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CITR: the rules for community lenders

COMMUNITY FINANCE TOOLKIT · BRIEFING #2

Community Investment Tax Relief provides tax relief for investors and sets specific conditions on every loan an accredited CDFI writes with CITR-raised money. These conditions relate to: location and identity of borrower, and how each loan must be structured. This note sets out those conditions. It is written principally for CDFIs and their advisers.

Every rule below is sourced, with full links at the foot of this note. This is a general explainer, not tax, legal or investment advice, and eligibility must be confirmed with DBT, HMRC and a qualified adviser.

How CITR works

1. The Department for Business and Trade (DBT) accredits the CDFI.
2. HM Revenue and Customs gives the investor the tax relief.
3. In return, the CDFI must lend the CITR-raised money on under the rules in this note.
4. Accreditation is issued as either **retail** (the CDFI lends directly to businesses) or **wholesale** (it lends to other accredited CDFIs).
5. A retail CDFI may raise up to **£10m** of CITR investment over any three-year period; a wholesale CDFI up to **£20m**.
6. The conditions below apply to the loans the CDFI then makes.

Who the CDFI can lend to

Two tests apply to the borrower. Both must be met.

The SME test

The borrower must be a small or medium enterprise: fewer than 250 employees; annual turnover of no more than €50m, or a balance sheet total of no more than €43m; and no more than 25% owned or controlled by an organisation that is not itself an SME. These thresholds are still expressed in euros in the operative DBT guidance.

The "unable to obtain finance elsewhere" test

The CDFI may only finance businesses that have been unable to obtain funding from other sources, especially mainstream lenders. DBT does not set a fixed evidence bar: the CDFI collects the information and applies the tests it considers appropriate. The guidance describes the target borrower as "viable but not bankable", a business that could service a loan but cannot access mainstream credit.

Suggested Taskforce activity

Because DBT leaves this test to each CDFI's own judgement, a review of public sources did not identify a codified or common standard for how it is applied across the sector. There is a case for a **survey and discussion to establish the shared principles applied to satisfy this test**, which would give the sector a consistent, defensible basis for evidencing "unable to obtain finance elsewhere".

The disadvantage test: three Cases

In addition to the SME test, every CITR-funded loan must meet at least one of three "Cases". This is the rule most often missed. The three Cases derive from the CITR (Accreditation of CDFIs) Regulations and are set out in DBT's accreditation guidance, criterion 5.[1]

Case 1: a disadvantaged area

The business is located in one of the most-deprived areas, defined as the top 35% of small areas on each UK nation's official Index of Multiple Deprivation, plus, in England, 82 designated Local Authority Districts. The datasets, thresholds and mapping sources for each nation are set out in the section "Case 1 datasets" below.

Case 2: comparable disadvantage

The business is in an area not on the Case 1 list, but which the CDFI can show has comparable disadvantage measured against seven factors:

1. income
2. employment
3. health, deprivation and disability
4. education, skills and training
5. geographical access to services
6. housing
7. crime

Case 2 is capped: lending under Case 2 must be no greater, by both value and number of loans, than lending under Cases 1 and 3 combined. It can never be the main route.

Case 3: disadvantaged people

The business is owned and operated by, or intended to serve, individuals recognised as disadvantaged on account of:

1. ethnicity
2. gender
3. age
4. religious belief
5. disability
6. or another defining characteristic

Case 3 and the Equality Act 2010

The Equality Act 2010 sets out **nine protected characteristics**: age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex; and sexual orientation. CITR Case 3 names five of these, using slightly different words: ethnicity (race), gender (sex), age, religious belief (religion or belief), and disability. It **does not name** gender reassignment, marriage and civil partnership, pregnancy and maternity, or sexual orientation, though the open "other defining characteristic" could capture some situations.

How each loan must be structured

The HMRC rules for CITR specify key structural features of financing that is issued by a CITR-registered provider of finance. This differs from the British Business Bank's Growth Guarantee Scheme (GGS) in several respects. The HMRC rules also distinguish between two categories of borrower: (i) a profit-distributing enterprise, such as a Limited (Ltd) company, and (ii) a non-profit-distributing or community project.

CITR loan structure, and summary comparison with GGS.

Feature	CITR rule	GGS position
Facility types	A loan (secured or unsecured), or a subscription for shares or securities in the business. Overdrafts are excluded by name.	Term loan, overdraft or revolving credit, asset finance, invoice finance.
Maximum loan size	£250,000 per enterprise (profit-distributing) or £375,000 per enterprise (non-profit-distributing or community project).	£2m per business group.
Term of loan	No borrower-side maximum term is set in the CITR rules. The five-year period in CITR is the investor's minimum holding period for full relief, not a cap on the loan term. In practice, CDFI term loans are commonly up to five years.	Up to six years, extended to up to ten years for term loans and asset finance from July 2026.
Concentration limit	No more than 20% of the CDFI's CITR investment fund in any one enterprise.	Not set at individual-loan level.
Pricing floor	• **Profit-distributing borrowers:** the loan must be priced at or above the "market rate", defined as the reference rate plus 4 percentage points (see the note below the table). • **Non-profit-distributing borrowers:** no pricing floor.	No pricing floor.
Guarantee interaction	Excludes investments benefiting from a Phoenix Fund guarantee or a similar publicly-funded guarantee (see the note below the table). Whether this restricts pairing CITR with a GGS guarantee on the same loan is unresolved and worth checking before doing so.	A 70% government guarantee to the lender.
Property	The CDFI may not invest, directly or indirectly, in residential property.	No residential-property prohibition equivalent to CITR's. A GGS facility may be used for any legitimate business purpose, but the borrower must be a UK trading business earning more than 50% of its

Feature	CITR rule	GGS position
		income from trading, which can in practice exclude a pure property-investment business.

The pricing floor, in practice

The floor applies to profit-distributing borrowers only. The DBT guidance defines the "market rate" as the European Commission Reference Rate plus 4 percentage points. The EC Reference Rate is itself a published base rate plus a margin (the Commission's method adds 1 percentage point to the base rate before further risk margins).

Since the UK left the EU, the European Commission no longer publishes a UK reference rate, so the base that now applies is not settled. The UK operates its own subsidy-control regime, which uses a separate discount rate (5.3% for the 2024 to 2025 period, updated annually) for valuing subsidies, not for setting a borrower's interest rate. As an illustration only: if the reference rate is taken as the Bank of England base rate of 3.75% (held on 29 July 2026), the floor is about 7.75% (3.75% + 4.00%). On the Commission's own method, which sets the reference rate 1 percentage point above the base rate, the floor would be about 8.75%.

What the "Phoenix Fund" was

The Phoenix Fund was a UK government programme run by the Department of Trade and Industry, through the Small Business Service, from 2000. It was designed to encourage enterprise in disadvantaged areas and to build the early CDFI sector, and included a development fund, a community development venture fund, and a loan guarantee. It is now historic, but the CITR rules still exclude a loan that also benefits from a Phoenix Fund guarantee, to prevent two forms of public support on the same loan.

Changes to thresholds following Brexit

The operative DBT guidance dates from January 2019 and still cites the EU State Aid de minimis ceiling of €200,000 over three years. Following EU exit, the applicable regime is UK subsidy control: **Minimal Financial Assistance of £315,000 over three years** under the Subsidy Control Act 2022. The SME test above is also still expressed in euros (€50m turnover or €43m balance sheet), as retained EU-derived law.

Case 1 datasets: the disadvantaged-area geography

Case 1 points to each UK nation's official Index of Multiple Deprivation. The qualifying threshold is the top 35% most-deprived small areas in each nation, plus, in England only, the 82 designated Local Authority Districts. The four indices are not directly comparable across nations; each 35% threshold applies within that nation. The DBT guidance directs a CDFI to use the index **current at the date the loan is made**, so the editions below are the current ones as at mid-2026.

Official deprivation datasets underpinning the Case 1 geography, by nation.

Nation	Index and current edition	Geography unit	Rank data, and mapping and boundaries
England	English Indices of Deprivation 2025 (IoD2025), MHCLG, published 30 October 2025.	Lower Layer Super Output Area (LSOA), 2021 geography (33,755 areas).	Ranks: gov.uk English indices of deprivation 2025. Interactive map: MHCLG Local Deprivation Explorer. Boundaries: ONS Open Geography Portal.
Scotland	Scottish Index of Multiple Deprivation 2020, version 2 (SIMD 2020v2), Scottish Government.	Data zone, 2011 geography (6,976 areas).	Ranks and lookups: gov.scot SIMD 2020 collection. Spatial file (geometry and ranks): maps.gov.scot SG_SIMD_2020 shapefile.
Wales	Welsh Index of Multiple Deprivation 2025 (WIMD 2025), Welsh Government, published November 2025.	Lower Layer Super Output Area (LSOA), 1,917 areas.	Ranks: StatsWales WIMD 2025 index and domain ranks (LSOA). Interactive map: DataMapWales.
Northern Ireland	Northern Ireland Multiple Deprivation Measure 2017 (NIMDM 2017), NISRA.	Super Output Area (SOA), 890 areas.	Ranks: Open Data NI, NIMDM 2017. Results and boundaries: NISRA NIMDM 2017.

To build a single qualifying-area layer, filter each nation's ranks to the most-deprived 35% and join to that nation's boundary file. Do not pool the four nations into one ranking, and note the differing geography vintages (LSOA 2021 in England and Wales; data zone 2011 in Scotland; SOA in Northern Ireland).

Where this sits in the toolkit

This note covers the rules a lender must follow. The companion notes go further: "CITR: the lending statistics" explains the relief and shows the published HMRC data, and the Foundation note explains how CITR relates to CDFI, GGS and CEF.

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1. DBT/BEIS, CITR: Material concerning the accreditation of CDFIs (v5, January 2019), criterion 5 and Annex A: https://assets.publishing.service.gov.uk/media/5c52e973e5274a4923d1d3ad/Community_Investment_Tax_Relief__CITR__Material_Concerning_the_accreditation_of_Community_Development_Finance_Institutions.pdf

CITR (Accreditation of CDFIs) Regulations 2003 (SI 2003/96, as amended): https://www.legislation.gov.uk/uksi/2003/96/contents/made; Amendment Regulations 2013 (SI 2013/417): https://www.legislation.gov.uk/uksi/2013/417/contents/made

HMRC Community Investment Tax Relief Manual (CITM2050): https://www.gov.uk/hmrc-internal-manuals/community-investment-tax-relief-manual/citm2050

Part 7, Income Tax Act 2007: https://www.legislation.gov.uk/ukpga/2007/3/part/7; Part 7, Corporation Tax Act 2010: https://www.legislation.gov.uk/ukpga/2010/4/part/7

Subsidy Control Act 2022 (Minimal Financial Assistance): https://www.legislation.gov.uk/ukpga/2022/23/contents; Subsidy Control (Gross Cash Amount and Gross Cash Equivalent) Regulations 2022 (discount rate): https://www.legislation.gov.uk/uksi/2022/1186/contents/made

European Commission, reference and discount rates: https://competition-policy.ec.europa.eu/state-aid/legislation/reference-discount-rates-and-recovery-interest-rates/reference-and-discount-rates_en

Bank of England, Bank Rate (3.75%, 29 July 2026): https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2026/july-2026

British Business Bank, Growth Guarantee Scheme FAQs (eligible purposes and excluded businesses): https://www.british-business-bank.co.uk/finance-options/debt-finance/growth-guarantee-scheme/frequently-asked-questions

Equality Act 2010 protected characteristics (EHRC): https://www.equalityhumanrights.com/equality/equality-act-2010/protected-characteristics