



## Member Briefing: Social Investment Tax Relief

June 2019

### History and Background

Early community energy projects benefited from the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs) which offered tax relief to investors to support investment into difficult areas of enterprise and start-ups. Social Investment Tax Relief (SITR) offered incentives to invest in social businesses that experience difficulty accessing finance and deliver social benefits that their commercial counterparts do not.

The Budget Statement of March 2015 announced that eligibility for community renewable energy to benefit from the first three was withdrawn as from April 2015, but would be retained for SITR.

### Broken Promises

The same Budget Statement promised that “The government will allow a transition period of 6 months following state aid clearance for the expansion of SITR before eligibility for EIS, SEIS and VCT is withdrawn.” This promise was repeated several times. In October that year during a debate on the Finance Bill, the minister David Gauke announced that they would be withdrawing EIS in five weeks’ time and that community energy would not be eligible for SITR.

The rationale given for the withdrawal was the existence of other government support in the form of Feed-in Tariffs (FiTs) and export tariffs. Another concern expressed at the time (though without much supporting evidence) was that commercial developers were gaming the system by pretending to be ‘community’ in order to get the tax relief.

### Government ‘Call for evidence’

The government is currently calling for evidence on SITR and how it can be improved. The call for evidence documents are [here](#) and the deadline is 17 July 2019. Community Energy England will shortly be publishing its draft response and guidelines to help others to respond.

### Business case for reinstating SITR

Now that community energy does not receive government subsidies in the form of Feed-in Tariffs there is a good argument to reinstate SITR for community renewable energy.

The roll-out of SITR to date has been a missed opportunity. SITR only attracted a total of £10m of investment in 66 deals. Community energy is one of the most widely recognised social investments,

with unique potential to provide scale and strong community-based investment collaboration. Importantly, community energy is the single most prominent investment category on social impact crowdfunding websites and, as such, is one of the most important opportunities for the democratisation of social impact investing.

The withdrawal of government subsidy and tax relief (as well as planning policy, business rate challenges and the proposed increase in VAT for Energy Saving Measures) for community energy has resulted in the stalling of what was a fast-growing and vibrant sector, engaging thousands of volunteers in working towards the government's target of 1 million homes to be powered by community energy.

From 2016-2018, there was an 84% reduction in new electricity generation capacity, 81% fewer new community energy groups and a 13% increased frequency of stalled projects. Only the equivalent of 64,000 homes are now powered by community energy.

The government and many local authorities have recently declared 'climate emergencies' and the Energy and Climate Change minister recently stated<sup>1</sup> that the 'future of energy is local' and that 'community energy a key cornerstone of government's ambition for transition to a low-carbon, smart energy system'.

At such a time, the government needs to enable a sustainable business model for community organisations that can deliver this 'wide portfolio' of options by reducing the cost of capital and de-risking and encouraging social investment and the participation of the community in the energy system, which delivers so many broader social, environmental and economic benefits.

### **How to respond to the 'call for evidence'.**

Community Energy England will be responding to the call for evidence soon which will be posted on <https://communityenergyengland.org/pages/policy>. We will also be posting guidance for individuals, investors and community energy groups to respond on our website at <https://communityenergyengland.org/pages/current-consultations> where you can also find links to the call for evidence document.

---

<sup>1</sup> <https://www.energylivenews.com/2019/01/08/claire-perry-from-power-stations-to-solar-panels-the-future-is-local/>