

FINANCE ACT 2014

EXPLANATORY NOTES

INTRODUCTION

Section 57 and Schedules 11 & 12: Tax Relief for Social Investment

Details of Schedule 11

Part 1

Chapter 1

3. Chapter 1 contains sections 257J to 257JC which introduce the income tax relief available to individuals who invest in social enterprises.
4. New sections 257J(2) to (3) define “social enterprise” as: community interest company, community benefit society, charity or accredited social impact contractor, and provide that this definition may be further extended by Treasury order to include other types of body. Any such order may have retrospective effect. No definitions are provided for community interest company or charity, which are defined in other Acts: Part 2 of the Companies (Audit, Investigation and Community Enterprise Act 2004 in the case of Community Interest Companies and Schedule 6 to Finance Act 2010 in the case of charities. “Community benefit society” is explained further at new section 257B. Accredited social impact contractor is explained further at new sections 257JD – JG.
5. New section 257JA quantifies the amount of the income tax reduction to which an individual is entitled if a claim to relief is made for a tax year.
6. Subsection 257JA(1) provides that an individual may choose to claim relief in respect of some, but not all, of the investment in relation to which the individual is eligible for relief.
7. Subsections 257JA(2) and (3) are expressed in terms of the individual’s entitlement to a reduction in tax liability, as a percentage of the amount invested. Relief is given effect in accordance with Chapter 3 of Part 2 ITA, with the reduction being included at Step 6 of section 23.
8. Subsection (2)(b) provides that there is an upper limit on the amount of an individual’s entitlement to relief rather than an upper limit on the amount of investment in respect of which the relief can be claimed.
9. Subsection 257JA(4) provides that an individual may elect to have some or all of the investment treated as though made in the tax year preceding that in which it was made, with relief being given accordingly.
10. Subsection 257JA(5) sets the rate of SI relief at 30%.
11. New section 257JB describes what is meant by a “community benefit society”. The Co-operative and Community Benefit Societies Acts are in the process of consolidation so section 257B ensures that that definition applies irrespective of which Act is in force at the relevant time.

*These notes refer to the Finance Act 2014 (c.26)
which received Royal Assent on 17 July 2014*

12. New section 257JC provides that for the purposes of this Part, charitable trusts are to be treated in the same way as companies which are charities. This is qualified to make it clear that a charitable trust cannot be accredited as a social impact contractor.
13. New section 257JD contains the definition of ‘accredited social impact contractor’. Subsection (1) of new 257JD says that this term means a company which is limited by shares and which is accredited under this section as a social impact contractor. Subsection (2) of new section 257JD says that applications for accreditation must be made to a Minister of the Crown in the form and manner specified. Subsection (3) of new section 257JD says that the Minister can only accredit a company if satisfied that each of three conditions is satisfied.
14. The three conditions for accreditation are as follows. The first condition is that the Minister must be satisfied that the company has entered into a relevant contract (a ‘social impact contract’). The second condition is that the company must be, and must at all times since incorporation have remained, established for the propose of entering into and carrying out the terms of such a contract, or for that purpose and incidental purposes; it cannot at any time have another purpose (subsection (3)(b) of new section 257JD). The third condition is that the activities of the company in carrying out the social impact contract will not consist wholly or as to a substantial part in excluded activities (subsection (3)(c) of new section 257JD). Excluded activities are defined later in the part, in section 257MQ.
15. Subsection (4) of new section 257JD allows the Minister to withdraw accreditation from a company if he is satisfied that the second and third conditions described above cease to be met. The Minister has discretion to withdraw the accreditation either from the time the condition ceased to be met, or at a later time.
16. New section 257JE provides the Treasury with the authority to make regulations setting out the criteria which a social impact contract must demonstrate in order to be accredited for the purpose of the tax relief scheme. The section describes the extent of the Treasury power, and allows the regulations to include criteria relating to a party to the contract other than the company which is seeking accreditation. It also allows the regulations to be supplemented by guidance material published by the Government department responsible for administering the accreditation facility.
17. New section 257JF provides more detail about the requirements of accreditation. Accreditation must be made on terms required by regulations and any other terms considered appropriate by the Minister of the Crown who is accrediting the company concerned. An accreditation must be conditional on compliance with those requirements.
18. Subsection (2) of new section 257JF says that the requirements that may be imposed include requirements relating to the provision of information.
19. Subsection (3) of new section 257JF provides authority for the regulations to make provision for further specific matters, including: the possibility of an accreditation being varied; the consequences of a breach of any of the conditions of accreditation; the scope for the accrediting department to publish information about an accreditation or accredited contractor; the right for review of, or appeal against, various decisions or actions of the accrediting body.
20. New section 257JG sets out the period for which accreditation as a social impact contractor has effect.
21. Subsection (1) says that this period begins with the day specified in the accreditation and that its length is determined in accordance with the date specified in or determined in accordance with the accreditation.

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22. Subsection (2) allows for retrospective accreditation, from a date earlier than either the day the application for accreditation is made or the day new section 257 JD comes into force. However, accreditation cannot be effective for a date before 6 April 2014.
23. Subsection (3) ensures that the section is subject to the power for withdrawal of accreditation. If accreditation is withdrawn the period of accreditation will come to an end on the date a withdrawal takes effect.
24. New section 257JH provides for delegation by a Minister of the Crown of any function given by new sections 257JD to 257JG. It also provides that the term Minister of the Crown has the meaning given by section 8(1) of the Ministers of Crown Act 1975.