HM Treasury

Department for Business Innovation & Skills

Consultation on social investment tax relief

June 2013

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Preface

Subject of this consultation:	The design of a new tax relief for investment in social enterprise.
Scope of this consultation:	The Chancellor announced at Budget 2013 that, following consultation on design, the Government will introduce a new tax relief for investment in social enterprise. The consultation will cover the investees and types of investment eligible for the relief, and the tax reliefs themselves. The Government is not consulting on the rate of relief; this will be announced by the Chancellor at Budget 2014. The Government is not consulting on which investors will be eligible for the tax relief; the relief will be available to individuals only. The consultation includes questions relating to the caps in place for Community Interest Companies. This part of the consultation is likely to affect CIC legislation and is being led by the Regulator of Community Interest Companies.
Who should read this:	Views on the proposed design options for this relief are invited from a wide range of sources including individuals, organisations, and representative and professional bodies. The Government especially invites comments from those directly involved in investing in, or seeking investment for, social enterprises.
Duration:	The consultation will run from 6 June 2013 until 6 September 2013.
Lead official:	Virginia Fenton and Anna Longman, HM Treasury
How to respond or enquire about this consultation:	Please send comments by 6 September 2013 to: Social Investment Tax Relief Consultation, Enterprise and Property Tax Team, HM Treasury, 1 Horse Guards Road, SW1A 2HQ, socialinvestmenttaxreliefconsultation@hmtreasury.gsi.gov.uk. For enquiries about the content or scope of the consultation, please contact Tom Halloran on tom.halloran@hmtreasury.gsi.gov.uk, telephone 0207 270 1036.
Additional ways to be involved:	The Government will establish a sector-focused working group, which will operate at official level and meet when necessary to take forward the policy design of this new tax relief. If you would like to be a working group member, please send nominations, including details of your current position, by email to socialinvestmenttaxreliefconsultation@hmtreasury.gsi.gov.uk by 20 June 2013. If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact: Correspondence Team, HM Treasury, 1 Horse Guards Road, London SW1A 2HQ, telephone 0207 270 5000, fax 0207 270 4861, public.enquiries@hm-treasury.gov.uk.

After the consultation:	The Government will take all responses into account before deciding on the final policy design and publishing draft legislation for consultation in the autumn. In line with the Code of Practice for written consultations the Government will publish a summary of responses to the consultation.
Getting to this stage:	HM Treasury conducted an internal review of the financial barriers to social enterprise, reporting at Budget 2013.
Previous engagement:	HM Treasury interviewed a range of stakeholders as part of the internal review mentioned above, and has consulted sector representatives to determine the key issues that need to be addressed in this consultation. Other Government departments including Cabinet Office have consulted the sector on barriers to social enterprise, including through the 2012 Red Tape Challenge on Social Investment.

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Foreword

At Budget 2013, the Government announced that it would introduce a new tax incentive to encourage private investment in social enterprise. The new tax relief will help social enterprises to grow and innovate as they continue to tackle entrenched social problems such as fractured communities, homelessness and high rates of re-offending.

This Government has shown a long-standing commitment to support social enterprise, and the new tax relief will complement our other initiatives to help social enterprises access the capital and services they need. In 2012 we launched Big Society Capital, the world's first social investment bank, and a £10 million Investment and Contract Readiness Fund to provide grants and support for ambitious charities and social enterprises that want deliver services to communities. The Government is also supporting and implementing individual social investment projects – for example, the Peterborough Social Impact Bond.

Research in 2011 estimated that about £165 million of social investments were made in 2010 in the UK. The Government's aspiration is to grow the social investment market so that its size is measured in billions rather than millions, and to make the UK a world leader in social investment.

The social investment tax relief aims to encourage more investment into social enterprise, to enable it to become a self sustaining industry in the long term, while providing value for money for the British taxpayer.

This consultation seeks views on the Government's proposed design of the relief. It is an opportunity for interested parties to feed in their views to ensure the relief works simply and effectively to achieve its objectives.

I am pleased to publish this consultation document and hope that social enterprises, investors, representative bodies and others interested in the success of this new relief will play a full part in the consultation process.

George Osborne

Chancellor of the Exchequer

1 Introduction

Background

1.1 The Chancellor announced at Budget 2013 that the Government would introduce a new tax incentive to encourage private investment in social enterprise. This new scheme will complement other recent Government initiatives such as Big Society Capital, the Innovation Fund and the Red Tape Challenge on social investment and help provide the necessary support for the social enterprise sector to grow and become sustainable.

Aim of the consultation

1.2 This document sets out proposals for a tax relief for private investment by individuals in social enterprise. The consultation aims to gather views on the best design for the relief with the objective of making it well targeted and effective, without creating opportunities for tax avoidance.

Policy context

1.3 Social enterprises are businesses with primarily social objectives. Social enterprises span a variety of business models and legal structures; and trade in various areas including employment, healthcare, and sport and leisure. By combining business practice with social purpose, social enterprises can find innovative solutions to entrenched social problems such as fractured communities, homelessness and high rates of re-offending.

1.4 The Government's plans to open up and decentralise public services offer new opportunities for social enterprises to deliver public contracts. The Government wants social enterprises to take full advantage of these opportunities, and aims to make it easier for them to access the capital and advice they need so that they can scale up and become self-sustaining in the long term. The Government's vision is to create a long-term "third pillar" of finance for social ventures, alongside traditional giving and funds from the state.[1] This pillar of finance is social investment – money that blends financial return with social return.

1.5 There is an embryonic market providing some capital to social enterprises. It has grown from almost nothing over the past 10 years, and in 2010 made around £165 million of social investments. But this is well below its potential scale.

1.6 The proposal for a new tax relief is part of a range of recent Government initiatives aimed at increasing the capital available to social enterprises:

- Big Society Capital (BSC), launched in April 2012, is the first social investment institution of its kind in the world. It invests in social investment finance intermediaries so that they can provide a greater range and scale of financial services and products to frontline civil society organisations. BSC will be capitalised

[1] Growing the Social Investment Market (2001) set out the Government's vision of a thriving social investment market where social ventures can access the capital they need to grow. The paper noted that Government would continue to explore options for the future in the area of tax incentives.

over the next five years using the English portion of the £400 million of money in dormant bank accounts. An additional amount up to £200 million will be invested in BSC by the four main UK high street banks (HSBC, Barclays, Lloyds and RBS). Since it became fully operational in April 2012, Big Society Capital has committed £56 million in 20 investments, exceeding its £50 million target for 2012-13.

- In 2012 the Cabinet Office conducted a Red Tape Challenge of the legal and regulatory barriers to social enterprise. Actions resulting from this exercise include amendments to the Financial Services Bill to ensure that the regulatory approach takes into account that consumers can have non-financial goals and ongoing work in the Cabinet Office in 2013 to scope the potential for a pilot social investment fund designed to be easy, replicable and as low cost as possible.
- HM Treasury conducted an internal review of the financial barriers to social enterprise following a commitment in Budget 2012. The review reported at Budget 2013.

1.7 Lack of access to capital holds social enterprises back at various stages in their development: new social enterprises can struggle to establish themselves without start-up capital; social enterprises that are already trading can experience cash-flow problems due to a lack of working capital; and lack of growth capital can prevent social enterprises from investing in facilities and opportunities that would help generate new streams of income. The Government wants to increase private investment in social enterprise to enable them to create greater social value.

1.8 Some social enterprises have been able to make use of the existing venture capital tax relief schemes (the Enterprise Investment Scheme and Venture Capital Trusts), but many are incorporated as Companies Limited by Guarantee (CLGs) and are therefore unable to take advantage of these schemes because they do not issue shares. Instead, they tend to take on investment in the form of quasi-equity or debt.

1.9 Other reasons why social enterprises can have trouble attracting investment are that they lack security for loans; that social investment is a new concept and not widely known about or understood among investors; and that external interest in this kind of investment has been low because social enterprises pursue a 'dual goal' of profit and social good, but only the profit component can be 'captured' by the investor. The wider societal benefits of the organisation's work, whether reducing re-offending rates or improving care for the elderly, accrue to society in general, and not to the individual.

Policy aim

1.10 Operating within the Government's wider growth and tax agendas, the policy aim of this new tax relief is to complement other Government initiatives in encouraging private investment in social enterprise and helping it to become self-sustaining in the long term.

1.11 The Government intends to design and implement this relief in a way that is consistent with fiscal sustainability, simplicity and ease of administration within the tax system.

Structure of the document

1.12 The remainder of the document is set out as follows:

- Chapter 2 explains the criteria that the Government proposes to use in evaluating proposals for the social investment tax relief;
- Chapter 3 sets out options for and questions about the investee organisation;

- Chapter 4 sets out options for and questions about the investment, including questions from the Community Interest Companies (CIC) Regulator about the operation of Community Interest Companies;
- Chapter 5 sets out options for and questions about the tax reliefs, the interaction of this new tax relief with other tax reliefs and issues related to tax avoidance and abuse;
- Chapter 6 sets out a summary of the consultation questions;
- Chapter 7 sets out the consultation process;
- Annex A sets out a call for evidence.

Stage of consultation

1.13 The proposals in this document are at stage 1 (setting out objectives and identifying options) of the Government's tax consultation framework.

Implementation

1.14 The Government intends that the new social investment tax relief will be introduced in April 2014. It is likely that, to achieve this, the rules of the new tax relief and any restrictions will be designed in order to fit with the European Commission's de minimis rules for State aid purposes initially. The Government will however gather evidence both on the current market for social enterprises and the impact of the social investment tax relief once it is introduced, to assess the effectiveness of the relief. Assuming that the new tax relief is successful, the Government intends to then seek the Commission's approval for the introduction of a larger scheme.

1.15 The Government will also consider other aspects of delivery in terms of procedures for confirming that enterprises and investors are eligible. The Government will seek to avoid duplication of process between the various statutory regulators and HMRC.

How to respond

1.16 Please send comments by 6 September 2013 to: Social Investment Tax Relief Consultation, Enterprise and Property Tax Team, HM Treasury, 1 Horse Guards Road, SW1A 2HQ, socialinvestmenttaxreliefconsultation@hmtreasury.gsi.gov.uk.

2 Criteria for the social investment tax relief

2.1 The Government wants to ensure that the new tax relief scheme delivers real additional investment without unnecessarily distorting behaviour, adding undue complexity to the tax system, or exposing social enterprises to undue financial risk.

2.2 The criteria that the Government proposes to use in evaluating proposals for the social enterprise tax relief scheme are included in the box below. When deciding on the final policy design it will be necessary to consider and balance these, sometimes competing, factors.

Box 2.A: Criteria for evaluation of proposals for the social enterprise tax relief scheme

Effectiveness. Evidence from responses will be used to ensure that the proposals help to achieve the policy aim and support the social enterprise sector in the UK.

Affordability. The changes must be 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 Government is committed to simplifying the tax system. The new reliefs should not result in unnecessary administrative burdens for social enterprises or those administering the reliefs.

Sustainable and not open to abuse. These reliefs 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.

Compliance with State aid rules. The new relief may need to gain State aid approval from the European Commission. As part of any State aid application, evidence requested in Annex A will be needed.

Question 1: Do you agree with the proposed criteria for assessing options for the social enterprise tax relief? Please provide comments as appropriate.

3 The investee organisation

Introduction

3.1 The new social investment tax relief will be designed to help social enterprises to raise finance by offering tax relief to individuals who make certain types of investment in those organisations. Chapters 3 to 5 set out the questions that the Government wants to answer in order to make the tax relief as effective and targeted as possible.

3.2 The Government operates three tax-advantaged venture capital schemes currently: Seed Enterprise Investment Scheme (SEIS), Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT). These schemes incentivise investment into smaller, risky companies by offering a range of income and capital gains tax reliefs to individual investors. Reliefs are granted in respect of an investment in shares in an EIS or SEIS qualifying company; or in respect of investment in shares in a VCT, which then in turn invests in smaller, higher risk companies. EIS and VCT, introduced in 1994 and 1995 respectively, have together generated over £13 billion of investment in over 19,500 companies. SEIS, introduced by Finance Act 2012, offers 50 per cent income tax relief as well as capital gains tax relief for investment in very small companies with fewer than 25 employees and no more than £200,000 in gross assets. The scheme has supported over 350 companies in its first year.

3.3 The schemes are limited to certain types of investor, investment and investee organisation, in order to ensure that they are well targeted and effective and comply with the European Union's rules on State aid. Initial discussions with stakeholders suggest that the broad structure of these schemes would be suitable for the social investment tax relief, with adjustments to take account of the organisational structures and types of investment instrument commonly used in the social enterprise sector.

3.4 This suggests that, as for the existing venture capital tax reliefs, there will be three sets of rules for the social investment tax relief, concerning (a) eligible investee organisations, (b) eligible investments, and (c) the form of the tax reliefs themselves. Chapter 3 focuses on eligible investee organisations, with questions on what a social enterprise is, including size requirements, and excluded trading activities. Chapter 4 considers the type and size of investment that will qualify. It also includes questions from the Community Interest Companies Regulator on the way CICs operate. Chapter 5 sets out which tax reliefs should be available under the scheme; avoidance and abuse; and interaction with other tax reliefs.

The investee organisation

Legal form

3.5 The new social enterprise tax relief will be available for investment in social enterprises, as defined in the legislation that establishes the scheme. The Government is aware that social enterprises take various legal forms, including Community Interest Companies (CIC), Community Benefit Societies (Bencoms), companies limited by guarantee and companies limited by shares. Some of the trading activities carried out by charities, or their wholly owned subsidiaries, can also be considered to be social enterprise.

3.6 The Government wishes to ensure that the tax relief is effectively targeted at organisations that genuinely (a) operate for a social purpose, and (b) need additional investment. To achieve this, "social enterprise" will need to be defined in the legislation so as to create a clear category of eligible organisations. For reasons of practicality and cost, the Government's strong preference is that this definition should comprise an existing, regulated group or groups.

3.7 There are three main existing regulated groups of organisation that trade for social purposes: Community Interest Companies (CICs), Community Benefit Societies (Bencoms) and charities. The Government proposes to make the tax relief available in the first instance for investment in these organisations, described in detail below.

3.8 **Community Interest Companies (CIC)** are limited companies with special additional features, created for the use of people who want to conduct a business or other activity for community benefit, and not purely for private advantage. This is achieved by a "community interest test" and "asset lock", which ensure that the CIC is established for community purposes and the assets and profits are dedicated to these purposes. Registration of a company as a CIC has to be approved by the CIC Regulator who also has a continuing monitoring and enforcement role. **The CIC Regulator is reviewing the way in which CICs operate, and is seeking responses to the questions found in Chapter 4 below.**

3.9 **Community Benefit Societies (bencoms)** are a sub-group of Industrial and Provident Societies. A society may be registered as a community benefit society only if it is shown to the satisfaction of the registering authority, the Financial Conduct Authority, that in view of the fact that the business of the society is being, or is intended to be, conducted for the benefit of the community, there are special reasons why the society should be registered under this Act rather than as a company under the Companies Acts.

3.10 A society 'for the benefit of the community' must principally show that:

- the business must be run primarily for the benefit of people who are not members of the society and must be in the interests of the community at large;
- the rules of the society must not allow distribution of profits or assets to the members: profits should be ploughed back into the business;
- on dissolution the assets of the society must pass to some other body with similar objects, not to the members;
- a 'bencom' must also meet the requirements in respect of interest on share or loan capital as for a bona fide co-operative society.

3.11 A bencom with charitable objectives may be accepted by HMRC as a charity for tax purposes and benefit from certain exemptions from tax. These societies are subject to the legal rules generally applicable to charities and to certain provisions of the Charities Act.

3.12 **Charities** are a particular type of voluntary organisation that provides benefit to the public, rather than to a specific individual. Charities in England and Wales are regulated by the Charity Commission for England and Wales. Charities must demonstrate that they have charitable purposes, meet the public benefit requirement and have a suitable governing document.

3.13 Not all charities in England and Wales are registered charities. Charities with an annual income of less than £5,000 are not required to register with the Charity Commission for England and Wales. Some charities in England and Wales are exempt charities and are regulated by a body other than the Charity Commission for England and Wales. For example universities in England are regulated by the Higher Education Funding Council for England. Some charities, such as churches, are excepted charities and are required to register only if their annual income is £100,000 or more.

3.14 Charity law is a devolved matter. The definition of charity, regulation of charities and the requirements for registration are therefore different in Scotland and Northern Ireland. The Office of the Scottish Charity Regulator registers all charities in Scotland. The Charity Commission for Northern Ireland will shortly start registering all charities in Northern Ireland.

3.15 Charities are entitled to a number of UK charity tax exemptions and reliefs administered by HMRC. In order to qualify for UK charity tax reliefs and exemptions a body must be a charity under the law of England and Wales, or would be if it were established in England or Wales, and meet certain other conditions. A donation to a charity is eligible for tax relief only if the charity itself is entitled to UK tax reliefs and exemptions. Charities apply to HMRC to be recognised as a "charity for tax purposes" in order to claim these reliefs and exemptions.

3.16 Voluntary organisations are earning an increasing proportion of their income from trading, including delivering services under contract. For this reason, some stakeholders have suggested that investment in (as distinct from donations to) charities should be eligible for the new tax relief.

3.17 Charities and donors already benefit from substantial tax relief on donations in the form of Gift Aid. This increases the value of donations to charities and Community Amateur Sports Clubs by allowing them to reclaim basic rate tax on donations, and allows higher and additional rate taxpayers to claim extra relief on their donations. Because there is already a tax efficient route for individuals passing money to charities, it will be necessary to ensure that two lots of tax relief cannot apply to the same income stream. **Therefore the Government will define specific anti-avoidance rules for investment in charities that qualify for the social investment tax relief.**

Question 2: Would adopting a definition of social enterprise comprising Community Interest Companies, Community Benefit Societies and charities that are registered with the charity (or other principal) regulator and also recognised as charities for tax purposes exclude organisations that might reasonably be included, or include organisations that in your view should be excluded? If so, please say why.

Question 3: Is there an alternative definition of social enterprise that would more accurately reflect the types of organisation that should benefit from the relief, and would be workable in legislation? If so, please provide one.

Question 4: Are there any particular advantages or disadvantages to making charities eligible for the relief? In particular, is there a risk that donations to charities will be displaced into investments and what would be the consequences of this?

Question 5: If charities are eligible for the relief, it will be necessary for specific anti-avoidance rules to ensure investments do not receive relief as both investments and donations, including the need to account for donations and investments separately. Do you foresee any practical problems with this? Are there any other specific avoidance risks that would arise from allowing charities to be investee organisations?

Size and age requirements

3.18 The Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCT) and Seed Enterprise Investment Scheme (SEIS) impose certain requirements relating to size (and, in the case of SEIS, age of trade) of investee companies. These ensure that the tax reliefs benefit companies most in need of help to raise funds, and comply with the European Union's State aid rules.

- Under **EIS** an investee company must be unquoted, have fewer than 250 full-time equivalent employees at the time the shares are issued, and its gross assets cannot exceed £15 million before any share issue and £16 million immediately after the issue.
- A **VCT**'s qualifying holdings are restricted to unquoted companies with gross assets not exceeding £15 million before the investment or £16 million after and which have fewer than 250 full time equivalent employees.
- Under **SEIS**, which is intended to assist very early stage companies, the investee company must be unquoted at the time of issue of the shares, have fewer than 25 employees and no more than £200,000 in gross assets, and any trade being carried on by the company at the date of issue of the relevant shares must be less than two years old at that date.

3.19 In line with the intention to mirror the features of EIS where possible and appropriate, the **Government is considering imposing a size limit of 250 employees**. The Government is also considering a gross assets test but recognises that for some social enterprises an alternative of a turnover test might be appropriate. The Government would welcome evidence as to which of these tests are appropriate and what the limits should be. Given the average size of social enterprises and investments into them, a lower limit might be preferable.

Question 6: Would a size requirement of up to 250 employees be appropriate for the social investment tax relief, or should a lower limit be introduced initially?

Question 7: What are the benefits and disadvantages of using gross assets or turnover to measure size, and what would the appropriate limits be? Please provide reasons and evidence.

Excluded activities

3.20 A number of trading activities are excluded from SEIS, EIS and VCT. Most of these exclusions apply because the trading activities are low-risk and property or asset backed, meaning that financing is often more accessible. Some activities are specifically excluded in order to limit opportunities for individuals to take advantage of the tax relief and use the scheme to manipulate or avoid tax through low-risk investments. Other activities are excluded in keeping with the European Commission's approach to particular industry subsidies (such as farming, and shipbuilding), and the State aid guidelines.

3.21 The Government expects there should be similar restrictions to ensure that the social investment tax relief is well-targeted and is not focussed on low risk investment activities; some additional restrictions will also be necessary in order to fit within the EU's regulations on de minimis state aid. However, the Government recognises that CICs, Bencoms and charities are regulated already, and therefore it may not be necessary to have such an extensive list of exclusions. Alternatively, it might be necessary to apply additional exclusions to the social enterprise tax relief, given the specific activities that Community Interest Companies, Community Benefit Societies and registered charities can be engaged in.

Question 8: Would it be appropriate to exclude particular activities from the social investment tax relief, in order to keep the tax relief well-targeted, or would the existing regulation of the qualifying organisations be sufficient? If the Government does introduce exclusions, should specific organisations be entitled to the social investment tax relief that are not currently able to access the venture capital reliefs, for example organisations delivering social care, or arts based organisations? Should any additional exclusions apply? Please give reasons.

4 The investment

The investment instrument

4.1 As described in Chapter 3, the existing tax reliefs that the Government offers on investments through the tax-advantaged venture capital schemes are primarily focussed on share capital. The Government has focussed on incentivising equity investments because equity capital is typically less easily accessed by companies, and typically carries higher risk for investors, than debt. Equity also offers potential for "upside" returns, which means that it is often a suitable instrument for investors into small and growing businesses. The venture capital tax reliefs are designed to help to fill the so-called "equity gap"; to support businesses to access finance in the area where they find it most difficult to do so. The Government believes that it is right that for investments into traditional high risk commercial ventures, it remains the case that equity is the primary instrument on which tax reliefs should be offered to encourage investment activities.

4.2 However, the Government recognises that for some sectors, the structure and the nature of organisations do not lend themselves easily to investment through share ownership. Many social enterprises fall into this group – with several choosing to be incorporated as companies limited by guarantee (rather than limited by shares) to ensure that the founders retain control over the company's social mission. These social enterprises may be unable or unwilling to issue shares, and instead choose to raise capital through debt investments, or a form of debt that has some characteristics of equity (often referred to as quasi-equity).

4.3 From informal discussions and evidence gathering, it is clear that social enterprises currently use a range of different investment instruments. However, a relatively small proportion of investments are in the form of equity. Instead, the majority of investments into social enterprises – at least those that are intended to provide working capital, as opposed to acquiring a pure ownership stake – appear to currently be made through loans or quasi-equity. The Government wants to ensure that the new social investment tax relief will support and encourage individuals to make investments into social enterprises in a way that is both suitable and, as far as possible, limits disruption to existing investments and organisational structures. **The Government therefore recognises that it will be necessary to offer tax relief on investment instruments other than equity for the social investment tax relief to be effective.**

4.4 The Government wishes to ensure that the new social investment tax relief acts effectively to offer support for the most risky investment, whatever the capital structure of the social enterprise. However, while the Government is open to offering tax relief on a range of investment instruments, this needs to be balanced against other design features to ensure that the scheme remains well targeted and is not open to abuse.

4.5 The Government intends that the new social investment tax relief should complement, but not duplicate, the existing support offered through the tax-advantaged venture capital schemes. The Government also does not believe that it is appropriate to offer tax relief where a social enterprise has a capital structure including an appreciable layer of equity, as this will generally significantly reduce the risk to holders of debt. In these circumstances, as elsewhere in the tax system, the Government will not provide tax relief for debt. The Government also does not believe that it is appropriate to offer a social investment tax relief on investments that already qualify for tax reliefs under Seed Enterprise Investment Scheme (SEIS) or Enterprise Investment Scheme (EIS), because these already offer very generous incentives to support investment into small and growing businesses. **To this effect, the Government will specifically prevent investors being able to qualify for multiple tax reliefs – under the social investment scheme and SEIS or EIS – on the same investment.**

Question 9: Do you agree with these general principles governing the scope of the investment instrument as a means to ensure that the tax relief for social investments is well-targeted and focussed on appropriately high risk investments?

Question 10: What would be the most appropriate way to ensure that tax relief is not provided for less risky debt investments? Do the summary criteria set out in Box 4.A achieve this aim?

Restrictions on the investment

4.6 The Government believes that successful social enterprises should be able to offer investors a return on the capital they have invested. However, the Government does not want to offer tax reliefs where the principal sum invested is secure or guaranteed – for example by being tied to collateral – or benefits from significant protections.

4.7 **Therefore the Government proposes that, in keeping with the existing legislation for EIS, the initial investment cannot be secured against assets or subject to guarantee.** The Government expects that where an investment takes the form of shares, those shares would need to be fully paid-up at the time the investment is made. Similarly, the Government **does not intend to offer tax relief on investments with preferential rights or access to the original investment in the event of a winding-up**. This is because any preferential rights or access would already protect an investor against downside risks.

4.8 The Government recognises that the nature of any returns on investment will vary according to the investment instrument. However, the Government believes that any returns (for instance, in the form of dividend or interest payments) should be broadly consistent with commercial rates of return; and that any returns should not be at the discretion of the investor. The Government wishes to limit opportunities for manipulation of the levels of tax-advantaged returns for equity and debt-based investments. Therefore **the Government proposes introducing restrictions on the investment instrument to ensure that any dividend or interest payments cannot be repaid at a rate that substantially differs from a commercial rate of return**. In addition the Government believes that any returns offered on social investment should be linked to the financial performance of the qualifying organisation. This is in keeping with the overall intent that the social investment tax relief will support organisations that are becoming commercial and sustainable, with expected growth over the longer term.

4.9 The current rules governing Community Interest Companies (CICs) include a cap on dividends paid out, and the Regulator wishes to consult on the case for amending this cap. Questions from the CIC Regulator are set out at the end of this chapter. The Government intends that any approach restricting dividend or interest payments for social enterprises is consistent with the approach taken for CICs overall.

4.10 In keeping with the treatment for EIS, the Government does not intend to place restrictions on preferential rights that investors may agree relating to sale. Further, as the Government recognises that there may be limited exit opportunities for these investors it intends to allow redemptions on investments once the minimum time period for investment has been reached. The Government expects that this will mean that shares that are redeemable once the minimum time period for investment has been reached, or debt-like investments where a premium is payable on redemption after that time, will be allowable.

Box 4.A: Summary of criteria for investment instrument

The Government intends to legislate for the investment instrument by setting out a number of key criteria which, if met, would mean that the investment would be eligible for the social investment tax relief.

As set out in the paragraphs above, the key characteristics that the Government believes should form the basis of eligibility criteria for an investment are that:

- the same investment does not also qualify for tax reliefs under SEIS or EIS;
- the original investment or principal is not secured against assets or subject to guarantee;
- the holders of the investment do not have preferential rights to assets on winding-up of the social enterprise, compared to other holders of the same type of investment and;
- returns on the investment should be payable at a broadly commercial rate and on broadly commercial terms.

The Government believes that these criteria should support the use of a range of investment instruments by various types of social enterprises, while ensuring that investors take on an appropriate degree of risk. The Government intends that the restrictions on the investment instrument **should ensure that tax relief is not offered on less risky debt investments**, for example where a social enterprise has a capital structure including an appreciable layer of equity, as this will generally significantly reduce the risk to holders of debt.

Question 11: Would a rule requiring investments not to be secured against assets or subject to guarantee ensure that the tax reliefs are well-targeted? Would this create any substantive difficulties for investors?

Question 12: Is it reasonable to require an investment return at a commercial rate, given the nature of the social investment market? If so, what would be the most appropriate way to ensure that any dividends or interest payments that form a return on the investment are paid at a broadly commercial rate? How can the Government best limit opportunities for manipulation on returns?

Question 13: Would it be appropriate to allow redeemable shares, or an equivalent for debt-like investments, after the minimum period for investment had been reached?

Question 14: Would the criteria overall result in any damaging, distortive or unintended consequences in the field of private investment into social enterprise? Please give examples where investments would be supported, or where difficulties might arise.

Size of investment

4.11 The Government would like to introduce a tax relief of a size appropriate to the investments being made in the social enterprise sector. The Government also recognises that allowing investments of more than €200,000 per investee organisation over three years would be likely to require State aid approval by the European Commission. This might delay implementation of the relief. It should be noted that the state aid cap of €200,000 applies cumulatively to aid from all de minimis state aid measures taken together.

4.12 As for EIS, the Government intends to impose a cap on the amount that an individual investor can invest via the tax relief scheme. In the case of the social investment tax relief scheme the Government proposes that the cap should be £1 million per year.

Question 15: Would a tax relief allowing investments of a maximum of €200,000 per investee organisation over three years be successful in generating additional social investment? If so, what types and sizes of social enterprise would be likely to benefit?

Question 16: Is a cap of £1 million of investments per investor per year the right amount?

How and when the money raised by the investment must be used

4.13 Under EIS, the money raised by a share issue can be used either for the purpose of an existing qualifying trade or for the purpose of preparing to carry on such a trade. Alternatively it can be used to carry on research and development intended to lead to such a qualifying trade being carried on. The money raised by the share issue must also be employed for the purposes of the trade or research and development within two years of the shares being issued (or the trade commencing, if that is later). The Government's starting point is that the same conditions will apply to money raised by organisations using the social investment tax relief, to prevent abuse of the scheme.

Question 17: Should the EIS conditions on how and when the money raised by the investment must be used also apply to the social investment tax relief?

Questions from the Community Interest Companies Regulator on the way CICs operate

4.14 The rules by which Community Interest Companies (CICs) operate and are regulated affect the incentives for investors to make social investments. The CIC Regulator wishes to gauge views on a number of these rules.

4.15 Community Interest Companies are subject to an asset lock to ensure that their assets and profits are dedicated to community purposes. One of the main elements of the asset lock is the dividend cap, which was put in place to strike a balance between investment in CICs and the principle that the assets and profits of a CIC should be devoted to the benefit of the community. The elements of the original caps were as follows:

- 35 per cent aggregate cap – limit on distributable profits;
- maximum dividend – Bank of England rate +5 per cent;
- dividends to be paid on the paid up value of the share; and
- performance related interest limited to Bank of England Base Rate +4 per cent.

4.16 A 2009 consultation by the CIC Regulator considered the possibility of changes to the caps in order to ensure that they were achieving their aim of striking a balance between maximising CICs' potential access to finance and maintaining the integrity of the asset lock. The 2009 consultation resulted in small changes intended to allow the CIC Regulator to assess their impact on investment opportunities for CICs:

- no change to the aggregate cap of 35 per cent of the distributable profits in share dividends;
- reference to Bank of England base rate removed for simplification purposes; new maximum cap of 20 per cent on share dividends to encourage investment;

- reference to Bank of England base rate on performance related interest removed for simplification purposes; new cap set at maximum of 10 per cent of the average amount of a CIC's debt or sum outstanding under a debenture issued during the previous 12 months on which interest on the debt became due.

4.17 A further review by the CIC Regulator in 2012, combined with submissions on this issue to the Cabinet Office's 2012 Red Tape Challenge on social investment, suggest that there is an appetite to return to the question of barriers to investment in CICs and a case for consulting on further changes to encourage more investment in CICs.

Question 18: Is the double cap, (aggregate cap at 35 per cent and dividend cap – maximum 20 per cent) on distribution by CIC limited by shares too burdensome and does it therefore discourage investment or setting up such a CIC? How and why?

Question 19: If there were to be a change to the caps, should one or both of the caps be removed or increased? Please give reasons and explain how this should be done. Would this change allow adequate protection of community assets?

Question 20: What would be the effect of changing or removing the peg to the initial paid up value of shares? Would this affect the statutory asset lock and the protection of community assets? If so, please say why. How should the value of shares be determined – by the market, by inflation, by a specified percentage?

Question 21: Should the performance related interest cap be raised or removed, and what impact would that have on the protection of community assets?

5 The tax reliefs

Proposed model

5.1 The Government proposes that the new tax relief will function in a similar way to the existing venture capital tax reliefs. However, reflecting the fact that a range of investment instruments may be eligible for the social investment tax relief, the Government does not believe that it would be appropriate or practical to attempt to exactly match each of the existing stages of relief under the Seed Enterprise Investment Scheme (SEIS) or the Enterprise Investment Scheme (EIS).

5.2 The Government believes that it is important to offer an incentive to encourage potential investors to contribute to and support social enterprises as they develop and grow. Therefore, **the Government intends to offer income tax relief** on qualifying investments. This relief will be calculated as a percentage of the amount of the qualifying investments made, and will be relieved in terms of a deduction from income tax liability. The rate of the income tax relief will be set out at Budget 2014. An illustrative example of how this would apply is set out below.

5.3 In addition, to encourage individuals with significant capital gains to invest in social enterprises **the Government will also offer a capital gains tax reinvestment relief**. This will operate in a similar way to the current EIS reinvestment (or rollover) relief. The payment of tax on a capital gain can be deferred where the proceeds from that disposal are reinvested into a qualifying social enterprise. The original capital gain can arise from the disposal of any asset.

Box 5.A: Illustrative example of income tax relief and reinvestment relief

An individual has taxable income of £50,000. The appropriate tax rates are applied to his taxable income, resulting in a tax liability of £15,000. The individual has invested £30,000 in a qualifying social enterprise. Assuming a social investment relief at 30 per cent of the amount invested for illustrative purposes, he can deduct £9,000 from his tax liability of £15,000, giving a reduced liability of £6,000.

If the individual's initial tax liability was calculated at only £8,000 then he would be able to deduct £8,000 of the social investment relief from that, reducing his tax bill to £0. However, he would lose the remaining £1,000 of social investment relief, as the deduction cannot be greater than the individuals' tax liability.

As regards reinvestment relief, if the individual has sold, for example, property for £30,000 and realised a taxable gain of £10,000 by doing so, then in addition to the income tax relief described above, capital gains tax reinvestment relief will be available. The gain of £10,000 will be treated as accruing only when the social investment matures or is redeemed, or is otherwise disposed of. It will be taxed or relieved according to the rules applying at that later time.

Restrictions on the initial investment

5.4 As with the other tax-advantaged venture capital schemes, the Government proposes that **the tax reliefs can only be claimed when an individual is not connected with the qualifying social**

enterprise. This is to ensure that individuals are not able to control or manipulate the financial position of the social enterprise for their own benefit. An individual would be regarded as connected either through employment or financial interest.

5.5 The Government proposes that the rules for connections by employment mirror the rules for EIS. Therefore, someone would be defined as connected with the company if they, or an associate (business partner, trustees of a settlement, relatives – although siblings are not connected in this way), are a partner, director or employee of the company, business or enterprise. However, the Government intends that there will be an exception for directors who are new investors in the business, as for EIS.

5.6 The Government proposes that the rules for connections by financial interest should also mirror the rules for EIS, but that they will need to capture the full range of investment instruments. Therefore, an investor or associate will be connected with the company if they have more than a 30 per cent stake in the company. This will need to cover investment through all qualifying investment instruments and will therefore need to extend beyond "ownership" interests. The Government recognises that extending to all forms of interest in a company could create some difficulties, particularly where so-called "emergency" loans or funding are required. The Government will therefore consider options to design a connected persons rule that could be relatively flexible while limiting opportunities for significant influence over an organisation or direction of specific funds.

5.7 As described in Chapter 4, the Government proposes that the investments on which an individual could claim tax relief will be limited to £1 million per year.

5.8 In addition, as with the other tax-advantaged venture capital schemes, the Government proposes that the investments must be held for a minimum period of time, or the income tax relief will be withdrawn. As social enterprises require longer-term capital and will often take some time to develop and grow, and as the qualifying investments will have debt as well as equity characteristics, the Government suggests that **an investment period of a minimum of five years is appropriate**. This is also in line with the minimum investment period for investment in a Venture Capital Trusts (VCT), which is intended to support longer-term investments into small and growing companies.

Question 22: Would the proposed definitions of connected parties create any specific problems for investments into social enterprises? How might the Government best ensure that all types of investment instrument were captured through rules on financial connections to a company, without being overly restrictive in the case of emergency financing?

Question 23: Would the proposed five year time period for minimum investment be appropriate? If not, what would be a more appropriate investment period and why?

Reliefs after the initial investment

5.9 It could also be argued that there may be a case for offering tax reliefs on returns received while an investment in a social enterprise is held, or on gains which accrue when such an investment is disposed of, to provide an additional incentive for longer-term investments and the growth and development of social enterprises. However, it is important to ensure that, taken together, any tax reliefs remain affordable and well-targeted.

5.10 The Government expects that a significant proportion of social enterprises will operate commercially over time, meaning that social enterprises may be able to deliver returns to investors, and that investors can benefit from a potential gain on their investments. In line with the tax treatment for SEIS and EIS investments, and taking account of the upfront income tax relief provided on the initial investment, the Government does not intend to offer any tax relief on dividends (or analogous returns), meaning that returns will be subject to normal income tax treatment. However, again in keeping with the treatment for the SEIS and EIS scheme, **the Government is considering offering a tax relief on gains on disposal of qualifying social investments**. This would mean that gains on investments in social enterprises – in the form of gains on the disposal of shares or repayments above the original loan capital which do not represent interest on that capital – would be free from tax.

5.11 Depending on the investment instrument used, the investment may also benefit from business property relief, or share loss relief. However, the Government would not necessarily mirror the exact treatment for EIS on any losses resulting from the full range of investments in social enterprises, particularly if there were opportunities for tax avoidance.

5.12 As an alternative to a general tax relief on disposal, the Government is also considering **introducing a tax relief designed to encourage serial investors in social enterprises**. This could take the form of a 'ring-fence', allowing the offsetting of gains and losses on multiple social enterprise investments, and could include the deferral or 'rollover' of the resulting net gain or loss, similar to the re-investment relief described at paragraph 5.3.

Question 24: The Government welcomes views on the appropriate balance to be struck on offering any tax reliefs in addition to initial income tax and reinvestment reliefs. If in addition the Government were to offer a tax relief on disposal of qualifying social investments, would a tax relief on gains, or a new rule to encourage serial investments into social enterprises be preferable?

Indirect investments

5.13 The Government recognises that social enterprise investment may be attractive to individuals who are willing to provide funding but do not want to have to make investment decisions personally, instead preferring decisions to be made by a fund manager operating a collective investment fund.

5.14 The Government does not propose including a set of rules to facilitate and encourage social investments that are made indirectly via a separate legal entity such as an LLP. **Instead, the Government believes that it would be simpler and more appropriate to use "nominee" arrangements to allow indirect investments to qualify for the social investment scheme**, where an investment is made and held by a nominee acting on behalf of an investor. This is the approach used in the EIS scheme. In that circumstance, while the nominee will have legal ownership of the shares, the individual investor retains beneficial ownership. EIS Funds use such arrangements to allow a fund manager to raise money collectively from multiple investors, and to invest those monies on the investors' behalf in a range of investments which qualify for EIS. This prevents the need for a separate set of rules relating to investors investing in a separate legal fund vehicle rather than directly into the beneficiary enterprise.

5.15 This should facilitate those who prefer to have their investment decisions taken by a professional fund manager without over-complicating the new scheme, and will also complement specific support available through Venture Capital Trusts (VCT).

Question 25: Do you agree that the Government should not introduce a new set of rules specifically to support indirect investment into social enterprises via a separate legal entity such as an LLP? What are the potential effects of using the nominee approach outlined above? Are there likely to be fund managers who are able to offer nominee investments?

Tax reliefs cap

5.16 As described in Chapter 4, the Government intends that, in line with the existing treatment for EIS and SEIS, a cap on investments on which an individual can receive social investment tax relief will apply. It is proposed that this cap should be set at £1 million per year.

5.17 Therefore, again in line with the treatment for EIS and SEIS, the existing limit on income tax reliefs that was introduced from April 2013 (limiting an individual's access to certain income tax reliefs to £50,000 or 25 per cent of their income, whichever is the greater) will not apply to qualifying social investments. The Government will consider any other interactions with the income tax relief cap (for example on share loss reliefs) depending on the final design of the tax reliefs for social investment.

Interaction with other State aid reliefs

5.18 As outlined in paragraph 4.4 above, investors will not be permitted to claim tax relief on the same investment under more than one scheme.

5.19 The Government operates the Community Investment Tax Relief (CITR), which came into force in 2002 and offers individuals and companies 25 per cent tax relief spread over a five year period. The scheme works indirectly via Community Development Finance Institutions (CDFIs), which invest in businesses and other enterprises in disadvantaged communities. The social investment tax relief differs from this by allowing direct investment from the individual straight into the organisation. **Nonetheless Government will consider carefully the value of operating both schemes simultaneously.**

Question 26: What are the advantages and disadvantages of continuing to operate both CITR and a new tax relief for investment in social enterprise?

Avoidance and abuse

5.20 The Government is conscious of the potential for abuse of any new tax relief and envisages that the anti-abuse measures listed below may be needed.

- a rule preventing an investor from qualifying for relief if the investor receives any loan which is "linked" to the investment (that is, a loan which would not have been made or which would not have been made on the same terms had it not been for the intended investment);
- a rule preventing an investor from qualifying for relief if the investor is able to exercise control or influence over the enterprise invested in. If the scheme were to allow for collective investment via a nominee arrangement as described in paragraph 5.14 above this rule might need to extend to situations where the investors collectively control the enterprise via the nominee;
- a rule preventing an investor from qualifying for relief if the enterprise provides the investor with any form of financial benefit (other than a normal commercial return on their investment); and
- an extension of the tainted charity donations rules to cover investments in charities, to ensure that the relief is not abused by those who enter into arrangements that benefit the investor or connected persons.

Question 27: Would any of these anti-abuse measures be likely to have unintended adverse consequences? Please also list any further anti-abuse measures that might be needed.

6 Summary of consultation questions

Question 1: Do you agree with the proposed criteria for assessing options for the social enterprise tax relief? Please provide comments as appropriate.

Question 2: Would adopting a definition of social enterprise comprising Community Interest Companies, Community Benefit Societies and charities that are registered with the charity (or other principal) regulator and also recognised as charities for tax purposes exclude organisations that might reasonably be included, or include organisations that in your view should be excluded? If so, please say why.

Question 3: Is there an alternative definition of social enterprise that would more accurately reflect the types of organisation that should benefit from the relief, and would be workable in legislation? If so, please provide one.

Question 4: Are there any particular advantages or disadvantages to making charities eligible for the relief? In particular, is there a risk that donations to charities will be displaced into investments and what would be the consequences of this?

Question 5: If charities are eligible for the relief, it will be necessary for specific anti-avoidance rules to ensure investments do not receive relief as both investments and donations, including the need to account for donations and investments separately. Do you foresee any practical problems with this? Are there any other specific avoidance risks that would arise from allowing charities to be investee organisations?

Question 6: Would a size requirement of up to 250 employees be appropriate for the social investment tax relief, or should a lower limit be introduced initially?

Question 7: What are the benefits and disadvantages of using gross assets or turnover to measure size, and what would the appropriate limits be? Please provide reasons and evidence.

Question 8: Would it be appropriate to exclude particular activities from the social investment tax relief, in order to keep the tax relief well-targeted, or would the existing regulation of the qualifying organisations be sufficient? If the Government does introduce exclusions, should specific organisations be entitled to the social investment tax relief that are not currently able to access the venture capital reliefs, for example organisations delivering social care, or arts based organisations? Should any additional exclusions apply? Please give reasons.

Question 9: Do you agree with these general principles governing the scope of the investment instrument as a means to ensure that the tax relief for social investments is well-targeted and focussed on appropriately high risk investments?

Question 10: What would be the most appropriate way to ensure that tax relief is not provided for less risky debt investments? Do the summary criteria set out in Box 4.A achieve this aim?

Question 11: Would a rule requiring investments not to be secured against assets or subject to guarantee ensure that the tax reliefs are well-targeted? Would this create any substantive difficulties for investors?

Question 12: Is it reasonable to require an investment return at a commercial rate, given the nature of the social investment market? If so, what would be the most appropriate way to ensure that any dividends or interest payments that form a return on the investment are paid at a broadly commercial rate? How can the Government best limit opportunities for manipulation on returns?

Question 13: Would it be appropriate to allow redeemable shares, or an equivalent for debt-like investments, after the minimum period for investment had been reached?

Question 14: Would the criteria overall result in any damaging, distortive or unintended consequences in the field of private investment into social enterprise? Please give examples where investments would be supported, or where difficulties might arise.

Question 15: Would a tax relief allowing investments of a maximum of €200,000 per investee organisation over three years be successful in generating additional social investment? If so, what types and sizes of social enterprise would be likely to benefit?

Question 16: Is a cap of £1 million of investments per investor per year the right amount?

Question 17: Should the EIS conditions on how and when the money raised by the investment must be used also apply to the social investment tax relief?

Question 18: Is the double cap, (aggregate cap at 35 per cent and dividend cap – maximum 20 per cent) on distribution by CIC limited by shares too burdensome and does it therefore discourage investment or setting up such a CIC? How and why?

Question 19: If there were to be a change to the caps, should one or both of the caps be removed or increased? Please give reasons and explain how this should be done. Would this change allow adequate protection of community assets?

Question 20: What would be the effect of changing or removing the peg to the initial paid up value of shares? Would this affect the statutory asset lock and the protection of community assets? If so, please say why. How should the value of shares be determined – by the market, by inflation, by a specified percentage?

Question 21: Should the performance related interest cap be raised or removed, and what impact would that have on the protection of community assets?

Question 22: Would the proposed definitions of connected parties create any specific problems for investments into social enterprises? How might the Government best ensure that all types of investment instrument were captured through rules on financial connections to a company, without being overly restrictive in the case of emergency financing?

Question 23: Would the proposed five year time period for minimum investment be appropriate? If not, what would be a more appropriate investment period and why?

Question 24: The Government welcomes views on the appropriate balance to be struck on offering any tax reliefs in addition to initial income tax and reinvestment reliefs. If in addition the Government were to offer a tax relief on disposal of qualifying social investments, would a tax relief on gains, or a new rule to encourage serial investments into social enterprises be preferable?

Question 25: Do you agree that the Government should not introduce a new set of rules specifically to support indirect investment into social enterprises via a separate legal entity such as an LLP? What are the potential effects of using the nominee approach outlined above? Are there likely to be fund managers who are able to offer nominee investments?

Question 26: What are the advantages and disadvantages of continuing to operate both CITR and a new tax relief for investment in social enterprise?

Question 27: Would any of these anti-abuse measures be likely to have unintended adverse consequences? Please also list any further anti-abuse measures that might be needed.

Question 28: Please provide information on the current size and composition of the social enterprise environment. For example, information on the total number and size of companies of potential eligible Community Interest Companies (CICs), Community Benefit Societies (bencoms) and Charities, levels of employment, amount currently received by private investors (excluding companies), estimates of turnover, and breakdown by type of capital (quasi-equity/equity/debt).

Question 29: How has the UK Social Enterprise market performed in recent years and what are the wider economic trends? Please provide detailed information or examples, including:

- changes in overall levels of private investment by type of capital, other funding sources, turnover and employment within the UK Social Enterprise market;
- changes in overall levels of demand and evidence of funding gaps within the UK Social Enterprise market. Is this a problem specific to any particular sector, type of company?
- case studies of different social enterprises receiving private investment with an indication of their level of risk, the size of average investment and expected return.

Question 30: What are the three or four main factors that have driven the changes in the UK social enterprise market?

Question 31: What are the barriers that currently put investors off investing in the social enterprise market?

Question 32: What is the loss to the economy from underinvestment in the UK social enterprise market?

Question 33: What are the three or four main features of the tax relief that you deem important to incentivise investment in the UK social enterprise market? Please provide figures on how this will impact on the level of investment.

Question 34: What level of new private investment you think will be generated by the introduction of the tax relief and why?

Question 35: What type of investor is likely to drive an increase in social investment, and are they targeted by the policy as currently outlined? If not, what would be needed to bring them into the policy?

7 The consultation process

7.1 This consultation is being conducted in line with the Tax Consultation Framework. There are five stages to tax policy development:

- Stage 1 – Setting out objectives and identifying options
- Stage 2 – Determining the best option and developing a framework for implementation including detailed policy design
- Stage 3 – Drafting legislation to effect the proposed change
- Stage 4 – Implementing and monitoring the change
- Stage 5 – Reviewing and evaluating the change

7.2 This consultation is taking place during stage 1 of the process. The purpose of the consultation is to seek views on the policy design and any suitable possible alternatives, before consulting at Autumn Statement 2013 on specific proposals for legislation.

How to respond

7.3 Responses should be sent by 6 September 2013, by email to socialinvestmenttaxreliefconsultation@hmtreasury.gsi.gov.uk or by post to: Social Investment Tax Relief Consultation, Enterprise and Property Tax Team, HM Treasury, 1 Horse Guards Road, SW1A 2HQ.

7.4 For enquiries about the content or scope of the consultation, please contact Tom Halloran on tom.halloran@hmtreasury.gsi.gov.uk, telephone 0207 270 1036 (from a text phone prefix this number with 18001).

7.5 Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from the HM Treasury website. All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

7.6 When responding please say if you are a business, individual or representative body. In the case of representative bodies, please provide information on the number and nature of people you represent.

Confidentiality

7.7 Information provided in response to this consultation, including personal information, may be published on disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1988 (DPA) and the Environmental Information Regulations 2004.

7.8 If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury.

7.9 HM Treasury will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Consultation Principles

7.10 This consultation is being run in accordance with the Government's Consultation Principles. The Consultation Principles are available on the Cabinet Office website: http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance.

7.11 If you have any comments or complaints about the consultation process please contact: Amy Burgess, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance

Please do not send responses to the consultation to this address.

A Call for evidence

Summary of impacts

A.1 The impacts of the relief will depend on the rate of relief and other elements of its design. This consultation is seeking evidence for a detailed evaluation of the impacts of the relief – including impact on individuals and households, equalities impacts, impact on businesses and civil society organisations, and other impacts. This evaluation would be used in any State aid case put to the European Commission.

A.2 This annex requests information from stakeholders on the size, composition and characteristics of social enterprise, with a particular focus on recent changes and trends within social enterprise and the factors driving them.

A.3 This information will be important for designing the policy so that it meets its objectives, and for ensuring it represents value for money and fairly supports the social enterprise market. The information will also support any subsequent implementation and any application for State aid approval from the European Commission. Previous State aid applications relating to tax reliefs have required a large amount of evidence. The Government asks interested parties to provide as much of the evidence requested below as possible.

Question 28: Please provide information on the current size and composition of the social enterprise environment. For example, information on the total number and size of companies of potential eligible Community Interest Companies (CICs), Community Benefit Societies (bencoms) and Charities, levels of employment, amount currently received by private investors (excluding companies), estimates of turnover, and breakdown by type of capital (quasi-equity/equity/debt).

A.4 The Government is aware of recent reports on demand and supply in the social enterprise market. The Government is keen to develop a more detailed, accurate and up-to-date picture of the recent trends, and of the factors driving these trends.

Question 29: How has the UK Social Enterprise market performed in recent years and what are the wider economic trends? Please provide detailed information or examples, including:

- changes in overall levels of private investment by type of capital, other funding sources, turnover and employment within the UK Social Enterprise market;
- changes in overall levels of demand and evidence of funding gaps within the UK Social Enterprise market. Is this a problem specific to any particular sector, type of company?
- case studies of different social enterprises receiving private investment with an indication of their level of risk, the size of average investment and expected return.

Question 30: What are the three or four main factors that have driven the changes in the UK social enterprise market?

Question 31: What are the barriers that currently put investors off investing in the social enterprise market?

Question 32: What is the loss to the economy from underinvestment in the UK social enterprise market?

A.5 The Government is also keen to understand the impact a tax relief will have on incentivising investment in the Social Enterprise market.

Question 33: What are the three or four main features of the tax relief that you deem important to incentivise investment in the UK social enterprise market? Please provide figures on how this will impact on the level of investment.

Question 34: What level of new private investment you think will be generated by the introduction of the tax relief and why?

Question 35: What type of investor is likely to drive an increase in social investment, and are they targeted by the policy as currently outlined? If not, what would be needed to bring them into the policy?

HM Treasury contacts

This document can be downloaded from www.gov.uk

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