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SOCIAL INVESTMENT TAX RELIEF

Social Investment Tax Relief (SITR) is a new tax relief for investors in certain types of "Social Enterprise". It joins the other tax advantaged investment schemes (The Enterprise Investment Scheme, the more generous Seed Enterprise Investment Scheme, and Venture Capital Trusts), but it has certain unique features of its own.

SITR applies to investments in appropriate "Social Enterprises" (SE) made after 5 April 2014 and before 6 April 2019. The SE may be a Community Interest Company, a "Community Benefit Society", a Charity, or an "Accredited Social Impact Contractor".

Such bodies as are approved by HMRC are able to issue a "Certificate of Compliance" to their investors, which confirms the investor's right to the SI Tax Reliefs, which are:

- Income Tax Relief at 30% of the sum invested, provided you have paid that much income tax in the year you invest, or the previous year. There is a trap here – if you invest during 2014/15, you cannot claim relief against tax paid in 2013/14. If you invest in 2015/16 or the following three tax years, however, you can carry the relief back to the previous tax year. You must retain the shares or the loan for three years at least as otherwise the tax relief will be clawed back.
- If your investment takes the form of shares, then those shares are exempt from CGT on any gain you make on them, but if you make a loss you can claim that against other gains or against income. If your investment was a loan, then a loss on that can only be claimed against other capital gains. These reliefs are linked to the income tax relief – they only apply if you get income tax relief and it is not clawed back.
- Capital Gains holdover – if you have made a capital gain after 5 April 2014, then if you invest in a qualifying SE within the period beginning one year before the gain and ending three years after the gain, then that gain can be "held over" up to the amount you have invested, so that the CGT only becomes payable in the year when your investment ceases. This relief is independent of the income tax relief and is available even if you do not claim the income tax relief.

As well as investing in shares in the SE, it is possible to qualify for SITR if you lend money to the SE. Not all charities are limited companies, and many do not have any share capital, so it is possible for them to accept loans, providing those loans are not secured on the SE's assets and do not have any preferential rights to repayment. Shares and loans must not have a guaranteed return and must not pay more than a "reasonable commercial rate" of dividends or interest.

Investors must not be employed by the SE, and nor must they be "connected" with it, which broadly means not owning more than 30% of its shares, loans or voting power.

There is an annual limit of £1million for any individual to claim SITR.

Planning Point

SITR is in many respects the same as the EIS but there is one crucial difference – the treatment for inheritance tax. Once you have owned EIS shares for two years, they should qualify for Business Property Relief which removes their value from your estate liable to inheritance tax for as long as you own them, and makes possible some ways of gifting wealth to your family without worrying about the seven year survival that applies to other gifts for inheritance tax. Some SITR investments may qualify for business property relief, but many of them will not. Bear this in mind when making your investment decision.

This article by James Bailey first appeared in Business Tax Insider magazine January 2015 (www.taxinsider.co.uk)