



TAXREP 51/14 (ICAEW REPRESENTATION 122/14)

SOCIAL INVESTMENT TAX RELIEF ENLARGING THE SCHEME

ICAEW welcomes the opportunity to comment on the consultation paper social investment tax relief: enlarging the scheme, published by H M Treasury on 10 July 2014.

This response of 23 September 2014 has been prepared on behalf of ICAEW by the Tax Faculty in consultation with members of the Charities Special Interest Group.

Internationally recognised as a source of expertise, the Faculty is a leading authority on taxation. It is responsible for making submissions to tax authorities on behalf of ICAEW and does this with support from over 130 volunteers, many of whom are well-known names in the tax world. Appendix 1 sets out the ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark proposals for changes to the tax system.

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ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

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MAJOR POINTS

Introduction

1. We welcome the opportunity to comment on the proposals in HM Treasury consultation document of 10 July 2014.
2. We should be happy to discuss any aspect of our comments and to take part in all further consultations on this area.

Key point summary

3. We welcome the proposals to expand access to the Social Investment Tax Relief (SITR) and in particular we support allowing Limited Liability Partnerships and charities being able to act as Social Impact Contractors (SICs).

RESPONSES TO CONSULTATION QUESTIONS

Q1: Do you agree with the proposed criteria for assessing options for the social enterprise tax relief? Please provide comments as appropriate.

4. We agree with these proposed criteria.

Q2: What would be a suitable investment limit per investee organisation for an expanded SITR? Please give reasons and evidence if possible.

5. We do not have any statistical evidence to support our answer to this question and indeed as SITR is very new, we doubt that such exists. However, in the interests of simplicity, it would seem sensible to align this relief as closely as possible with the structure and amounts available for the other venture capital reliefs.
6. The survey quoted in para 3.9 states that 5% of the 1,255 organisations asked, would seek amounts over £5m under the scheme if they were able to. This seems a sufficiently large number to be worth accommodating. We would expect such organisations to contribute significantly to the economy and help meet the policy aims stated in paras 1.8 to 1.10. Consideration should be given to aligning the limit with the lifetime limit of 15m euros being proposed for tax advantaged venture capital schemes.

Q3 to Q5

7. No comment

Q6: What are the benefits and risks of including a wider range of SIBs in SITR?

8. The benefit would be to encourage a wider variety of investor. We agree with the statement in para 1.4 and support businesses and charities which can help social enterprises through sharing their commercial or charitable skills and knowledge.

Question 8: a) How would the legislation need to be changed to allow for these sub-contracted structures? b) What is the risk that this could be misused and what protections would be needed? c) To what extent could the tax relief and accreditation process encourage fair sharing of risk throughout the supply chain?

9. We note that the relevant legislation, ss 257JD to 257JF ITA 2007, was only added to Finance Act 2014 at the report stage and was not discussed in the parliamentary debates. These sections currently restrict the relief by limiting the organisations that can be accredited as SICs,

to companies limited by shares. We understand that Limited Liability Partnerships and also charities might be interested in acting as SICs. Charities in particular would generally be unable to meet the requirement to be a company limited by shares (or a LLP), so we suggest that the SIC option should not be limited to for-profit organisations.

Q9 to Q28

10. No comment

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APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see [icaew.com/en/technical/tax/tax-faculty/~media/Files/Technical/Tax/Tax%20news/TaxGuides/TAXGUIDE-4-99-Towards-a-Better-tax-system.ashx](https://www.icaew.com/en/technical/tax/tax-faculty/~media/Files/Technical/Tax/Tax%20news/TaxGuides/TAXGUIDE-4-99-Towards-a-Better-tax-system.ashx))