as equity. These enhanced investment terms mean SITR would become the more attractive option for community energy schemes if the investment threshold were raised.

1.19 The government therefore announced on 3 December that all community energy generation undertaken by qualifying organisations will be eligible for SITR with effect from the date of the expansion of SITR, at which point it will cease to be eligible for EIS, SEIS and VCTs. The change will be made through provisions in the Finance Bill 2015 which will allow the change to come into effect on or after 6 April 2015.

1.20 To limit opportunities for misuse of the generous tax reliefs, SITR is only available for organisations with a regulated social purpose – charities, community interest companies and community benefit societies with an asset lock. Community energy schemes which wish to be eligible after the changes and are cooperatives which fulfil the Financial Conduct Authority (FCA)'s social purpose and other criteria, could apply to the FCA to become community benefit societies.

Social impact bonds

1.21 The SITR legislation allows investments into social impact bonds (SIBs) to benefit from SITR through an accreditation scheme for special purpose vehicles (SPVs) with SIB contracts with public organisations to deliver social outcomes. Stakeholders said that they would like to expand the types of SIBs covered by SITR. These are effectively excluded because they do not conform to the SIB special purpose vehicle (SPV) model used in current legislation.

1.22 Spot purchase SIBs allow voluntary organisations to develop SIBs (like the Adoption Bond) and sell the same SIB to multiple local authorities or other public sector organisations.

1.23 Sub-contracted SIBs are SIBs where the SIB commissioner is a contractor with a public sector body. They allow voluntary organisations too small to be a prime contractor to nonetheless participate in large scale contracts such as those under the DWP Work Programme.

1.24 The government will ensure SITR rules are appropriate for investment in SPVs providing both these types of SIBs to enable more voluntary sector organisations to deliver public services. Officials will consult informally in early 2015 with sector representatives on the detailed implementation in order to make changes to legislation later in 2015. Details of how to be involved in this consultation are at paragraph 1.34 below.

Introducing a Social VCT scheme

1.25 SITR is available for eligible investments via crowdfunding and indirect investments in social enterprises via an EIS nominee fund. In response to stakeholder demand, the consultation asked for views on a new option of providing SITR for investment in social enterprises via a separate legal entity similar to a venture capital trust (VCT). The aim would be to attract retail investors with less money and less risk appetite than those involved in direct investment and who want to make investments of, say, £5,000 -£10,000 – smaller than generally needed for investment via nominee accounts (although investments of that size are possible) and larger than amounts typically invested via crowdfunding platforms.

1.26 There are a large number of design issues to consider to make sure the scheme meets the specific needs of social enterprises while remaining focused on riskier investment. The consultation asked for views on where to follow the VCT scheme and where to apply SITR rules for each feature.

1.27 The consultation respondents showed a strong interest in establishing a VCT-like scheme for social enterprises. Stakeholders said that the scheme should be set up as a stand-alone scheme rather than by amending existing VCT legislation and agreed on a few high level parameters.

1.28 In terms of the design of the scheme, the government needs to be sure that the individual features combine to make a workable and viable scheme which is also good value for money for the tax payer. Setting up a separate scheme is more straightforward but, based on the VCT legislation, is likely to need extensive and detailed legislation. To attract the same investment limits as an enlarged SITR scheme, it will also need to be notified to the EU for State aid clearance.

1.29 The government will want to ensure that the new social VCT would work well alongside the existing VCT regime and will consider potential interactions carefully.

1.30 The government has decided in the light of stakeholder views:

- to introduce a Social VCT as a new stand-alone scheme. The scheme would be based on the existing VCT scheme, with adjustments to take account of the nature of the social investment market
- that the scheme would incorporate the following key features on which there was common agreement

    a that the definition of eligible organisations should replicate the definition for SITR investee organisations

    b that the minimum equity requirement in VCT legislation to invest 70% of qualifying holdings in ordinary shares should refer instead to qualifying equity **and qualifying debt** (debt that can currently benefit from SITR);

    c that the requirement for a 10% minimum equity holding in each investee company should be omitted.

- that the Social VCT legislation should not cater for "hybrid" funds that combine social and commercial VCT investments

1.31 Beyond these features, there is a range of complex issues on which views in the consultation were divided. The government will therefore consult informally in early 2015 to work out the details of the scheme in order to introduce the new Social VCT at the next legislative opportunity after the election. The informal consultation will specifically ask for views on:

- the list of eligible activities and restrictions on the control of investee organisations
- issues concerning the structure and approval of a Social VCT
- the listing requirements for a Social VCT

1.32 This timetable may also enable the scheme design to take into account the outcome of the current application for State aid clearance for a higher investment limit for the existing relief; and would allow regulations to be drafted and consulted on while the primary legislation is passing through Parliament.

Next steps

1.33 Draft legislation on SITR, was published on 10 December together with explanatory notes and Tax Information and Impact Notes. The consultation on the legislation will close on 4 February 2015. The draft legislation provides for more energy schemes to be included in SITR – this would take effect following EU State aid clearance of a larger scheme – and powers to include, via secondary legislation, small scale agriculture and horticulture also following EU State aid clearance of a larger scheme.

1.34 The government will consult informally on the detailed design of Social VCTs and, separately, on spot purchase social impact bonds and sub-contracted SIBs in early 2015. If you wish to be included in either or both of those consultations – by email or in person – please email: **socialinvestmenttaxreliefconsultation@hmtreasury.gsi.gov.uk** by **2 January 2015**.

1.35 When the application for State aid clearance of the existing scheme with a higher limit and including small scale agriculture is approved, the changes will be introduced via secondary legislation with effect on or as soon as possible after 6 April 2015.

1.36 The government will seek State aid clearance of the Social VCT scheme so that it can benefit from the same investment limits as an enlarged SITR.

2 Summary of responses

This section summarises responses to 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 investment tax relief? Please provide comments as appropriate.

2.1 Respondents agreed with the proposed criteria: effectiveness; affordability; simple and straightforward to administer; sustainable and not open to abuse; compliant with State aid rules. Some commented that it did not include a recognition of the social value of social enterprises.

Government response

2.2 The criteria are designed to expand social investment without unnecessarily distorting behaviour, adding undue complexity to the tax system, or exposing social enterprises to undue financial risk. The government is satisfied they meet that purpose.

The investment limit

Question 2: What would be a suitable investment limit per investee organisation for an expanded SITR? Please give reasons and evidence if possible.

2.3 Of the consultation responses that addressed the first question, several argued for a £5 million per year limit for the following reasons:

- to meet untapped demand for social investment
- to cater for the anticipated expansion of the social investment market in the coming years
- for consistency and to "level the playing field" with EIS and VCT, which also have limits of £5million per year
- to attract the interest of professional fund managers
- to fund community energy schemes.

2.4 The consultation also asked for evidence to support the figure nominated. Most responses did not provide any evidence – relying in part on a single combined response to which different stakeholders contributed. One response said that "historic activity in the social enterprise space may reflect the immaturity of the sector and the lack of tax reliefs resulting in smaller investments and a focus on property based lending (c.80% of activity)."

2.5 The other consultation responses that addressed this question argued for smaller increases ranging from a total limit of £5 million per organisation to £500,000 – £1 million per year. One respondent thought that the existing limit was adequate.

Question 3: Would any of these features interfere with the operation of the relief with a higher investment limit than the current £275,000 over three years?

2.6 Most respondents thought that raising the investment limit would not affect the existing SITR rules. Some suggested changes to the rules on eligible activities, the restrictions on control, incentives for investors and the size of eligible organisations.

Government response

2.7 See paragraphs 1.11-1.13 above.

2.8 On the questions around changes to the terms of SITR, the government does not think the changes in the investment limit alter the decisions taken following the consultation in summer 2013 and set out in the Response to Government Consultation, December 2013[1]. The government announced at Budget 2014 that it would review the scheme after two years. That would be an appropriate time to review the design and operation of the scheme.

Community energy

Question 5: What impact, if any, would the absence of SITR for investment in companies receiving energy subsidies together with removal of tax relief under EIS and VCT, have on community energy schemes?

2.9 This question was also included as question 27 of the Venture Capital Trust (VCT) consultation paper '*Tax-advantaged venture capital schemes: ensuring continued support for small and growing businesses'* published in parallel. The following is the combined summary of responses to those questions and the government response.

2.10 There were 25 respondents to this question in the SITR consultation and 32 respondents in the VCT consultation.

- many advisers and companies, particularly community energy companies responding to the SITR consultation, felt that the availability of tax relief was important and helped them to raised finance
- however, others – including those actively raising finance for renewable energy companies – said that they did not believe that tax reliefs were necessary and may be distorting investment
- some consultation responses were clear that investment benefitting from tax reliefs was used for low risk investments. For community energy projects, the consultation responses explained that tax reliefs are used after a project gets up and running, when the returns on investment are stabilised, and not in the earlier, risky stages of development, where other funding is available
- on the other hand, some stakeholders believed that EIS or a suitable alternative was necessary in order to be able to offer sufficient return to the local community investors and generate revenues for their wider social objectives

2.11 The timing for the publication of the response document to the VCT consultation will depend on progress of the ongoing State aid discussions with the EU Commission.

Government response

2.12 See paragraphs 1.17-1.20 above. All community energy generation undertaken by qualifying organisations will be eligible for SITR with effect from the date of the expansion of SITR, at which point it will cease to be eligible for the Enterprise Investment Scheme (EIS), Seed

[1] Available at: https://www.gov.uk/government/collections/social-investment-tax-relief

Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs). Officials will consult informally in due course on the appropriate arrangements for making the changes to support a smooth transition of eligible community energy activities between the schemes.

Community agriculture and horticulture

Question 4: Do you think community farms and similar enterprises that have less than the threshold amount of land for CAP payments should be eligible for SITR? Please give reasons. Do they have the same difficulties in raising finance as other social enterprises? Please provide evidence to support your answer.

2.13 There were 18 responses to this question, all of which argued for the inclusion of these schemes in SITR. For example:

> "Horticulture and agriculture projects are a very powerful mechanism for delivering social good […]. We have seen social enterprises using the commercial handling of animals and growing of food on a small scale to provide a highly impactful environment for ex-service men and women recovering from post-traumatic stress; people recovering from acute and managing chronic mental health or addiction issues; personal and family counselling; education; providing meaningful employment for adults with learning disabilities and ex-offenders. We see no reason why such enterprises should be excluded from the benefits of SITR, particularly considering the vast majority do not qualify for any form of CAP subsidies."

Government response

2.14 The government has decided to take a power in Finance Bill 2015 to include, through secondary legislation, small-scale agricultural and horticultural activities, which will become ineligible for direct CAP payments, as qualifying activities under the SITR. The change will be subject to State aid clearance and will be made only when that approval is received.

Social impact bonds (SIBs)

Question 6: What are the benefits and risks of including a wider range of SIBs in SITR?

Question 7: a) How does the funding cycle differ for spot purchased SIBs and how does this affect the ability of SIB investors to gain SITR? b) How should the accreditation scheme treat multiple contracts with multiple commissioners? c) Can the accreditation process be streamlined so only one contract needs to be fully accredited and the other contracts with new commissioners go through a shortened accreditation process?

Question 8: a) How would the legislation need to be changed to allow for these sub-contracted structures? b) What is the risk that this could be misused and what protections would be needed? c) To what extent could the tax relief and accreditation process encourage fair sharing of risk throughout the supply chain?

2.15 There was a general consensus that it is desirable that the SITR should be appropriate for a broad range of SIBs. Stakeholders commented that a wider range of SIBs would encourage a wider variety of investor and that the diversity of the charity and social enterprise sector may require many different forms of SIB.

2.16 A small number of stakeholders commented that restricting SIBs to companies was unnecessary and that limited liability partnerships or limited partnerships should also be considered as potential vehicles for SIBs.

2.17 Stakeholders said that they would like to expand the types of SIBs covered by SITR to include spot purchase SIBs and sub-contracted SIBs.

Government response

2.18 The government has decided to ensure legislation is appropriate for more SPVs engaged in SIB contracts to qualify, including spot purchase and subcontracted SIBs. Including both these types of SIBs furthers the objective of using SITR to broaden the range of bodies delivering public services. This builds on the government's existing commitment to driving greater innovation in the development of SIB structures, through initiatives such as the Centre for Social Impact Bonds.

Indirect investment via a separate legal entity

Policy design

Question 9: Would any of these areas around the structure and approval of VCTs, or any others not mentioned [in paragraph 4.13 of the consultation paper], cause problems in a social investment VCT? If so, which?

Question 10: Do you agree that these conditions [in paragraph 4.14 of the consultation paper] would be appropriate for a social investment VCT? If not, please give reasons. Are there any other rules on the operation of the VCT which would not be appropriate for investment in social enterprises via a social investment VCT?

2.19 Stakeholder responses generally agreed that the key elements of the existing VCT legislation are transferable to a Social VCT scheme.

2.20 On rules on the operation of the VCT which might not be appropriate for a Social VCT, responses queried the requirement that a VCT's shares must be admitted to trading on a regulated stock market. Most objections cited the potentially high cost of the listing process. Stakeholders suggested that AIM would be more appropriate for social enterprises, citing the high initial as well as ongoing costs associated with listing on the London Stock Exchange.

2.21 A very small number of responses also questioned the conditions that:

- a VCT must not retain more than 15% of its gross income
- no holding in a single company may exceed 15% of the value of all the VCT's investments
- that at least 70% by value of a VCT's investments must be "qualifying holdings"

Government response:

2.22 The government has decided to consult further informally on a number of detailed issues concerning the structure and approval of a Social VCT. Final decisions will need to take into consideration the different, and sometimes conflicting, needs of the retail investor, the Social VCT and the underlying investee social enterprises, while ensuring the tax relief is well targeted and provides value for money to the tax payer.

Investments

Question 11: Do you agree that these conditions [in paragraph 4.15 of the consultation paper] would be appropriate for a social investment VCT? If not, please give reasons.

Question 12: Do you agree that a social investment VCT should allow investment in equity and in unsecured debt that meets the criteria for SITR?

Question 13: Should the requirement for a 10% minimum equity holding in each investee company be omitted from a Social Investment VCT? Please give reasons.

Question 14: What would be the impact on existing VCTs if this type of change were made?

2.23 Respondents queried the application to Social VCTs of the following aspects of rules and conditions governing how VCTs may invest:

- the condition that **all of the money raised by the investee company must be used within two years** from the start of trading. A few questioned this requirement. They said that two years might not be long enough for some complex public service procurements or that due diligence on social investments can take longer than on commercial investments as both the social and financial aspects need to be investigated. Responses suggested that a period of 3-5 years would be more appropriate.
- the requirement to **invest 70 per cent of qualifying holdings in ordinary shares.** Many responses said that a **social investment VCT should allow investment in equity and in unsecured debt that meets the criteria for SITR**, as loans and quasi-equity investments are more common in the social enterprise sector than equity. This would mean that the VCT requirement to invest 70 per cent of qualifying holdings in ordinary shares **should not apply to a social VCT**. One response argued that a degree of equity investment was required to ensure influence over the board and ensure they are acting in the manner the investment was intended.
- the requirement for **10 per cent equity in each investee organisation**. The vast majority of responses that addressed this question said that this VCT requirement should be dropped from a social VCT, as most social enterprises do not issue equity. However, one stakeholder argued that this could lead to difficulties with governance, to the extent that the 10% minimum stake provides investors with a protection that the investee company is acting in their interests, and not prioritising other stakeholders including employees.

Government response

2.24 The government has decided that the minimum equity requirement in VCT legislation to invest 70% of qualifying holdings in ordinary shares should refer instead to qualifying equity and qualifying debt (debt that can currently benefit from SITR); and that the requirement for a 10% minimum equity holding in each investee company should be omitted for a Social VCT.

2.25 The government will consult further on the requirement to use money raised within two years from the start of trading, bearing in mind there may be implications for the time limits that would apply to an individual's investment in a Social VCT.

Investee organisations

Question 15: Do you agree that a social investment VCT should be required to invest in charities, community benefit societies or community interest companies with up to £15 million gross assets and fewer than 500 employees?

Question 16: Do you agree that these conditions could be applied to investment in social enterprises via a social investment VCT? If not, please give reasons.

Question 17: Do you think a social investment VCT should use the shorter list of excluded trading activities used in SITR, or the longer list used in VCT?

Question 18: Which approach to employee numbers do you think is preferable for a social investment VCT – fewer than 250 or fewer than 500 employees?

2.26 A large majority of stakeholders agreed with the position taken in the government's consultation document, that a Social VCT should be required to invest in organisations eligible for SITR – that is, charities, community benefit societies or community interest companies with up to £15 million gross assets and 500 or fewer employees.

2.27 Regarding other conditions affecting the eligibility of the investee organisation, stakeholders generally agreed that the key conditions applying to the existing VCT scheme (e.g. that the business must have a UK permanent establishment at all times) should apply equally to Social VCTs. However, there were notable exceptions. Some respondents queried the inclusion of the following conditions related to control:

- the relevant company must not control any company other than a qualifying subsidiary
- the company must not be under the control of another company

2.28 On the question regarding excluded activities, stakeholders agreed that a Social VCT should not use the same list of excluded activities as the existing VCT scheme. Rather, it should use the shorter list of excluded activities that apply to SITR, because the eligible investee organisations are regulated social sector organisations. One respondent stated that the exclusion of care and nursing homes from the qualifying trading activity list "would dramatically reduce the attractiveness and capacity of the market."

Government response

2.29 The government has decided that the definition of eligible organisations for a social investment VCT will mirror SITR. The same limits will apply in terms of gross assets and number of employees.

2.30 The government has decided to consult further on the list of eligible activities and restrictions on the control of investee organisations to ensure the scheme is workable and meets the criteria set out above.

Implementation

Question 19: Do you think the tax relief should be introduced by setting up a new tax relief scheme or by amending the existing VCT scheme? Please give reasons.

2.31 Stakeholders who responded to this question all agreed that a new scheme would be preferable to amending the existing VCT scheme. Reasons put forward for a separate scheme include the need to minimise investor confusion and to ensure that the vehicle is targeted at the correct investors.

Government response

2.32 The government agrees that creating a new scheme rather than amending an existing one would be the simplest way to achieve a scheme that is as appropriate as possible for social investment.

Hybrid VCTs

Question 20: Do you think it is desirable in principle to allow hybrid VCTs, including both social and commercial investments? Please give reasons.

Question 21: Could a hybrid VCT work by offering investments under the present VCT regime and investments under a new social investment VCT in one trust? Would there be particular problems in using a social investment VCT to achieve that? If so, please describe.

Question 24: If you are an investor, would you be more likely to invest in a social investment VCT rather than a fund that can invest in both social and commercial enterprises (i.e. a hybrid VCT)? Please give reasons.

2.33 A hybrid VCT would combine social and commercial investments in one scheme. Views were polarised on whether this should be allowed. The strong view against the proposal was that it would be complicated to achieve, confuse investors, and that there were different incentives and rewards offered by the two types of VCT. Those in favour thought it would allow people to try out social investments in an incremental way and expand the pool of funds for social investment. Stakeholders said that VCT managers would need to weigh up the marketing benefits of a separate fund as against the ease of introducing a mix of regular and social investments through a hybrid VCT.

Government response

2.34 The government has decided not to provide for hybrid VCTs (paragraph 1.30(c) above). This will simplify the scheme and its marketing. Investors who wish to spread their risks between social and commercial investments will be able to do so without the need for a hybrid VCT.

Other issues

Question 22: If you are a VCT provider, would you anticipate adding social investment via an independent intermediary to your existing product offering? Please give reasons.

Question 23: Do you think the cost of a listings process, including for example issuing a prospectus, would affect the take-up of social investment via an intermediary?

2.35 A broad majority of VCT providers stated that they would anticipate adding such a product, as an opportunity to expand the investor base to include individuals who invest for the benefit of society.

2.36 The majority of stakeholders stated that the cost of a listing process would affect take-up. Of those that believed the cost of listing would have an impact, most felt that AIM would be more appropriate for a Social VCT, believing that the cost of listing on LSE is disproportionately high at the outset.

Government response

2.37 The government will continue to consider these points through the informal consultation.

Other types of indirect investment

Question 25: How much SITR investment do you think there will be via crowdfunding in the next three years? Please give reasons.

Question 26: If you are an investor, would you be more likely to invest via a crowdfunding provider or in a VCT-like arrangement? Please give reasons.

Question 27: What types of investor do you think would invest in crowd funding, and what types might not?

2.38 Stakeholders agreed that crowdfunding investors would be different to investors through indirect investment structures. Crowdfunding attracts a wider range of investors, potentially risk takers, who consider a range of investment criteria and for whom the immediacy and lack of intermediation has appeal. This approach seems particularly effective for local and community initiatives where there is a shared vision amongst a group to initiate or support an activity, project or business.

2.39 One stakeholder commented that crowdfunding enables a social enterprise to develop its outreach and brand awareness. Crowdfunding by social enterprises appears to be less price sensitive and more about the overall social and environmental returns.

Question 28: What are the advantages and disadvantages of the partnership vehicle versus the limited company vehicle? Please describe what the partnership structure would typically look like; and what sorts of restrictions might be necessary (for example on how the partnership used its funds, or on the level of management fees).

2.40 Only one stakeholder provided a detailed answer to this question. They said that a partnership vehicle would be an unfamiliar way of investing for the majority of individual investors who predominantly commit their investment funds by way of ordinary shares or debt instruments.

Government response

2.41 The government will be monitoring the take up 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.

A List of respondents

The government is grateful to all those who responded to consultation. The following organisations sent written responses including three joint responses:

Abundance
Albion Ventures LLP
Allia
Big Society Capital
BVCA – The British Private Equity and Venture Capital Association
Charity Finance Group
Charity Law Association Standing Tax Committees
City of London Corporation
Clubfinance
Community Development Finance Association
Community Energy Contact Group
Community Land
Community Shares Unit
Community Spark Ltd
Community Supported Agriculture Network UK
Co-operative and Mutual Solutions Limited
Co-operatives UK
Energy4all
Federation of City Farms and Community Gardens
Funding Enlightened Agriculture
Golden Lane Housing
Gower Power Community Co-operative
Harcourt Capital LLP
Hazelhurst Trust
ICAEW
Key Fund
Low Carbon Hub
Mencap (joint with Golden Lane Housing)
National Council for Voluntary Organisations (NCVO) (joint with Charity Finance Group)
Octopus Investments
Paradigm Norton Financial Planning Ltd
Philanthropy
Plunkett Foundation
Regen SW
Resonance Limited
Scottish Community Re-Investment Trust (SCRT)
Social Finance Ltd
Social Investment Business
Social Investment Forum
Social Investment Scotland
Somerset Co-operative Services CIC and the Ecological Land Cooperative
Stone King
Sustain: The Alliance for Better Food and Farming
The Real Farming Trust
Veale Wasbrough Vizards LLP

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative 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

Email: public.enquiries@hmtreasury.gsi.gov.uk