BIG SOCIETY CAPITAL

The Solutions Collective

Insights Forum 3

Tax: What role can it play in facilitating social lending?

Session agenda:

Why tax is an important lever to scale social lending? - Sarah MacFarlane, Senior Investor Relationships Manager, Big Society Capital.

What is it that an investor wants from a tax relief for investment? - James Dickens, Director and Chartered Financial Planner, Grierson Dickens.

Government policy and social lending levers – Tess Godley, Senior Policy and Strategy Manager, Big Society Capital.

Discussion and Q&A: How are tax reliefs relevant to your organisation and how might they be used in the future?

Slides used during the session can be found here.

Recording of presentations can be accessed here.

Video case study of Wellington Orbit can be accessed here.

Context

Harnessing individual investment to make greater sums of capital available to support the creation of social impact is a key opportunity. There is more need and demand than public or philanthropic money can provide.

Understanding the role that tax incentives play in harnessing this capital was a key focus for gathering insights. In particular, exploring where different types of tax incentives work best and how the tax regime may struggle to serve investors. Insight from the session will inform scheduled conversations with DCMS, HMT and HMRC.

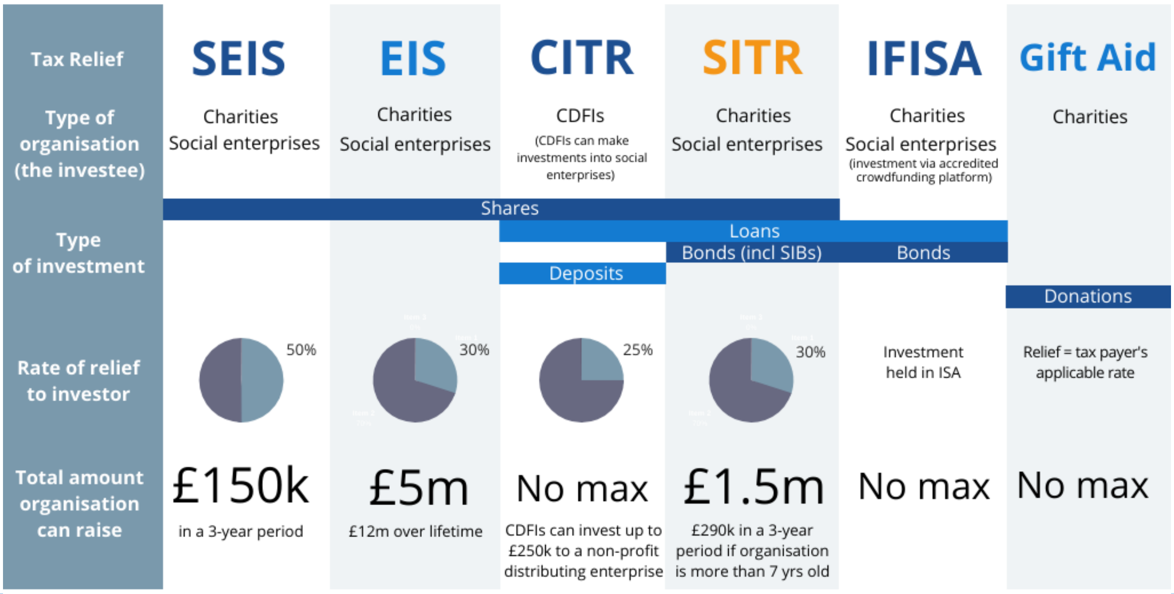
Definition

"Tax relief refers to any government program or policy designed to help individuals and businesses reduce their tax burdens or resolve their tax-related debts." - Investopedia

Acronyms:

EIS	Enterprise investment Scheme
SEIS	Seed Enterprise Investment Scheme
CITR	Community Investment Tax Relief
SITR	Social Investment Tax Relief
CDFI	Community Development Finance Institutions

Tax Reliefs at a glance



The history

- There is an existing range of tax reliefs to encourage investment to support the start-up of enterprise
- EIS and SEIS have been in existence for almost 30 years and have scaled to raise significant levels of investment with EIS raising £1.6 billion of investment in 2020/21 alongside £17 million of SEIS in the same year
- Traditional tax reliefs EIS and SEIS work on investment via equity so often do not work for established social enterprise and charity models
- Tax reliefs have focused mainly on income tax concessions
- CITR was launched in 2002 to stimulate investment from both individuals and organisations through dedicated local investors CDFIs
- SITR was launched in 2014 modelled on the basis of EIS but available for both equity and debt. Subject to a range of revisions and delays SITR is due to be retired in April 2023 and has been seen by some to be a failure having raised just under £18 million to date
- For more information on Tax relief for investors using venture capital schemes

The supply

- Individual investment is traditionally thought of as the domain of High-Net-Worth Individuals (HNWI) and Sophisticated Investors - both groups who would traditional be 'advised' clients. Typically employing a regulated wealth manager or financial planner
- However there is a mass market of retail investors who also seek to make investments which can benefit from tax reliefs and who use mechanisms such as community shares and investing through crowdfunding platforms or charity bonds
- With the rise in personal wealth seen in the pandemic there was an estimated additional £82 billion kicking around in savings and current accounts – The Guardian, May 2020
- There is an anticipated 'growing demand with 61% percent of the next generation of wealth owners regarded as 'engaged' with sustainable investing' a 2022 survey of UBS client global family offices found, and this is expected to further grow
- There has been tenfold growth in the Social Impact Investment Market
- Finding ways to channel capital from individual investors represents a huge opportunity to scale the impact of social investment

The application

- Tax reliefs are currently focused towards income tax relief. Many HNWI pay little income tax relative to their assets and philanthropic giving
- Reclaiming tax relief for retail investors is often too much effort or time consuming to be of real value
- Tax reliefs are a 'nice to have' but currently the greater challenge is engaging investors into the social impact investing space over and above ESG
- Tax reliefs work in conjunction with other policy levers for example: guarantees and grant blended with investment capital

Key insights:

- The main challenges for 'advised' investors is the social impact investment (SII) space is fragmented both in terms of products and social issues
- Advisers also have competing priorities in terms of the pressure of their regulation and compliance and ultimately their own business model as to how they receive fees. This is further compounded when a new relief is introduced due to the unfamiliarity of the market
- For the mass market 'non-advised' investors the main barrier is complexity – both in terms of finding products to invest in and the processes for reclaiming any relied due
- The gap that will be opened up should SITR lapse will leave Community Benefit Societies with no applicable tax relief to support community share raises
- Tax relief should be seen as part of the government support to subsidise social investment
- The tax relief should be seen as part of the risk/return decision, but this is often viewed as being a remote part of the decision making so works best when paired with another subsidy mechanism like guarantees
- Tax reliefs are viewed as a concession to offset risk in return for 'potential' reward perhaps this is the wrong tool? An alternative approach would be a familiar product like a NS&T SII bond which is less risky, less return with easy liquidity
- HMRC lack of experience and resource in dealing with new tax reliefs also add another layer of challenge
- Concern that tax reliefs are viewed by HMT less as a channel to increase investment and more focus is given to plugging tax avoidance potential which renders the reliefs ineffective in achieving their original purpose
- The amount of uncertainty, amendments and delay never really allowed SITR to gain traction it was always operating under restriction

The opportunity

- Extending SITR to Community energy would be one easy and ready-made support solution in the government's focus to more sustainable and community owned energy alternatives to gas and oil
- 'In it for the long term or not at all'- Tax reliefs need to be long term to be viable:
    - To build understanding and awareness with investors, advisers and social enterprises and charities
    - Confidence and recognition of the product
    - To build capital and rack record
    - The ecosystem of support needs to be in place before or at the same time as the introduction of a new relief e.g. The EIS Association and this needs to be recognised as a necessary part of successful implementation

Catalytic capital raised during the discussion or speaker presentations that have influenced or further informed your thinking around the subject of catalytic capital?

Ultimately tax reliefs add to the complexity which is the number one enemy of trying to get people into impact investing. My clients are happy to pay tax, they appreciate the role that tax plays in wider society. Whilst the relief is a nice to have it is the opportunity to make your money make a difference that is the driver for many. To realise this potential there is still along way to go to make tax reliefs simple enough to really work.

James Dickens, Director, Grierson Dickens

Summary:

1. **Simplicity** is the key to enable both mass retail and advised market to enter into SII
2. **Longevity** is a key barrier to success – the base case would be presenting a case for a minimum commitment for a 10-year time frame to establish any new relief
3. It is really **unacceptable that it is easier and simpler to give money away** (philanthropy) than to try and harness a return – and yet gift aid is universally accessible and administered. We need an equivalent vehicle to aid SII
4. **To harness capital for crucial social issues we need cross party support** and the lack of a single point of contact is a problem. Why does SII not have a voice like the VCSE Crown Representative?
5. We need to **reframe the narrative** of the value of any lever – rather than saying only £18 million has been raised through SITR framing the impact on organisations and individuals that this investment has made
6. Missing a trick

Other reading and resources referenced during the discussion or for additional context:

- Social Lending: https://bigsocietycapital.com/latest/social-lending-ambitions-direction-and-levers/
- SITR for Investors – https://www.getsitr.org.uk/investors
- SITR for Professional Advisers - https://www.getsitr.org.uk/sitr-factsheet-professional-advisers
- Big Society Capital's consultation response to the Government review on SITR
- A Simple Guide to tax Reliefs for Charities and Social Enterprises
- What is CITR - https://responsiblefinance.org.uk/the-community-investment-tax-relief-citr/community-investment-tax-relief-citr/

Our Social Lending Strategy

We want to see a social lending market that meets the needs of a diverse range of social purpose organisations and investors alike. To do this we are exploring a range of tools and levers including the use of guarantees, tax, catalytic capital in order to increase the supply of concessionary capital.

We recognise the importance of partnership and of ensuring that user insight and lived experience are embedded in our design and development processes. The Solutions Collective is an initiative to support the growth of the social lending market in the UK.

We are busy collecting topics for our 2023 programme to register your interest for future Solutions Collective events or suggest topics here.