

TAX RELIEF FOR INVESTORS



How to Support Purple Shoots and Claim 25% Tax Relief over 5 Years

A guide to the UK Government's
Community Investment Tax Relief (CITR) Incentive



PURPLE
SHOOTS

FUNDING - SUPPORT - OPPORTUNITY

This briefing provides information on the Government's Community Investment Tax Relief (CITR) Scheme applicable to CDFIs (Community Development Finance Institutions). It does not provide detail or advice on the application of tax relief under the scheme, or any other tax or financial advice. Purple Shoots (PS) recommends that its investors take independent tax and financial advice.

A potential investor is responsible for his/her own tax affairs and PS has no responsibility for such matters. HMRC provides guidance ("HMRC Guidance") on the CITR scheme for investors in "Guidance on the CITR scheme" at the end of this briefing).

WHAT IS PS?

Purple Shoots is a charity that helps disadvantaged people to set up, or expand their own business as a means to achieve financial independence while rebuilding their confidence and self esteem. We provide microloan funding for start-ups and small businesses, together with some ongoing support. We also help people further away from employment or self-employment to develop income generating ideas which could lead to viable businesses. In doing this we enable people who cannot access finance, through the usual channels, to realise their potential for the benefit of themselves and their families.

WHAT DOES CITR OFFER?

It offers a social return on your investment and additionally 25% tax relief over 5 years.

HOW DOES IT WORK AND HOW CAN I APPLY?

The Government would like to see more investment going into the under-resourced communities throughout the UK. So it has introduced the CITR Scheme. This offers a tax incentive to investors in CDFIs. CDFIs are organisations which invest in enterprises that operate within or for disadvantaged communities in the UK. The scheme applies only to investments made through accredited CDFIs – direct investment in disadvantaged communities does not qualify. The tax incentive is available to individuals and companies. It comes in the form of a tax relief, which reduces the investor's income tax or corporation tax liability. The Scheme is run jointly by HMRC and BIS. The relief is worth up to 25% of the money invested, spread over five years (5% per year). The extent to which repayments can be made during the five year period is limited (see below).

WHY IS THE RETURN SO GOOD?

The Government appreciates that investment in organisations working in under-resourced communities can yield enormous social benefits for those communities, providing local services, jobs, wealth and hope. But finding and assessing good investment opportunities requires considerable skill, patience

and local knowledge and is therefore expensive. So the Government is offering a financial incentive through the tax relief to encourage more people to invest in such areas, through trusted, accredited intermediaries like PS. These intermediaries have been accredited on the basis of their track record of lending in these communities, which are currently under-served by commercial banks.

WHERE IS PS' LENDING TARGETED? WILL CITR BE TARGETED ANY DIFFERENTLY?

The CITR Scheme is intended to increase investment in enterprises that operate in or serve specific under-resourced communities. These are fairly widely drawn and include specific geographical areas of deprivation throughout the country as well as "thematic" disadvantaged communities such as physically disabled or unemployed. For further details on the CITR Scheme criteria contact BIS, whose address can be found at the end of this leaflet. We support organisations throughout the Wales, working in a wide variety of sectors.

CAN I CHOOSE WHAT MY MONEY GOES TOWARDS?

PS currently does not offer any targeted accounts. As a fund it must be our decision where we lend the money, based on detailed due diligence. However, so that we may provide you with relevant information more effectively, we do encourage you to tell us of areas of specific interest to you (be they geographic or thematic).

HOW WILL LENDERS KNOW WHAT THEIR MONEY HAS BEEN USED TO BENEFIT?

We write to all our lenders regularly to let them know what PS has funded. We also encourage lenders where appropriate, to develop contacts with borrowers in their own communities or areas of interest. We offer an option of a mentoring service to all our borrowers, which is an area in which Investors may wish to be involved.

IF THE GOVERNMENT IS OFFERING AN INCENTIVE AS ATTRACTIVE AS THIS, SURELY IT IS TO COMPENSATE FOR THE HIGH RISKS INVOLVED?

It is true that PS borrowers have difficulties getting affordable finance for their projects from commercial banks, but this is not necessarily because they are inherently risky. There may be many different reasons why such lending is not possible. For example, someone who has never had a bank loan or credit card may have poor credit rating simply because of that; and students who move home regularly and do not have a telephone landline may suffer in a similar way. There are certain cases that come to us that are higher than average risk. Our criteria for lending decisions are very simple: 'Is this a viable idea, and are these the right people to make it work?'

BUT WHAT HAPPENS IF PS' LOANS DO FAIL? IS MY CAPITAL AT RISK?

Obviously there are no guarantees that our borrowers will pay back their loans within the agreed terms. PS is in the same position as any other lending institution in this respect. Because our business model incorporates lending decisions made locally we put a great deal of work into building and maintaining relationships with our clients. By so doing, we believe we can minimise the default rate that we incur. The loan Investors make would be to PS directly and such money would be pooled, and not loaned to specific clients. The risk to Investors is in PS failing as an entity and not the specific clients. We have a successful track record; however, there is always a level of risk.

OUTLINE OF THE TERMS OF THE CITR TERMS AND CONDITIONS

HOW DO I INVEST IN PS?

Simply send an e mail to PS with your contact details to info@purpleshoots.co.uk. We will get in touch to discuss your potential investment and then provide the relevant documentation which incorporates the applicable terms and conditions.

IS THERE A MINIMUM OR MAXIMUM AMOUNT THAT I CAN PUT IN?

The minimum you can put into PS CITR is £1,000. There is no specified upper limit.

TAX RELIEF

For individuals, an investment in PS would reduce the investor's income tax liability for

- ❖ The tax year in which the loan is made
- ❖ Each of the subsequent 4 years Providing the individual has sufficient taxable income to use it all, the amount of relief available for each of those years is 5% of the funds lent. For companies, an investment in PS would reduce the investor's corporation tax liability
- ❖ For the accounting period In which the date of the loan falls and
- ❖ For each of the accounting periods in which the subsequent four anniversaries of that date fall.

Providing the company has sufficient taxable income to use it all, the amount of relief available for each of those accounting periods is 5% of the funds lent. For both individuals and corporate investors, if the investor has sufficient tax liability to make full use of the relief, any unused relief is lost.

HOW LONG DO I NEED TO KEEP MY MONEY IN PS?

HMRC stipulates that to obtain maximum tax relief under the CITR Scheme, investors must keep their loan in the account for at least five years. However, lenders are allowed to receive some of their funds back over the course of the five years of the investment without sacrificing all of their relief. Any repayments within the first five years of the loan will inevitably reduce the tax relief available to the investor, as tax relief will not be due on amounts that have already been repaid. For further details, please refer to HMRC Guidance. With a PS CITR, no withdrawals are permitted for the first three years (HMRC rules allow for some earlier withdrawals of funds, but PS' permitted withdrawals, shown in the table below, take into account both the legislation and the requirements of PS to maintain prudent liquidity levels). The amounts that can be withdrawn without penalty in each year are shown below. At least 90 days notice must be given for any withdrawal from the account.

Timing of repayment within the five year period upper limit of permitted repayment

Year 1 (from Investment Date to first anniversary of loan) No repayments permitted

Year 2 No repayments permitted

Year 3 No repayments permitted

Year 4 25% of amount advanced

Year 5 50% of amount advanced

End of fifth year 100% of amount advanced or balance of the account, whichever is smaller.

HOW DO I CLAIM MY TAX RELIEF?

When you invest in PS, PS will send you a tax relief certificate relating to the investment within 30 days. Only one tax relief certificate is issued in respect of each investment. Individual investors can claim the relief on their self-assessment tax return for the tax year for which relief is due. A separate claim must be made for each of the years for which relief is sought. A company wishing to claim relief must make its claim as part of its company tax return for each relevant accounting period.

WHEN CAN I MAKE A CLAIM?

Tax relief cannot be claimed until the end of the tax year or accounting period to which it relates and until the investor has received a tax relief certificate from PS. (But see HMRC Guidance for special measures for individual investors).

HOW DO I MAKE WITHDRAWALS?

To make withdrawals from PS within the permitted limits, we need 90 days notice in writing. We will then send you a cheque to transfer the funds to another account in your name.

WHAT IF MY TAX OR OTHER CIRCUMSTANCES CHANGE?

If you cease to have sufficient tax liability to make full use of the relief, any unused relief is lost. It cannot be carried forward. If you have any doubts or questions you should consult your tax advisor or HMRC. It is your responsibility, taking appropriate advice (which PS cannot provide), to judge your own organisation's circumstances in relation to a possible CITR Scheme investment and to take account of how they might change. In particular, it is important to take account of the fact that the CITR Scheme tax relief is linked to maintaining the invested funds in PS for prescribed periods of time.

ARE THERE ANY OTHER CIRCUMSTANCES IN WHICH I COULD LOSE MY RELIEF?

Relief may be reduced or withdrawn if the lender receives withdrawals from the account above the allowed limits set out above. It can also be lost if the lender, or a connected individual or organisation, receives value in some other form from the CDFI. This would apply to a receipt of a PS loan by a CITR lender organisation, or by another organisation connected to the lender. If you believe this might affect you or your organisation please discuss it with us on 07726 599267. For details on the possible loss of tax relief, please refer to HMRC Guidance.

WHAT HAPPENS IF PS CEASES TO BE ACCREDITED?

Relief could also be lost if PS were to lose its accreditation. In a case where an accredited CDFI did lose its accreditation, the number of tax years for which relief may be claimed is reduced. HMRC Guidance gives further details on how this is calculated. However, accreditation would only be withdrawn by the Government Department for Business, Innovation and Skills (BIS) if the CDFI breached the conditions on which its accreditation was granted. PS will strive to abide by those conditions. In the unlikely event of accreditation being withdrawn, PS will not accept any liability for any relief lost by any CITR investor.

WHAT HAPPENS IF THE CITR SCHEME RULES CHANGE?

As in the case of any tax relief, a change to applicable rules (including the discontinuance of relevant scheme) and the consequences arising from any such change are a matter for Government. PS will not accept any liability for any consequence of any change to the CITR Scheme.

IS THERE ANYTHING ELSE I HAVE TO DO?

The lender is required to notify HMRC if the amount of relief attributable to a CITR Scheme investment is reduced or withdrawn because of withdrawals from the account, or for any other reason. PS would suggest that you seek professional financial advice before making the loan. Additionally the lender should inform their appointed Accountant of the loan to ensure this is correctly included in their financial affairs. Please refer to HMRC Guidance for further details

WHAT HAPPENS AT THE END OF FIVE YEARS?

The legislation presently provides for the accreditation period for the CDFI to run for three years at a time and for the tax relief for investors to be available for five years from the date of investment. Extensions beyond this will depend upon further legislation.

Further Guidance

HMRC

HMRC has published guidance notes on the CITR Scheme. You can access this through HMRC Enquiry Centres or online at www.hmrc.gov.uk/specialist/citc_guidance.htm

RESPONSIBLE FINANCE ASSOCIATION

This is a trade association for CDFIs. PS is a member of the RFA. It holds a list of accredited CDFIs for the purpose of the CITR Scheme and also produces guidance notes.

For more information, see www.responsiblefinance.org.uk



Get in touch

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Working with you to improve life chances through self-reliance

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