



SOCIAL ENTERPRISE – TAX MATTERS

Tax and VAT update
23 November 2015

The starting point

No VAT refund schemes (s33/s41)

No charitable VAT exemptions (I&E)

No corporation tax reliefs?

No stamp duty reliefs?

VAT - Introduction



What can be done?

Any benefits?

Strategic options

Conclusion

(VAT) What can be done?

Can we change the VAT rules?

must not conflict with the EC VAT Directive
zero rating can not be widened
exemptions are mandatory (e.g. care)

New refund schemes / VAT grants?

not if you're 'in business'
beware 'illegal state aid'

More reduced rated supplies?

yes, but limited scope.

(VAT) Are there any benefits?

Some...

You're in business?

zero rated supplies

dispensed drugs / appliances

taxable supplies

taxable care

taxable education

(VAT) Strategic options

Separate charitable arm

Exemption of welfare, education, some building work, medical reliefs, fundraising, advertising...

Separate / composite contract options

Land/property, staff, goods, delivery...

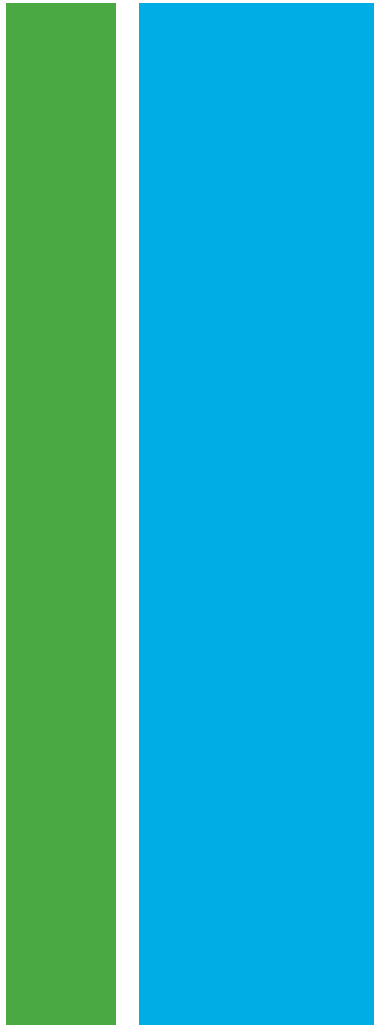
Costs management

Temporary staff, un-opted property, using exempt traders

Cost Sharing Groups

*Easement when pooling resources with 3rd party
Best for labour heavy costs*

Corporation Tax - Introduction



Tax treatment of entities

General issues

Opportunities

Attracting investors

Structures – how are different entities taxed?

Type	Liabilities?
Company limited by guarantee (“CLG”)	Non-charitable (taxable) but may, on individual facts, be able to argue that not carrying on a trade with a view to a profit
Community Interest Company (“CIC”)	Non-charitable (taxable) but may, on individual facts, be able to argue that not carrying on a trade with a view to a profit
Charitable Incorporated Organisation (“CIO”)	Tax exemptions on charitable income only
Mutual trade	Non-charitable (taxable) but trading with members non-taxable
<p>Members clubs:-</p> <ul style="list-style-type: none"> • CLG • CIC • Co-Operative & Community Benefit Co • Company limited by shares • Unincorporated Association <p style="margin-left: 100px;">  Community Amateur Sports Club (“CASC”) </p>	<p>Non-charitable (taxable) but trading with members non-taxable</p> <p>Certain tax exemptions but limited & restrictions apply</p>

General corporation tax issues

- Self-assessment:
 - responsibility of taxpayer
 - penalty regime
- No blanket direct tax exemptions
 - Trading – case law
- Diversification
 - Competing for work
- Gift Aid

Opportunities

- Separate charitable arm
- Subsidiary companies
 - Charitable owned social enterprises*
- Employee owned public service spin-outs
 - Tax depends on structure*

Attracting investors

- Government agenda – eg Budget 2015
 - New social venture capital trust scheme announced
 - To be legislated in future Finance Bill
- Investment schemes:
 - Crowd-funding
 - Social Impact Bonds
 - Social Investment Tax Relief (“SITR”)
 - Recent application made for EU state aid clearance for enlarged SITR scheme
 - Opportunities to begin incorporating SITR into funding strategy now
 - Unlikely to be implemented before summer 2016

What are you up against?

SITR vs non-social enterprise reliefs

	Social Investment Tax Relief	Seed Enterprise Investment Scheme	Enterprise Investment Scheme
Maximum investment	£1m	£100k	£1m
Income Tax Relief	30%	50%	30%
Capital Gains Tax free on sale (1)	Yes	Yes	Yes
Capital Gains Tax deferral (2)	Yes	No	Yes
Capital Gains Tax relief (3)	No	50%	No
Minimum holding period	3 years	3 years	3 years
Maximum per investee	c£250k (3 years)	£150k	£5m (in 12m)
Unique benefit	Can apply to debt	Highest rate of relief & CGT holiday	Highest investment limit
Observations	<p>Short-term block = availability of projects in which to invest.</p> <p>Individual can invest up to £1 million (pa) but a social enterprise can receive only £250,000 over 3 years.</p>		

Notes to the above:-

1. The growth in the value of the investment is free of CGT provided it has been held for the minimum holding period.
2. Gains on the disposal of any asset can be deferred into these investments.
3. Instead of CGT deferral, a relief is available for 50% of gains on the disposal of any asset invested in qualifying Seed Enterprise Investment Scheme.

Recommendations....

- Consider the existing set-up
 - Is it fit for purpose?
 - Is it tax efficient?
 - Are there any risks lurking?

- Consider future options
 - Is there a better way of doing things?
 - eg Alternate procurement routes
 - How can you maximise income and returns?
 - Financial modelling of options (business planning)

Questions and answers



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