Social Investment Tax Relief

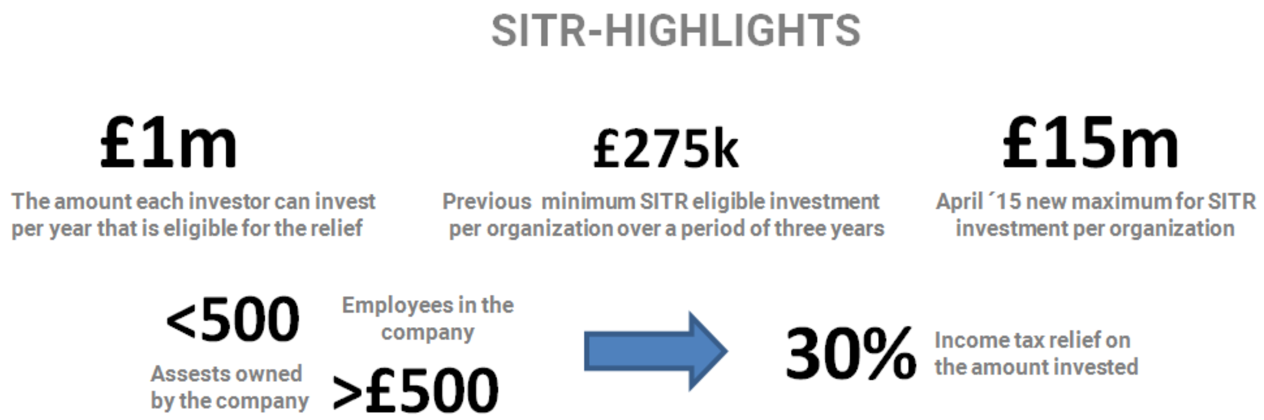
UK | LAW

The UK ecosystem in support of social enterprises is unarguably one of the most developed ones in the Europe. It is characterised by strong governmental support, alongside numerous regulatory as well as funding and capacity building initiatives. Compared to other European countries, the UK regulatory framework is deemed comprehensive and amenable to the needs of social entrepreneurs and social investors.

Presentation

The Social Investment Tax Relief (SITR) is designed to support social enterprises seeking external finance by offering individual investors a reduction on their tax bill of 30 % of the value of qualifying investments in social enterprises. The relief is available for investments made on or after 6 April 2014.

Entities receiving the investment must have a defined and regulated social purpose. Charities, community interest companies or community benefit societies engaging in qualifying activities, with fewer than 500 employees and gross assets of no more than £15 million, may be eligible. In December 2015, the government increased the investment limit to £5 million per year per organisation, up to a maximum total of £15 million per organisation over an unspecified number of years.



Source: Social Investment Tax Relief - infographic, Clearly So, 2015

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Implications

Two years on since the launch of the SITR, £3.4m of qualifying investment has been raised across 30 organisations. Approx. 80% of deals up to July 2016 had been loans, with the rest constituting community shares or social impact bonds (SIBs).

Social enterprises involved in raising repayable finance through SITR found that moving towards self-sufficiency and sustainability often requires a culture shift within the organisation. However, receiving SITR investment not only generates capital - it also broadens networks and brings in additional expertise, which can help the business develop. In addition, increasing the investment limit would enable social enterprises to raise a greater proportion of their total project funding through SITR and should encourage more deals to take place.

Fund managers running SITR funds have found SITR-based lending to enterprises feasible, and have reasonable pipelines going forward. Investors are attracted by the clarity on timeline and exit route, while the social enterprises benefit from a three-year period before capital repayment begins, which makes SITR financing akin to patient capital—much needed for growing social enterprises.

However, barriers to raising SITR investment persist. In particular, lack of expertise required to either develop appropriate business plans, or prepare the financial documents, as well as not knowing how to find investors, should be addressed in the further development of SITR.

More information

- For a more general insight into the UK ecosystem in support of Social Enterprises, consult EVPA's National Policy Nexus on the UK, available on the EVPA website.
- *Guidance Social investment tax relief*, UK Government 2016.
- *Social Investment Tax Relief: Two Years On*, New Philanthropy Capital, July 2016. Written in partnership with Big Society Capital.

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