

## SCHEDULES

### SCHEDULE 1

Section 14

#### SOCIAL INVESTMENT TAX RELIEF

#### PART 1

#### AMENDMENTS OF PART 5B OF ITA 2007

##### *Introductory*

1 ITA 2007 is amended as follows.

##### *Date by which investment must be made to qualify for SI relief*

2 In section 257K(1)(a)(iii) (date by which investment must be made to qualify for SI relief) for “6 April 2019” substitute “6 April 2021”.

##### *The existing investments requirement*

3 After section 257LD insert—

##### **“257LDA The existing investments requirement**

- (1) If at the time immediately before the investment is made the investor holds any shares in or debentures of—
  - (a) the social enterprise, or
  - (b) a company which at that time is a qualifying subsidiary of the social enterprise,those shares or debentures must be risk finance investments or (in the case of shares) permitted subscriber shares.
- (2) A share or debenture is a “risk finance investment” for the purposes of this section if—
  - (a) it is a share that was issued to the investor, or a debenture of which the investor is the holder in return for advancing an amount, and
  - (b) at any time, a compliance statement under section 205, 257ED or 257PB is provided in respect of it or of shares or investments including it.
- (3) Subscriber shares are “permitted subscriber shares” for the purposes of this section if—
  - (a) they were issued to the investor and have been continuously held by the investor since they were issued, or

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- (b) they were acquired by the investor at a time when the company which issued them—
  - (i) had issued no shares other than subscriber shares, and
  - (ii) had not begun to carry on or make preparations for carrying on any trade or business.

(4) In this section “debenture” is to be read in accordance with section 257L(6).”

*The no disqualifying arrangements requirement*

4 After section 257LE insert—

**“257LEA The no disqualifying arrangements requirement**

- (1) The investment must not be made, and money raised by the social enterprise from the making of the investment must not be employed,—
  - (a) in consequence or anticipation of disqualifying arrangements, or
  - (b) otherwise in connection with disqualifying arrangements.
- (2) Arrangements are “disqualifying arrangements” if—
  - (a) the main purpose, or one of the main purposes, of the arrangements is to secure both that an activity is or will be carried on by the social enterprise or a 90% social subsidiary of the social enterprise and that—
    - (i) one or more persons (whether or not including any party to the arrangements) may obtain relevant tax relief in respect of a qualifying investment which raises money for the purposes of that activity, or
    - (ii) shares issued by the social enterprise which raise money for the purposes of that activity may comprise part of the qualifying holdings of a VCT,
  - (b) that activity is the relevant qualifying activity, and
  - (c) one or both of conditions A and B are met.
- (3) Condition A is that, as a (direct or indirect) result of the money raised by the investment being employed as required by section 257MM, an amount representing the whole or the majority of the amount raised is, in the course of the arrangements, paid to or for the benefit of a relevant person or relevant persons.
- (4) Condition B is that, in the absence of the arrangements, it would have been reasonable to expect that the whole or greater part of the component activities of the relevant qualifying activity would have been carried on as part of another business by a relevant person or relevant persons.
- (5) For the purposes of this section it is immaterial whether the social enterprise is a party to the arrangements.
- (6) In this section—
  - “90% social subsidiary” is to be read in accordance with section 257MV;

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“component activities” means the carrying on of a qualifying trade or preparing to carry on such a trade, which constitutes the relevant qualifying activity;

a “qualifying investment” means—

- (a) shares in the social enterprise, or
- (b) a qualifying debt investment in the social enterprise (see section 257L);

“qualifying holdings”, in relation to the social enterprise, is to be construed in accordance with section 286 (VCTs: qualifying holdings);

“relevant person” means a person who is a party to the arrangements or a person connected with such a party;

“relevant qualifying activity” means the qualifying trade or activity mentioned in section 257ML(1) for the purposes of which the investment raised money;

“relevant tax relief” has the meaning given by subsection (7).

(7) “Relevant tax relief”—

- (a) in relation to a qualifying debt investment, means SI relief in respect of that investment;
- (b) in relation to shares, means one or more of the following—
  - (i) SI relief in respect of the shares;
  - (ii) EIS relief (within the meaning of Part 5) in respect of the shares;
  - (iii) SEIS relief (within the meaning of Part 5A) in respect of the shares;
  - (iv) relief under Chapter 6 of Part 4 (losses on disposal of shares) in respect of the shares;
  - (v) relief under section 150A or 150E of TCGA 1992 (EIS and SEIS) in respect of the shares;
  - (vi) relief under Schedule 5B to that Act (EIS: reinvestment) in consequence of which deferral relief is attributable to the shares (see paragraph 19(2) of that Schedule);
  - (vii) relief under Schedule 5BB to that Act (SEIS: re-investment) in consequence of which SEIS re-investment relief is attributable to the shares (see paragraph 4 of that Schedule).”

5 (1) Section 257SH (power to require information where reason to believe SI relief may not be due because of certain kinds of arrangements, etc) is amended as follows.

(2) In subsection (1) after “257LE,” insert “257LEA,”.

(3) In subsection (4) at the appropriate place insert—

“Section 257LEA

The investor, the social enterprise, any person controlling the social enterprise and any person whom an officer of Revenue and Customs has reason to believe may be a party to the arrangements in question”

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*Limits on amounts that may be invested*

- 6 (1) In the italic heading before section 257M, after “enterprise” insert “: general”.
- (2) Omit sections 257MA and 257MB (which are superseded by the provision inserted by sub-paragraph (3) below).
- (3) After section 257MN insert—

*“Limits on amounts that may be invested*

**257MNA Maximum amount where investment made in first 7 years**

- (1) This section applies where—
  - (a) the investment is made before the end of the period of 7 years beginning with the relevant first commercial sale, or
  - (b) the investment is made after that period but—
    - (i) a relevant investment was made in the social enterprise before the end of that period, and
    - (ii) some or all of the money raised by that relevant investment was employed for the purposes of (or of part of) the qualifying activity for which the money raised by the investment is employed.
- (2) Where this section applies, the total amount of relevant investments made in the social enterprise on or before the date when the investment is made must not exceed £1.5 million.
- (3) The reference in subsection (2) to relevant investments “made in the social enterprise” is to be read with section 257MNB.
- (4) In this section—
 

“qualifying activity” means—

  - (a) a qualifying trade within paragraph (a) of section 257ML(1) carried on by the social enterprise or a 90% social subsidiary of the social enterprise, or
  - (b) an activity within paragraph (b) of section 257ML(1) so carried on;

“the relevant first commercial sale” has the meaning given by section 175A(6), reading—

  - (a) references to the issuing company as references to the social enterprise,
  - (b) references to the issue date as references to the investment date, and
  - (c) references to money raised by the issue of the relevant shares as references to money raised by the investment;

“relevant investment” has the meaning given by section 173A(3) (reading references in section 173A(3) to a company as including any social enterprise).
- (5) Section 173A(4) and (5) apply to determine for the purposes of this section when a relevant investment is made.

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- (6) Where the social enterprise is an accredited social impact contractor—
  - (a) the reference in subsection (1)(a) to the relevant first commercial sale is to be read as a reference to the date on which the social enterprise first entered into a social impact contract;
  - (b) the reference in subsection (1)(b) to the qualifying activity mentioned there is to be read as a reference to the carrying out of the social impact contract for which the money raised by the investment is employed.
- (7) For provision about maximum amounts where this section does not apply, see section 257MNC.

### **257MNB Section 257MNA: supplementary**

- (1) In section 257MNA(2) the reference to relevant investments “made in the social enterprise” includes—
  - (a) relevant investments made in a company which, at the material date, is or has been a 51% subsidiary of the social enterprise,
  - (b) any other relevant investment made in a company to the extent that the money raised by that relevant investment has been employed for the purposes of a trade carried on by another company (“company X”) which, at the material date, is or has been a 51% subsidiary of the social enterprise, and
  - (c) any other relevant investment made in a company if—
    - (i) the money raised by that relevant investment has been employed for the purposes of a trade carried on by that company or another person, and
    - (ii) after that relevant investment was made, but on or before the material date, that trade became a transferred trade (see subsection (5)).
- (2) The investments within paragraph (a) of subsection (1)—
  - (a) include investments made in a company mentioned in that paragraph before it became a 51% subsidiary of the social enterprise, but
  - (b) where a company mentioned in that paragraph is not a 51% subsidiary of the social enterprise at the material date, do not include any investments made in that company after it last ceased to be such a subsidiary.
- (3) For the purposes of subsection (1)(b), where company X is not a 51% subsidiary of the social enterprise at the material date, any money employed after company X last ceased to be such a subsidiary is to be ignored.
- (4) Where only a proportion of the money raised by a relevant investment is employed for the purposes of a trade which becomes a transferred trade, only the corresponding proportion of that relevant investment is to be treated as falling within subsection (1)(c).
- (5) For the purposes of this section, if—
  - (a) on or before the material date a trade is transferred—
    - (i) to the social enterprise,

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- (ii) to a company which, at the material date, is or has been a 51% subsidiary of the social enterprise, or
  - (iii) to a partnership of which the social enterprise, or a company within sub-paragraph (ii), is a member, and
  - (b) the trade or part of it was at any time before the transfer carried on by another person,
- the trade or part mentioned in paragraph (b) becomes a “transferred trade” when it is transferred as mentioned in paragraph (a).
- (6) The cases within subsection (5)(a)—
    - (a) include the case where the trade is transferred to a company within subsection (5)(a)(ii), or a partnership of which such a company is a member, before the company became a 51% subsidiary of the social enterprise, but
    - (b) where a company within subsection (5)(a)(ii) is not a 51% subsidiary of the social enterprise at the material date, do not include the case where the trade is transferred to that company, or a partnership of which that company is a member, after that company last ceased to be such a subsidiary.
  - (7) In this section—
    - “the material date” means the date on which the investment is made;
    - “relevant investment” has the meaning given by section 173A(3) (reading references in section 173A(3) to a company as including any social enterprise).
  - (8) Section 173A(4) and (5) apply to determine for the purposes of this section when a relevant investment is made.
  - (9) Section 173A(6) and (7) (meaning of “trade” etc) apply also for the purposes of this section.

### **257MNC Maximum amount for cases outside section 257MNA**

- (1) This section applies where—
  - (a) the investment is made at any time after the period mentioned in section 257MNA(1)(a), and
  - (b) it is not the case that the conditions in section 257MNA(1)(b)(i) and (ii) are met.
- (2) Where this section applies—
  - (a) the total amount of relevant investments made in the social enterprise on or before the date when the investment is made must not exceed £1.5 million, and
  - (b) the amount invested must not be more than the amount mentioned in subsection (3).
- (3) That amount is the amount given by the formula—

$$\left( \frac{€200,000 - M}{RCG + RSI} \right) - T$$

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where—

T is the total of any relevant investments made in the social enterprise in the aid period,

M is the total of any de minimis aid, other than relevant investments, that is granted during the aid period—

- (a) to the social enterprise, or
- (b) to a qualifying subsidiary of the social enterprise at a time when it is such a subsidiary,

RCG is the highest rate at which capital gains tax is charged in the aid period, and

RSI is the highest SI rate in the aid period.

- (4) In subsection (3) “the aid period” means the 3 years—
  - (a) ending with the day on which the investment is made, but
  - (b) in the case of that day, including only the part of the day before the investment is made.
- (5) In this section “de minimis aid” means de minimis aid which fulfils the conditions laid down—
  - (a) in [Commission Regulation \(EU\) No. 1407/2013](#) (de minimis aid) as amended from time to time, or
  - (b) in any EU instrument from time to time replacing the whole or any part of that Regulation.
- (6) For the purposes of subsection (3), the amount of any de minimis aid is the amount of the grant or, if the aid is not in the form of a grant, the gross grant equivalent amount within the meaning of that Regulation as amended from time to time.
- (7) For the purposes of subsection (3), if—
  - (a) the investment or any relevant investment is made, or
  - (b) any aid is granted,in sterling or any other currency that is not the euro, its amount is to be converted into euros at an appropriate spot rate of exchange for the date on which the investment is made or the aid is paid.
- (8) In this section “relevant investment” has the meaning given by section 173A(3) (reading references in section 173A(3) to a company as including any social enterprise).
- (9) Section 173A(4) and (5) apply to determine for the purposes of this section when a relevant investment is made.
- (10) Section 257MNB (which expands the meaning of “relevant investments made in the social enterprise”) applies for the purposes of each of subsections (2) and (3) above as it applies for the purposes of section 257MNA(2).

#### **257MND Limit on investment in shorter applicable period**

- (1) This section applies where condition A or condition B is met.
- (2) Condition A is that—

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- (a) a company becomes a 51% subsidiary of the social enterprise at any time during the shorter applicable period,
  - (b) all or part of the money raised by the investment is employed for the purposes of a qualifying activity which consists wholly or partly of a trade carried on by that company, and
  - (c) that trade (or part of it) was carried on by that company before it became a 51% subsidiary as mentioned in paragraph (a).
- (3) Condition B is that all or part of the money raised by the investment is employed for the purposes of a qualifying activity which consists wholly or partly of a trade which, during the shorter applicable period, becomes a transferred trade (see subsection (9)).
- (4) Where this section applies, at each time in the shorter applicable period (“the relevant time”) the total of the relevant investments made in the social enterprise before that time must not exceed £1.5 million.
- (5) In subsection (4) the reference to relevant investments “made in the social enterprise” includes—
  - (a) relevant investments made in a company which at any time before the relevant time has been a 51% subsidiary of the social enterprise,
  - (b) any other relevant investment made in a company to the extent that the money raised by that relevant investment has been employed for the purposes of a trade carried on by another company (“company X”) which at any time before the relevant time has been a 51% subsidiary of the social enterprise, and
  - (c) any other relevant investment made in a company if—
    - (i) the money raised by that relevant investment has been employed for the purposes of a trade carried on by that company or another person, and
    - (ii) after that relevant investment was made, but before the relevant time, that trade (or part of it) became a transferred trade.
- (6) The investments within paragraph (a) of subsection (5)—
  - (a) include investments made in a company mentioned in that paragraph before it became a 51% subsidiary of the social enterprise, but
  - (b) where a company mentioned in that paragraph is not a 51% subsidiary of the social enterprise at the relevant time, do not include any investments made in that company after it last ceased to be such a subsidiary.
- (7) For the purposes of subsection (5)(b), where company X is not a 51% subsidiary of the social enterprise at the relevant time, any money employed after company X last ceased to be such a subsidiary is to be ignored.
- (8) Where only a proportion of the money raised by a relevant investment is employed for the purposes of a trade which becomes a transferred trade, only the corresponding proportion of that relevant investment is to be treated as falling within subsection (5)(c).
- (9) For the purposes of this section, if—
  - (a) before the relevant time, a trade is transferred—



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- (i) to the social enterprise,
    - (ii) to a company which, at the relevant time, is or has been a 51% subsidiary of the social enterprise, or
    - (iii) to a partnership of which the social enterprise, or a company within sub-paragraph (ii), is a member, and
  - (b) the trade or part of it was at any time before the transfer carried on by another person,
- the trade or part mentioned in paragraph (b) becomes a “transferred trade” when it is transferred as mentioned in paragraph (a).
- (10) The cases within subsection (9)(a)—
- (a) include the case where the trade is transferred to a company within subsection (9)(a)(ii), or a partnership of which such a company is a member, before the company became a 51% subsidiary of the social enterprise, but
  - (b) where a company within subsection (9)(a)(ii) is not a 51% subsidiary of the social enterprise at the relevant time, do not include the case where the trade is transferred to that company, or a partnership of which that company is a member, after that company last ceased to be such a subsidiary.
- (11) In this section—
- “qualifying activity” has the same meaning as in section 257MNA (see subsection (4) of that section);
  - “relevant investment” has the meaning given by section 173A(3) (reading references in section 173A(3) to a company as including any social enterprise).
- (12) Section 173A(4) and (5) apply to determine for the purposes of this section when a relevant investment is made.
- (13) Section 173A(6) and (7) (meaning of “trade” etc) apply also for the purposes of this section.

### **257MNE Power to amend limits on amounts that may be invested**

- (1) The Treasury may by regulations substitute a different figure for the figure for the time being specified in section 257MNA(2), 257MNC(2) or (3) or 257MND(4).
  - (2) Regulations under this section may make incidental, supplemental, consequential, transitional or saving provision.
  - (3) Regulations under this section may not be made unless a draft of the instrument containing them has been laid before, and approved by a resolution of, the House of Commons.”
- (4) In section 1014 (orders and regulations), in subsection (5)(b) (orders and regulations excluded from subsection (4)) for sub-paragraph (iiia) substitute—
- “(iiia) section 257MNE (social investment relief: amendment of limits on investments),”.

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*Number of employees limit*

- 7 In section 257MH (the number of employees requirement), in each of subsections (1) and (2) for “500” substitute “250”.

*Financial health requirement*

- 8 After section 257MI insert—

**“257MIA The financial health requirement**

- (1) The social enterprise must meet the financial health requirement at the beginning of the shorter applicable period.
- (2) The financial health requirement is that the social enterprise is not in difficulty.
- (3) The social enterprise is “in difficulty” if it is reasonable to assume that it would be regarded as a firm in difficulty for the purposes of the Community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty (2004/C 244/02).”

*Purposes for which money raised can be used*

- 9 (1) Section 257MM (requirement to use money raised and to trade for minimum period) is amended as follows.
- (2) After subsection (3) insert—
- “3A) Employing money on the repayment of a loan does not amount to employing the money for the funded purpose.”
- (3) In subsection (7)(c) after “(3),” insert “(3A),”.

*Excluded activities*

- 10 (1) Section 257MQ (meaning of “excluded activity”) is amended as set out in subparagraphs (2) to (4).
- (2) In subsection (1)—
- (a) in paragraph (b) omit “(but see subsection (2))”;
  - (b) after paragraph (b) insert—
    - “(ba) leasing (including letting ships on charter or other assets on hire),
    - (bb) receiving royalties or licence fees,
    - (bc) operating or managing nursing homes or residential care homes or managing property used as a nursing home or residential care home (see section 257MQA),
    - (bd) generating electricity, exporting electricity (see subsection (3)) or making electricity generating capacity available,
    - (be) generating heat,
    - (bf) generating any form of energy not within paragraph (bd) or (be),

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- (bg) producing gas or fuel;”;
- (c) omit paragraph (f) (subsidised generation or export of electricity).
- (3) Omit subsection (2).
- (4) After subsection (2) insert—
  - “(3) For the purposes of subsection (1)(bd) electricity is exported if it is exported onto a distribution system or transmission system (within the meaning of section 4 of the Electricity Act 1989).”
- (5) After section 257MQ insert—

**“257MQA Excluded activities: nursing homes and residential care homes**

- (1) This section supplements section 257MQ(1)(bc).
- (2) “Nursing home” means any establishment which exists wholly or mainly for the provision of nursing care—
  - (a) for persons suffering from sickness, injury or infirmity, or
  - (b) for women who are pregnant or have given birth.
- (3) “Residential care home” means any establishment which exists wholly or mainly for the provision of residential accommodation, together with board and personal care, for persons in need of personal care because of—
  - (a) old age,
  - (b) mental or physical disability,
  - (c) past or present dependence on alcohol or drugs,
  - (d) any past illnesses, or
  - (e) past or present mental disorder.
- (4) The activities of a person are not to be taken to fall within section 257MQ(1)(bc) unless that person has an estate or interest in, or is in occupation of, the nursing home or residential care home in question.”
- (6) Omit section 257MS (subsidised generation or export of electricity).

**PART 2**

CONSEQUENTIAL AMENDMENTS

- 11 (1) ITA 2007 is amended as follows.
- (2) In section 178A (EIS: the no disqualifying arrangements requirement), in subsection (6), in the definition of “relevant tax relief” after paragraph (b) insert—
  - “(ba) SI relief under Part 5B in respect of the shares;”.
- (3) In section 257CF (SEIS: the no disqualifying arrangements requirement), in subsection (6), in the definition of “relevant tax relief” after paragraph (b) insert—
  - “(ba) SI relief under Part 5B in respect of the shares;”.
- (4) In section 299A (VCTs: the no disqualifying arrangements requirement), in subsection (6), in the definition of “relevant tax relief” after paragraph (c) insert—
  - “(ca) SI relief (within the meaning of Part 5B) in respect of the shares;”.

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- 12 In Schedule 6 to FA 2015 (investment reliefs: excluded activities) omit paragraph 13 (which is superseded by paragraph 10 of this Schedule).
- 13 In Part 2 of Schedule 24 to FA 2016 (tax advantages about which information may be obtained from certain persons), after the entry relating to relief granted to investors in a company under the enterprise investment scheme insert—

“Relief granted to investors in a social enterprise	Part 5B of ITA 2007	The social enterprise”
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### PART 3

#### COMMENCEMENT

- 14 (1) The amendments made by paragraphs 3 and 6 to 9 have effect in relation to investments made on or after 6 April 2017.
- (2) Nothing in sub-paragraph (1) prevents investments made before 6 April 2017 from constituting “relevant investments” for any purpose of section 257MNA, 257MNB, 257MNC or 257MND of ITA 2007.
- (3) Subject to sub-paragraph (4), the amendments made by paragraphs 4 and 5 have effect in relation to investments made on or after 6 April 2017.
- (4) Arrangements which include any transaction entered into before 6 April 2017 are not “disqualifying arrangements” for the purposes of section 257LEA of ITA 2007.
- 15 The amendments made by paragraph 10—
- (a) so far as they apply for the purposes of section 257JD of ITA 2007, come into force on 6 April 2017;
- (b) so far as they apply for the purposes of sections 257MJ and 257MP of ITA 2007, have effect in relation to investments made on or after 6 April 2017.
- 16 (1) Subject to sub-paragraph (3), the amendments made by paragraph 11(2) and (3) have effect in relation to shares issued on or after 6 April 2017.
- (2) Subject to sub-paragraph (3), the amendment made by paragraph 11(4) has effect for the purpose of determining whether shares or securities issued on or after 6 April 2017 are to be regarded as comprised in a company’s qualifying holdings.
- (3) The amendments made by paragraph 11 do not have effect for the purposes of determining any question whether particular arrangements which include any transaction entered into before 6 April 2017 are “disqualifying arrangements” for the purposes of section 178A, 257CF or 299A of ITA 2007.