How to improve Social Investment Tax Relief (SITR)

By Evita Zanuso, Senior Director, Big Society Capital

*www.bigsocietycapital.com/*Criticism has been growing lately around SITR, a tax relief that enables social organisations to take on debt or raise investment. The consensus is that the take up of the tax relief from these enterprises could, and should, be greater. When the high-level numbers are compared to the long-established Enterprise Investment Scheme (EIS)[i] it's not surprising that so many people are disappointed.

If you look beyond the numbers, some remarkable work is happening amongst the organisations that have taken the leap to raise investment using SITR. Anecdotally, investors seem pleased with what they are achieving with their money – both financially and for impact.

Earlier this month, Big Society Capital (BSC), Bates Wells Braithwaite and Philanthropy Impact jointly hosted a talk about SITR with wealth advisers. We heard perspectives from across the board - an enterprise that has raised investment using the relief, an investor who has invested in a SITR fund, a financial planner who has advised clients into SITR funds and a SITR fund manager.

Investors can have direct positive impact and make money

The investor had invested in the Resonance Bristol SITR fund despite having no links to Bristol. He spoke movingly about the work of Street Impact Bristol an organisation helping 125 rough sleepers in Bristol get off the streets through the provision of housing and tailored support. Despite having a long career in banking, he had never experienced an investment that can elicit such a powerful direct connection. He was genuinely excited by how his money was supporting a local grassroots organisation doing crucial work to address a serious and growing problem in the UK.

He recognised that social organisations often can't afford to borrow money at rates that satisfy the financial requirements of an investor. For him, the 30% tax relief bridged that gap and enabled him to get a reasonable risk-adjusted financial return.

Social enterprises need investment to scale so impact can be multiplied

Like any other businesses, social enterprises need capital to grow. As businesses with a social mission, that growth could mean more lives are improved, creating greater impact.

At the talk we heard from Our Power, one of the first organisations to raise investment at the higher limit of SITR of £1.5m. They raised £4.5m of investment, of which £1.5m was through SITR. They are an energy supplier offering fair pricing to help those at risk of fuel poverty. Their business model is simple, they offer the same tariff to everyone regardless of their circumstances, unlike some energy suppliers that profit most from their poorest customers.

Impact as a differentiator

SITR is not a widely understood tax relief among financial advisers. However, a growing group of advisers are realising that clients, particularly those who have amassed enough wealth to pay for their lifestyles and their children are looking for more meaningful investments. The ability to offer philanthropic and social impact investment advice is, therefore, a differentiator for financial advisers. Clients rarely get excited when their investment portfolios return a few basis points more than the market. Impact opportunities enable advisers to have a different conversation and build deeper relationships with their clients.

Potential unrealised but more to come…

To date, around 50 social enterprises have raised investment using SITR. This modest number reflects the complexity and newness of the tax relief. Comparisons with EIS figures are arguably unhelpful, as the types of organisations raising investment are probably more comparable with companies that qualify for Seed Enterprise Investment Scheme which benefits from a higher tax relief.

It has become clear that SITR has great potential to create impact if changes are made to make it more relevant and easier to use. This is based on our work with Good Finance   a joint sector initiative to help voluntary, community and social enterprise organisations navigate repayable finance, and feedback from our Get SITR Campaign.

To help social sector organisations and social investors understand the potential of SITR and how to implement it, Big Society Capital has launched an open data source of information on all SITR investment deals. This data is being collected to ensure the tax-relief remains relevant, to raise its profile and to help shape, simplify and advocate for changes that will extend and simplify the tax relief in preparation for the Government consultation in early 2019. We have also published a factsheet to help advisers understand SITR and compare tax reliefs available to investors.

If you would like more information or to become involved in making SITR better, please contact Melanie Mills at mmills@bigsocietycapital.com (investee) or Evita Zanuso at ezanuso@bigsocietycapital.com (investor).

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[i] 3,470 companies raised a total of £1.797m of fund under the EIS scheme compared with 25 social enterprises raised £1.8m under SITR scheme using both equity and debt.