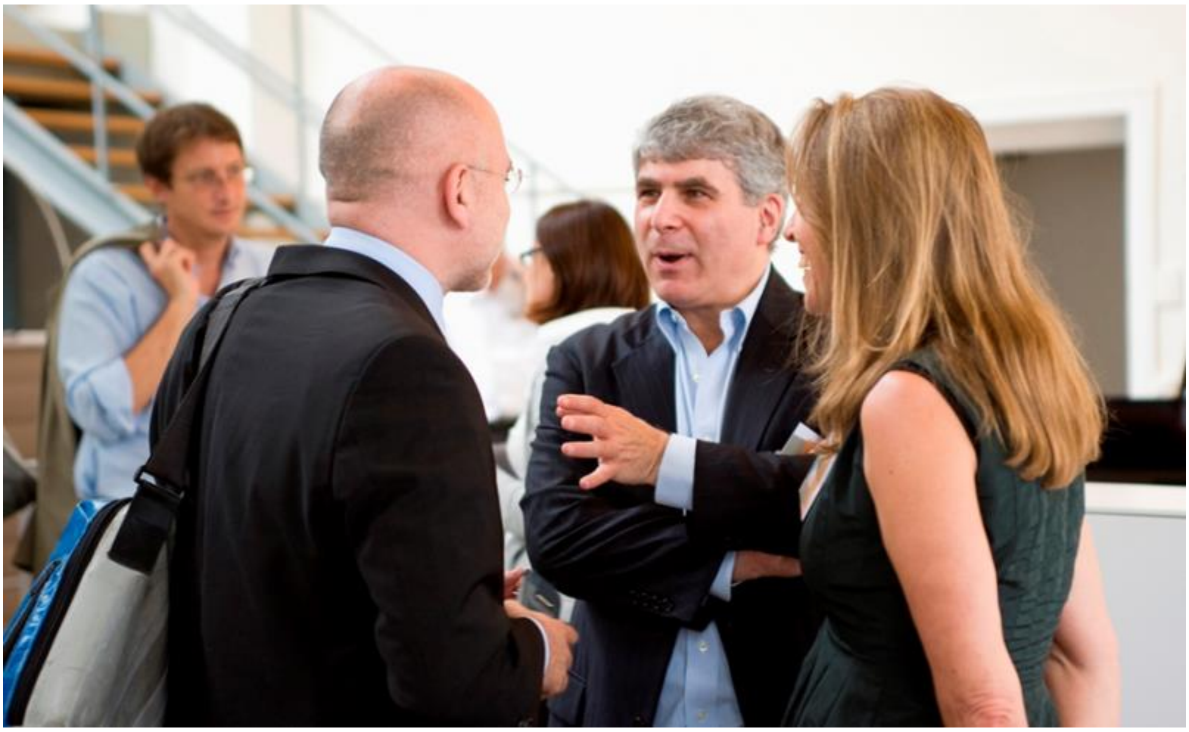
# So you want to invest with social investment tax relief? A quick guide for investors and FAQs



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Over the last few months, more and more of the investors in our angel investor network have been looking for investments they can make that are eligible for social investment tax relief. There are some common questions, so here's your investor guide to social investment tax relief.

## What is social investment tax relief (SITR)?

Well, firstly: what is social investment? Social investment means investing for financial and social/environmental returns (you can read more about this here or check out our case studies to see examples of social investments).

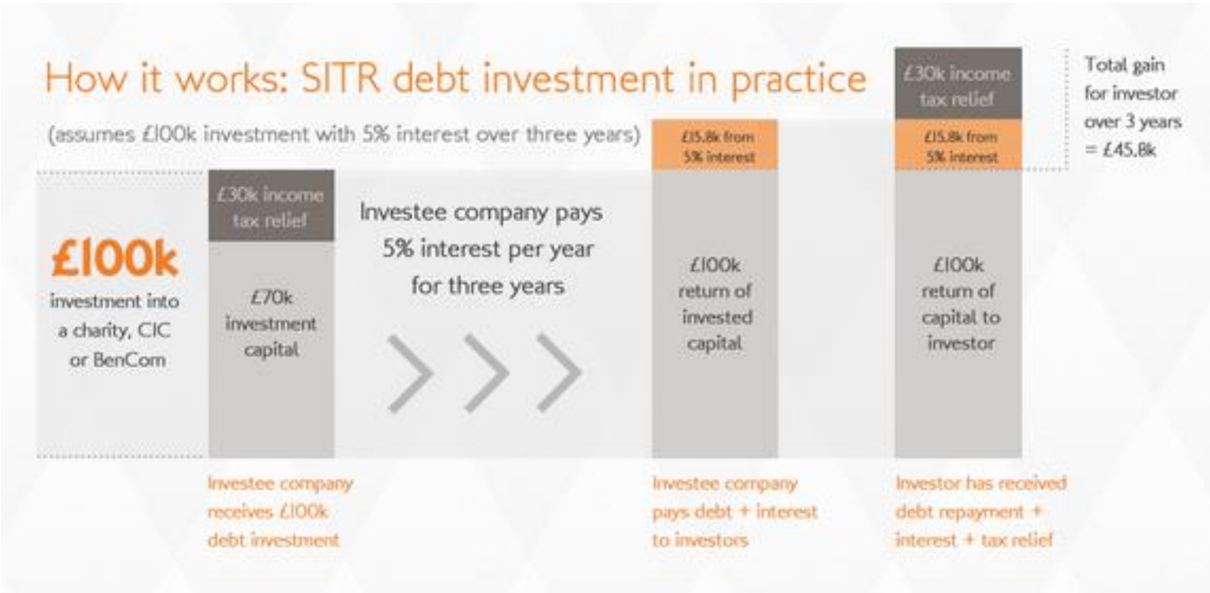
Social investment tax relief means individual investors can deduct 30% of the cost of their investment from their income tax liability. It is modelled on the existing Enterprise Investment Scheme and helps charities, Community Interest Companies and BenComs to raise investment (these are organisations with asset locks, which means they are restricted on what they can do with their revenues/profits but does not mean they cannot deliver a return to investors).

Investors can invest up to £270,000 over three years in an individual organisation, but can invest up to £1 million in multiple organisations every year. They can invest qualifying debt or shares that the "regulated social enterprise" has issued to you and which you have fully paid for in cash at the time of issue

## What does social investment tax relief look like in practice?

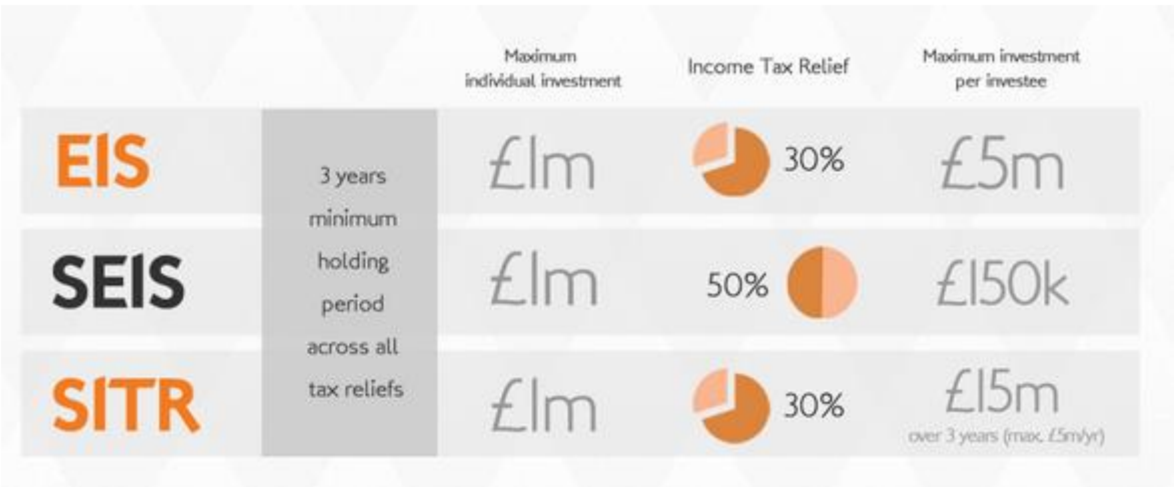
In reality, it will mean when you invest in the company, you can claim 30% tax relief in that year, but then retain all the upside of an investment as it matures.

So, for example, if you invest £100k debt into a charity, you can then claim £30k back from income tax. This means you will have only invested £70k; if the company then provides 5% interest over three years, you will receive £100k (the return of all the initial capital, including that on which you claimed tax relief), in addition to £15.8k interest … giving you a total gain of £45.8k over three years.




## How is social investment different to EIS/SEIS?

This tax relief is on a par with the Enterprise Investment Scheme, offering 30% income tax relief (vs. the earlier stage Seed Enterprise Investment Scheme, which is 50%).



## Why invest debt rather than equity?

Some organisations focused on social impact – like charities and BenComs, have restrictions on distributions of profits – are strong, investable propositions but may be unable to take on equity investment. Debt investment allows them to receive funding from individuals and institutions, and social investment tax relief ensures that investors can claim equivalent tax relief to derisk their investment as they would receive on an equity investment through EIS.

Whether debt or equity investments are right for you – or right for the company you want to invest in – will depend. At ClearlySo, the companies presenting to our angel investor group are pre-screened and will either ask for debt or equity investment, depending on their legal structure and other factors. If they are eligible for EIS or SITR, investors will be informed of this in the company's executive summary and other documents.

Investors who are already trustees of charities that would like to take on investment using SITR are welcome to get in touch with us to see if they would be eligible for our support.

## How will I know the social impact of my investment?

Investors choose different ways to measure impact. Charities registered with the charity commission, and CICs, already have some reporting requirements in place, and investors may choose to receive these annually or quarterly along with financial updates and with other impact outcomes in which they are interested.

If you invest through our Clearly Social Angels group, there is a post-investment process that includes impact work on measurement and reporting. If you join our network, you will also be able to speak to current investors to see how they track the impact of their investments – you can see one example on our blog, where Suzanne Biegel talks through measuring the impact of her portfolio.

## How do I find deals in which to invest?

There are lots of ways to gain access to investments. If you have a wealth manager or financial advisor, they will be able to help you find opportunities. If you want to invest directly in high-impact businesses where you can claim tax relief to help de-risk the investment, you can join ourClearly Social Angels members-only group or our wider investor network of over 500 investors who are using their personal capital to make social and environmental impacts alongside financial return. Our pre-screened deal -flow shared with these networks focuses on businesses and charities making strong social and environmental impacts alongside financial returns.

Events, such as those run through The Big Venture Challenge, or our own ClearlySo investor events, will also enable you to see pitches and meet entrepreneurs, as well as other investors. If you'd like to see examples of social investments, check out our case study pages – where you will be able to see many examples across a range of industries and social impacts.


## How can I find other investors making social investments?

Well, simply: come and talk to us. Through our investor network, we have hundreds of investors backing growing ventures that are changing the world – we offer investor evenings, lunch events and education sessions. These are only appropriate for high-net-worth individuals or self-certified sophisticated investors.

To hear more from investors, follow our Investor Blog, where we feature tips and advice, or you can find media examples – Radio 4 featured an hour's slot on angel and impact investing, theFinancial Times interviewed investors from our network and other investors also write blogs and articles (see, for example, Mary McKenna's excellent blog on her first few impact investments).

## What should I look out for?

Regardless of your experience (or lack of experience) as an investor, investments can go up as well as down, and you should speak to an independent financial advisor before making any investment decisions. You should also ensure you conduct thorough due diligence on any potential investee company.

Additionally, according to the government guidance on social investment tax relief:

- There must not be any arrangements in place for the 3 years from the date of investment for you to sell your investment during that period
- There must not be any arrangements, in connection with your investment, for the social enterprise to stop trading or to sell valuable assets

- Your investment won't qualify if you buy it using a loan, and that loan has special terms that wouldn't apply to a normal commercial loan and that are related to you making the investment

**You, or any individual who is your associate, must not:**

- be a partner or a trustee or the social enterprise or of a subsidiary of the social enterprise
- be a paid director or employee of the social enterprise or of a subsidiary, partner or partner of a subsidiary of the social enterprise
- during the period from 1 year before the investment to the third anniversary of the investment, own more than 30% of the social enterprise's: ordinary share capital; loan capital; or voting rights.

Do you have more questions? If you are an investor who wants to make impact investments (yes, those are the same as social investments), please do get in touch and we'd be happy to help you talk through different options for finding out more.