Social Investment Tax Relief

Investing in a good cause

If someone invited you to invest in a new project for three years, earn a good rate of interest and, wait for it, receive 30% income tax relief on the investment you would probably ask "what's the catch?" when you realised it was a serious question.

Social Investment Tax Relief (SITR) allows individuals to invest in or lend money to charities and other social enterprises – which are businesses trading for social purposes – and receive a healthy tax incentive. Examples so far include:

- Providing food that would otherwise be thrown away by the food industry free of charge to vulnerable people but also selling through a catering arm to generate income
- Providing holiday play schemes, youth clubs and adult education at a stadium which also hosts matches which people pay to attend
- Working with young homeless and disadvantaged people to help them find housing, education & training and jobs funded under a government payment by results contract

You can either lend to, or invest directly in, the enterprise or do so via a fund set up specifically to invest in a number of schemes. The organisations use the investment to carry out their social purpose and also earn money to repay the investment.

You may invest up to £1 million a year under SITR in shares and/or loans and the 30% relief is against either income or capital gains tax. However, you will pay tax on interest and dividends earned on the investments. Any gains on disposal of the SITR shares is exempt from capital gains tax. The investments – loans and shares – must be held for at least three years to avoid the 30% relief being clawed back.

You must invest as an individual and not be connected with the organisation you are investing in and must not end up with more than 30% of the share capital in any social enterprise in the scheme. At present, each organisation may only receive up to £250,000 over three years due to EC state aid rules but the government is seeking approval to change this.

HMRC's Small Company Enterprise Centre decides which social enterprises are eligible for the SITR funding. Charities and Community Interest Companies may apply if they are the right size and carrying on appropriate activities.

You must make SITR investments before 5 April 2019, although the government may extend this, so there is an opportunity to reinvest a loan for a further three years giving a second 30% of income tax relief.

As with any investment, there are risks and clearly the repayment and resale values are not guaranteed. However, the relief from income tax – whether 30% for a three year loan or 60% for two three year loans, might make this worthwhile especially when the interest earned in the meantime, and of course the good work your investment is enabling, are taken into account.

At the end of six years, you might be so thrilled with the work of a charity that you invested in that you would like it to keep your loan. If it is repaid to you and you then send it back as a donation with a Gift Aid declaration, you will receive tax relief on this if you are a higher rate taxpayer.

Say you lent £10,000 to a charity under SITR in January 2016 and again in January 2019, the loan would be repaid in January 2022. By then you would have received a £6,000 reduction in your income tax payments. If you then donate the £10,000 to the charity, it will receive £2,500 from HMRC and, if you are a 40% taxpayer, you will receive a further £2,500 off your tax bill. So tax relief of £8,500 over six years plus any interest earned on the loan and the knowledge of the good work you have enabled the charity to do. The charity has your £10,000 and then a further receipt of £2,500 to continue this.

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