Social Investment Tax Relief

The social investment tax relief (SITR) scheme is a venture capital scheme. The details below are extracted from the HM Revenue & Customs website and are produced in reasonable detail so that investors can understand the process The George Community Pub (Wickham Market Ltd (the Society) has been through, and also how UK tax payers will obtain tax relief. Clarification statements on the Society's position are added in italics.

Investors are recommended to also check the details with their accountant or financial advisor if their investment relies on this scheme.

How the scheme works

SITR is state aid designed to help an organisation raise money to support the trading activity for a:

- community interest company
- community benefit society, with an asset lock
- charity, which can be a company or a trust

The George Community Pub (Wickham Market) Limited is a community benefit society with an asset lock.

The state aid is achieved by offering investors tax relief on shares they buy or money they lend the enterprise, as long as we follow the scheme rules for at least 3 years.

The Society have asked HMRC to check if our investment proposal qualifies and they have confirmed it does. This is called Advance Assurance.

The Society must use the money raised for either:

- a qualifying trade
- preparing to carry out a qualifying trade (which must start within 2 years of the investment)

The George is forecast to open for business in December 2023.

The enterprise cannot:

- have more than £15 million in gross assets immediately before the investment is made
- have 250 or more full time equivalent employees at the time of investment
- be controlled by another company
- have more than £16 million in gross assets immediately after the investment is made

None of these limits apply for the Society.

For 3 years after the investment is made, the enterprise cannot:

- be controlled by another company
- be quoted on a recognised stock exchange
- be in a partnership
- control another company that is not a qualifying subsidiary

We have no plans to do any of the above.

Qualifying trades

Most trades qualify but the enterprise must be trading commercially and trying to make a profit. You do not need to be trading in the UK.

The enterprise may not qualify if most of your trade includes things like:

- leasing activities
- letting ships on charter
- receiving royalties or license fees
- dealing in financial instruments like commodities, futures, shares and securities
- dealing in land
- running a nursing home or residential care home
- managing property used as a nursing home or residential care home
- banking, insurance, money-lending, debt-factoring, hire-purchase financing or other financial activities
- property development
- fishery and aquaculture
- agriculture
- production of gas or other fuel
- generating energy like electricity or heat
- exporting electricity
- road freight transport for hire

You may not qualify if your enterprise provides services to another business and both of the following apply:

- that business's trade consists mostly of excluded activities
- a person has a controlling interest in both your enterprise and the other business

None of the excluded activities or business connections apply to the Society

How to raise the money

Investors must:

- buy new shares, or
- lend you money as a new debt investment

Shares

The shares issued to investors must:

- be new shares
- be paid for in full, and in cash, at the time the investment is made
- not be preference shares

Any dividends your investors receive cannot be guaranteed.

This Share offer is for new shares and will be paid for in full.

Debt investment

The amount lent must:

- be for a new debt investment or loan
- be made in cash, in a single or several payments
- not be secured on any assets
- not be paid back until at least 3 years after the investment
- not have an interest rate higher than a reasonable commercial interest rate

There are no debt investments within this Advance Assurance

When the enterprise issues the shares or debt investment

When issuing the shares or receiving the debt investment there cannot be an arrangement:

- to guarantee the investment or protect the investor from risk

- to sell or buyback the shares at the end of, or during the 3 years after the investment is made
- to repay the loan during the 3 years after the investment is made
- to structure your activities to let an investor benefit in a way that's not intended by the scheme
- for a reciprocal agreement where you invest back in an investor's company to also gain tax relief
- to raise money for the purpose of tax avoidance - the investment must be for a genuine commercial reason

The enterprise cannot use the investment to pay off a loan.

We have no plans to do any of the above.

How much can be raised?

The maximum amount of investment the enterprise can get over the lifetime of the enterprise is £1.5 million. This includes any money received by any subsidiaries, former subsidiaries or businesses you've acquired.

Any investments under SITR will also count towards any limits for later investments through other venture capital schemes.

If applying for any other state aid, like grants, make sure you're still within the relevant state aid limits.

These conditions are all met.

When to apply

The Society can only apply when we have carried out our qualifying trade for 4 months.

We must apply within 2 years of having carried out the qualifying trade for 4 months, or within 2 years of the end of the tax year in which the shares were issued (whichever is later).

If we open in December 2023, we plan to apply in April 2024 or later (see three year rule below).

How to apply

When the Society has issued the shares we will complete a compliance statement (SITR1) and send it to HMRC.

As the Society has received advance assurance, we must provide copies of any documents that have changed since HMRC gave us advance assurance.

Enterprises who have not got advance assurance, must provide the following information for the social enterprise and any of its subsidiaries:

- the business plan and financial forecasts
- a copy of the latest accounts if available
- which enterprises or companies will use the investments
- details of all trading and activities to be carried out, and how much you expect to spend on each activity
- a list of the amounts, dates and venture capital schemes under which you've previously received an investment
- copies of any documents you use to explain your proposal to your investors
- details of any other agreements between the enterprise and the investors
- a signed letter from one of your directors or trustees if you're allowing an agent to act on your behalf
- the certificate of incorporation of your company or charity
- the memorandum and articles of association of your company or the equivalent governing documents of your charity, such as a trust deed
- the loan agreement or debt instrument, if the investment is through qualifying debt
- any other documents to show you meet the qualifying conditions for the scheme

We sent all the above documents to HMRC (where applicable) in order to obtain Advance Assurance.

Send the application

The Society can email or post the compliance statement and supporting documents.

Email: enterprise.centre@hmrc.gsi.gov.uk

Post:

Venture Capital Reliefs Team
HM Revenue and Customs
WMBC
BX9 1BN

We must complete a separate application for each share issue or debt investment.

What happens next

If the application is successful, HMRC will send the Society a letter and compliance certificates (form SITR3) to give to our investors.

The letter will include a unique investment reference number. The Society must include this on the compliance certificates we give to investors. Investors need the compliance certificate and reference number to be able to claim tax relief. They are able to claim relief of 30% of the value of their investment, up to the limit of UK tax paid

If HMRC decides the investments do not meet SITR requirements, They will write to us explaining why. If we disagree, we can ask HMRC to review the decision, or appeal against it.

The Society must follow the scheme rules for at least 3 years after the investment is made - otherwise tax relief will be withdrawn from investors. We must tell HMRC if we no longer meet the conditions within 60 days.

All money raised from the investment must be used within 28 months of the date of the investment.

The Society intends use the share proceeds to fund the re-build and restoration of The George.

This information is based upon HMRC advice and legislation as at February 2022, and that it may be subject to change.