CITM9900 - CITR: A brief guide for investors

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This guide is part of HMRC's Community Investment Tax Relief Manual (CITM), which can be accessed on our website at www.hmrc.gov.uk, and at HMRC Enquiry Centres.

This guide outlines:

- what the Community Investment Tax Relief (**CITR**) scheme is
- what Community Development Finance Institutions (**CDFIs**) are, and how they fit within the scheme
- the tax relief available to investors
- the investments that qualify for tax relief
- when relief may have to be reduced or withdrawn
- how to claim the relief

It provides answers to some of the questions that investors, or potential investors, may have and details sources of further information. References to other parts of the CITM are cited in the format **CITMxxxx**, where **xxxx** is the relevant page number.

Although it includes brief details of the activities of CDFIs it is not intended as a guide for CDFIs or potential CDFIs. Accredited bodies, or those seeking accreditation, should contact the Department for Business, Innovation & Skills (BIS) or the Community Development Finance Association for help (see "Further Information" below).

Outline of the Scheme

The CITR scheme provides a tax incentive to investors in enterprises within under-invested communities. The incentive is available to individuals and companies that invest in accredited intermediary organisations, called Community Development Finance Institutions (CDFIs), which in turn on-invest in enterprises that operate within or for disadvantaged communities.

So the CITR scheme encourages the growth of CDFIs, which specialise in investing in businesses, social and community enterprises within under-invested areas. The scheme applies only to investments made through accredited CDFIs – direct investment in enterprises within disadvantaged communities does not qualify for CITR.

The tax incentive is a form of tax relief, which reduces the investor's income tax or corporation tax liability.

- **The relief is worth up to 25% of the money invested, spread over five years**.
- **To obtain maximum tax relief under the scheme investors must hold the investment for at least five years**. But there is scope for investors to receive some return on their investment over the course of those five years without sacrificing all of the relief that the scheme provides.

The CITR scheme is jointly run by HMRC and the Department for Business, Innovation & Skills (BIS). BIS is responsible for matters concerning the accreditation of CDFIs. HMRC gives effect to any relief to which the investor may be eligible and, if necessary, withdraws any relief no longer due.

Who can claim the relief?

The relief is available to individuals and companies who invest in accredited CDFIs.

What is an accredited CDFI?

Community Development Finance Institutions (CDFIs) provide finance to enterprises (both profit-seeking and non-profit-seeking) within disadvantaged communities. Some "retail" CDFIs invest directly in enterprises within such areas. Others, "wholesale" CDFIs, provide finance to retail CDFIs that in turn invest in suitable enterprises.

Relief under the CITR scheme is only available in respect of investments in those CDFIs (retail or wholesale) that have been "accredited" by the Secretary of State. Accredited CDFIs have ongoing obligations to satisfy the requirements of the scheme and are expected to reapply for accreditation every three years.

Accreditation of a CDFI does not guarantee the safety or success of any investment in that body. It simply means that it currently satisfies the requirements enabling investors to qualify for relief under the CITR scheme. **We strongly recommend that you get professional advice before investing in any CDFI.**

How much is the tax relief worth?

The tax relief available under the CITR scheme is based on the amount invested in accredited CDFIs. The relief is spread over five tax years (for individual investors) or five accounting periods (for investors that are companies).

In straightforward cases the relief available for each of those years or accounting periods is 5% of the amount invested. So the total amount of relief available is 25% of the amount of the investment.

The tax relief reduces the investor's liability to income tax (individual investor) or corporation tax (corporate investor). If, for any year or accounting period, the investor has insufficient tax liability to make full use of the relief any unused relief is lost.

When is the relief given?

Individuals

For individuals the CITR scheme reduces the investor's income tax liability for the tax year in which the investment is made and each of the subsequent four tax years.

Example: Relief for an individual investor

> An individual subscribes £10,000 for shares in a CDFI on 1 June 2006.
>
> CITR would reduce the individual's Income Tax liability for the tax year 2006/7 and for each of the four subsequent tax years by £500 (5% of £10,000). Total income tax reduction over the five years would be £2,500.

Companies

For companies the CITR scheme reduces the investor's corporation tax liability for the accounting period in which the date of the investment falls and each of the accounting periods in which the subsequent four anniversaries of that date fall.

What forms of investment attract relief and for how long must investment be held?

Relief under the CITR scheme is available to individuals and companies who invest in accredited CDFIs. To qualify for relief the investment must be

- a subscription for shares in the CDFI,
- a subscription for securities of the CDFI, or
- a loan to the CDFI (or a deposit with a CDFI that is a bank).

In general, an investment will not attract CITR if there are any arrangements (such as insurance, indemnity or guarantee) under which the investor is protected against the risk to which the investment exposes them.

Shares and Securities

A subscription for shares or securities must be fully paid for at the time the investment is made. And there must be no rights that would allow the shares or securities to be redeemed within the five years following the date of the investment.

Loans

Where the investment is a loan the CDFI must receive the full amount of the loan at the time the investment is made. Or, if the terms of the loan allow the CDFI to draw down amounts as needed, the period of time over which amounts may be drawn down must not be more than 18 months. And the loan agreement must not allow for the loan to be converted into some other form of investment that could be redeemed within the five years following the date of the investment.

Bank Deposits

Banks that specialise in investing in charitable or social enterprises may qualify for accreditation under the CITR scheme. For the purposes of CITR, where investors deposit money with banks the deposit is regarded as a loan from the deposit taker to the bank. If the terms of the deposit satisfy the CITR scheme rules relating to loans the deposit would qualify for relief.

How much can be invested under the scheme?

There is no limit to the amount of investment on which a single investor may claim relief under the CITR scheme. However, there are limits on the amount of investment that can be raised by any single CDFI.

Can loans be partly repaid within five years?

The CITR scheme is intended to encourage investors to hold the investments in the CDFI for at least five years. Where the investment is a loan there is scope for partial repayment within the first five years. But

- the extent to which repayments are permitted is limited, and
- any repayments reduce the amount of relief available.

No repayments are permitted for the first two years of the loan. For the third, fourth and fifth years repayments cannot exceed 25%, 50% and 75% (respectively) of the amount advanced. See CITM4020.

Any repayments within the permitted limits reduce the tax relief available to the investor. This is to ensure that investors do not get the benefit of tax relief on amounts that have been returned to them as loan repayments. See CITM7070.

How can investors identify accredited CDFIs in which to invest?

A CDFI will be able to tell you whether or not it is accredited for the purposes of the CITR scheme. Alternatively, BIS publishes a list and brief details of accredited CDFIs. See www.bis.gov.uk.

What happens if a CDFI loses its accreditation after the investment is made?

An accredited CDFI may subsequently lose that accreditation, for example if it breaches some of the terms and conditions on which the accreditation was granted. Where an investor has made an investment in a CDFI and, within the next five years, the CDFI ceases to be accredited the number of tax years or accounting periods for which relief may be claimed is reduced – see CITM6120.

Are there investors or investments that are excluded from the scheme?

CITR relief is not available

- to investors who do not beneficially own the investment,
- to companies that are themselves CDFIs,
- to investors who, either alone or together with persons connected to them, control the CDFI in which they are investing,
- where the CDFI is a partnership and the investment represents a capital contribution of an investor who is member of the CDFI, or
- where the investment is part of a scheme to avoid tax.

How is income from an investment treated?

Investment in a CDFI may give rise to investment income (dividends or interest). Any such returns are taxed in the normal way – there are no specific tax-exemptions for income from investments that have attracted CITR.

When might relief have to be reduced or withdrawn?

If within five years of making the investment the investor -

- receives payment or value from the CDFI that exceeds a reasonable commercial payment of interest, dividends, goods, rent etc., or
- disposes of all or part of the investment

the amount of relief available may be reduced, or in some cases, withdrawn altogether. For further details on the circumstances in which relief may have to be reduced or withdrawn, see CITM7005.

When can investors claim the tax relief?

The investor must formally claim tax relief under the CITR scheme. Relief cannot be claimed until

- the end of the tax year or accounting period to which it relates (but see below on how individual investors can benefit in advance of a formal claim), and
- the investor has received a tax relief certificate from the CDFI.

What is a tax relief certificate?

In order to claim tax relief the investor must have a tax relief certificate relating to the investment. These certificates are issued by the CDFI. Even though an investment may give rise to tax relief in five tax years or accounting periods, only one tax relief certificate is issued in respect of each investment.

How is the relief claimed?

Individual investors should claim relief on their self-assessment tax return for tax year for which relief is due. There is a Help Sheet, IR237, available on the HMRC website to help individuals fill in the relevant part of the return.

A company wishing to claim relief should claim as part of its company tax return for each appropriate accounting period.

A single investment will result in an investor becoming eligible for relief in up to five tax years or accounting periods; a separate claim must be made for each of the years or periods for which relief is sought.

Individual investors who have received a tax relief certificate and who wish to obtain the benefit of relief for an investment for the current year without waiting for the year to end can effectively do so by

- writing to their tax office requesting a change to their current year's PAYE code number, or
- by claiming a reduction their self-assessment (SA) payments on account.

Where an individual obtains the benefit of relief through an adjustment of his current year PAYE code number he will need to include a formal claim to relief within his SA tax return for the relevant year.

Further information

BIS accreditation of CDFIs

BIS publishes material concerning the accreditation of CDFIs. This can be found at www.bis.gov.uk. Search the site for "CITR".

Legislation

Details of the provisions governing CITR scheme are covered in CITM1030.

Community Development Finance Association

The CDFA is a trade association for CDFIs. Its website, through which further information on the CDFI industry can be accessed, is at www.cdfa.org.uk. Or telephone 020 7430 0222**.**