

# Tax Reliefs for Community Energy Who Qualifies; How to Apply

Presented by

Mark Ward

Senior Tax Manager, BDO LLP

30 March 2015

# Budget 2015

## From EIS to SITR

- ALL tax subsidised power and heat generation to be excluded from SEIS and EIS, from 5 April 2015, except community energy projects
- Community Energy will become eligible for Social Investment Tax Relief
- But when?
- From the date of EU State aid approval for the expanded SITR regime, subject to a 6 month transitional period.

# Budget 2015

## Who qualifies now?

- Community Energy projects eligible for SEIS and/or EIS relief.
- Eligible entities
  - Community Interest Companies
  - Co-operative Societies
  - Community Benefit Societies
  - Northern Ireland Industrial & Provident Societies
  - European Co-operative Societies



# Budget 2015

## Who will qualify in future?

- Community Energy projects eligible for Social Investment Tax Relief.
- Eligible entities - “Social Enterprises”
- Community Interest Companies
- Community Benefit Societies
- Charities
- Accredited Social Impact Contractors

And, from April 2016, Social Investment VCTs

# EIS, SEIS and SITR Reliefs

## Qualifying Entities

	SEIS/EIS	SITR
Private Limited Company	✓	x
Company Ltd by Guarantee	✓	x
Community Interest Company	✓	✓
Community Benefit Society.	✓	✓
Charity	x	✓
Co-operative Society	✓	x



# How to Apply

## Three steps.....

- Advance Assurance
- Compliance Statement
- Tax Certificates

# How to Apply

## Advance Assurance

- HMRC will, provided your application is sound, provide an “Advance Assurance”.
- An advance assurance is only as good as your disclosures.
- It is an “opinion” that you should qualify - NOT a guarantee.
- Allow 6 weeks! HMRC have a backlog of work - applications can take anything from 3 to 6 weeks.
- BUT - not compulsory



# How to Apply Advance Assurance

- Broadly, the same system under SEIS/EIS and SITR
- For SEIS/EIS use form EIS/SEIS(AA), but follow the guidance and back the form up with key documents, further explanations.
- For SITR - there is no form use a report or letter.



# How to Apply

## Disclosures

- Incomplete applications will delay the advance assurance process and could invalidate your advance assurance.
- Check the guidance on line and include
  - name of the Social Enterprise and type of Social Enterprise (eg Community Interest Company, Community Benefit Society, charity)
  - Unique Taxpayer Reference if known
  - registration number (Company Registration Number or other equivalent - if a charitable trust, you will need your charity reference number, if you are a Community Benefit Society, you will need your Community Benefits Society number)
  - date of incorporation/formation
  - amount of the qualifying investment being sought, and the approximate split between investment raised by the issue of eligible shares and that raised by qualifying debt
  - description of the proposed use of the investment monies
  - details of any subscription agreement or other side agreement to be entered into by investors
  - details of all trading or other activities to be carried on by the social enterprise and any subsidiary, and a note of which social enterprise or social enterprises will use the money raised
  - details of all de minimis State aid received in the 3 years preceding the proposed date of investment
  - any other information likely to be relevant to this application - for instance, details of minority holdings in other social enterprises, or details of other social enterprises' minority holdings in the issuing social enterprise, may be relevant in determining whether the 'control and independence' requirements will be met



# How to Apply Enclosures

- up-to-date copy of company Memorandum and Articles of Association/rules, and of any subsidiary, with details of any proposed changes to be made prior to investment
- if the investment is to be in qualifying debt, a copy of the loan agreement/debt instrument (SITR only)
- a copy of the latest available accounts of the social enterprise, and of any subsidiary social enterprise (if the social enterprise has not yet drawn up a set of accounts, just say so)
- a copy of the latest draft of any prospectus, information memorandum, business plan or similar document to be issued to potential investors

## How to Apply

# So, why Bother with Advance Assurance?

- Given the paper work involved and delays in the system, and the absence of certainty, why bother with Advance Assurance?
- Investors may demand it. In fact, investors should demand it.
- If you have got something wrong, there is an opportunity to change things.
- It provides you with evidence that you have taken due care.



## How to Apply After the fundraising

- Complete and submit SEIS1/EIS1/SITR(2014) Compliance Statement
- Available on line
- HMRC then issue SEIS3/EIS3/SITR
- You then complete these and pass them to investors
- Electronic process to come in future

# Tax relief for Community Energy

## Pitfalls to watch out for....

- Get the share issue right - cash must be received before shares issued
- Avoid loans ahead of a share issue
- Watch “excluded activities” - these must not exceed 20% of overall activity - details online, but in this context, rental income, investment income from unspent cash might be problematic.
- Commence trade within 2 years - which means generating electricity.

# SEIS, EIS and SITR

## Qualifying Company Rules Summary

	EIS	SEIS	SITR
Max No of Employees	249	24	499
Gross Assets before Investment	£15m	£200,000	£15m
Maximum annual fundraising	£5 million	£150,000	£5 million*
Trading Period	No Limit	Max 2 years	No limit

\* Proposed and only w.e.f. EU State aid approval

# EIS, SEIS and SITR Tax Reliefs for Investors

## Comparison in 2015/16 Tax Year

	<b>EIS</b>	<b>SEIS</b>	<b>SITR</b>
<b>Income Tax Relief</b>	30%	50%	30%
<b>Maximum Investment</b>	£1,000,000	£100,000	£1,000,000
<b>Tax Free Exit?</b>	YES	YES	YES
<b>Tax Free Dividends?</b>	NO	NO	NO
<b>CGT Exemption?</b>	Deferral Only	50% Exemption	Deferral Only
<b>Qualifying Period</b>	3 Years	3 Years	3 Years

# CONTACT



Mark is a Senior Tax Manager working on Seed EIS, EIS and VCT projects.

**MARK WARD**

Senior Tax Manager

**t:** +44 ((0)118 925 4454

**m:** +44 (0)7980 098164

**e:** [mark.ward@bdo.co.uk](mailto:mark.ward@bdo.co.uk)