## Budget 2015 announcements on Social Investment Tax Relief

## Overview

The Social investment tax relief (SITR) introduced in Finance Act 2014 was the first in the world to incentivise social investment through the personal tax system. It has opened the way for social organisations to receive the same tax-advantaged investment as commercial firms under the Enterprise Investment Scheme (EIS) and, unlike EIS, for debt as well as equity investments where the debt is unsecured.

Following discussions with the EU Commission, the government submitted a formal application in January 2015 for State aid clearance for an enlarged scheme. **Expanding the scheme remains the government's priority on social investment**. Discussions with the EU Commission are confidential. In the meantime, the government has made further progress in increasing opportunities for investment in social enterprises.

The specific measures announced in Budget 2015 are:

- **Rates of relief for the Social Venture Capital Trust Scheme (Social VCT).** The government will set the rate of income tax relief for investment in a Social VCT at 30%, subject to State aid clearance. Investors will pay no tax on dividends received from a Social VCT or capital gains tax on disposals of shares in Social VCTs. Social VCTs will have the same excluded activities as SITR. Officials will talk further to the sector about how the Social VCT will be delivered before proceeding to legislation in a future Finance Bill.

- **Changes to the way SITR funds are classified so that they can be promoted more effectively.** At the moment SITR funds cannot advertise directly to the public. The government today makes changes to legislation which will allow promotion of SITR funds direct to the public in the same way as EIS funds can be promoted. Similar to existing EIS funds, SITR funds will enable investment via a nominee arrangement and will encourage a wider range of investors to invest in social enterprises. It will be especially significant when SITR is enlarged, for example, for EIS funds which have a cap of £5m a year investment per company, EIS funds account for roughly half EIS investment. The change to the financial promotion treatment comes into effect on 13 April 2015.

- **A transitional period for community energy schemes moving from tax-advantaged investment under the venture capital schemes to SITR.** Community energy schemes will be allowed to continue to access existing venture capital schemes for six months following EU state aid clearance of an enlarged SITR scheme. Eligible community organisations will then be able to access SITR only.

These announcements demonstrate the government's continued commitment to growing the social investment market. They are consistent with the plan set out in the Social Investment Roadmap 2014 to ensure SITR evolved sustainably and in line with market developments to dramatically increase social investment.

## Social Venture Capital Trust – design details

The aim of the Social Venture Capital Trust (Social VCT) is to increase participation in social investment among retail investors who want to invest smaller amounts than are generally needed for direct investment and benefit a variety of organisations.

There has been a number of design issues to consider to ensure the individual features combine to make a workable and viable Social VCT scheme that is also good value for money for the tax payer. Following the consultation in 2014 and informal consultation in January 2015, the government has decided that the design of the Social VCT should remain as close as possible to the existing Venture Capital Trust (VCT) scheme in order to maintain consistency across the tax system and because VCTs are familiar to investors and their advisers.

Specific decisions on the design of the Social VCT announced at **Autumn Statement 2014** were:

a) to introduce a Social VCT as a new stand-alone scheme. The scheme will be based on the existing VCT scheme, with adjustments to take account of the nature of the social investment market
b) that the scheme would incorporate the following key features:
   - that the definition of eligible organisations should replicate the definition for SITR investee organisations;
   - 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);
   - 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.

For **Budget 2015**, the government has made these further design decisions:

c) The rate of income tax relief for investment in a Social VCT will be 30%, subject to EU State aid clearance.
d) Investors will pay no tax on dividends received from a Social VCT or capital gains tax on disposals of shares in Social VCTs.
e) Social VCTs will have the same excluded activities as SITR.
f) Social VCTs will apply the same holding requirement as VCTs. This is a requirement that no holding in a single organisation may exceed 15% of the value of all the VCT's investments.
g) Social VCTs will apply the same listing requirement as VCTs. VCTs are required to list on the London Stock Exchange Main Market.
h) Social VCTs will apply the same income retention limit as VCTs. This refers to the requirement that the VCT must not retain more than 15% of income derived in that accounting period.
i) Social VCTs will have the same two-year investment time limit as VCTs.

If you have questions on this announcement, please contact Marc Connolly at marc.connolly@hmtreasury.gsi.gov.uk.

HM Treasury
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