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CITR for investors

COMMUNITY FINANCE TOOLKIT · BRIEFING #4

Community Investment Tax Relief lets an investor who backs an accredited community lender claim tax relief worth up to 25% of the amount invested. This note explains, in general terms, how that relief works, how it is claimed, and the conditions attached. It is written for investors and their advisers.

Important: please read first

This note is general information about how Community Investment Tax Relief works, published by SDWH Limited for educational purposes only.

- **It is not a financial promotion.** It is not an invitation or inducement to engage in any investment activity, and it does not recommend, endorse or promote any investment, CDFI, fund or other party.
- **It is not advice of any kind.** It is not tax, legal, financial or investment advice, and must not be relied upon as such.
- **Your capital is at risk.** A CITR investment can lose value and you may not get back the amount you invest. These investments are generally **not** covered by the Financial Services Compensation Scheme (FSCS).
- **No responsibility is accepted.** SDWH Limited accepts no responsibility or liability for any decision made, or action taken, in reliance on this note.
- **Take advice first.** Before making any investment or claiming any relief, seek advice from a suitably qualified, FCA-authorised professional, and confirm the current rules with HMRC.

The relief, in brief

Up to 25% Total relief on the amount invested in an accredited CDFI	**5% a year** Given for the year of investment and each of the following four years	**5 years** The investment must be held throughout this period for full relief

CITR is available to **individuals**, who set the relief against income tax under Part 7 of the Income Tax Act 2007, and to **companies**, which set it against corporation tax under Part 7 of the Corporation Tax Act 2010. Relief in any year is limited to the amount that reduces the investor's tax liability for that year; unused relief can generally be carried forward within the five-year period. The scheme is jointly run by the Department for Business and Trade, which accredits the lenders, and HMRC, which gives effect to the relief.

How the relief is claimed

1. The accredited CDFI issues the investor a **tax relief certificate** for the investment.
2. **Individuals** claim through self-assessment, using HMRC helpsheet HS237. **Companies** claim through their company tax return.
3. The investor keeps the certificate and the supporting records, which HMRC may ask to see.

The five-year condition, and what withdraws relief

The relief depends on the investment being held, and the conditions being met, throughout the five-year period. Relief can be **withdrawn or reduced** if, during that period:

> the investor disposes of the investment; or a loan is repaid, or drawn down or reduced below the levels the rules require; or the investor receives value from the CDFI; or the CDFI's accreditation is withdrawn. The detailed conditions are set out in HMRC's Community Investment Tax Relief Manual.

What the investor holds, and how it invests

The instrument

A qualifying investment is either a **loan** to the accredited CDFI, or a **subscription for shares or securities** in it. Which one applies depends on the CDFI's legal form. A company limited by guarantee has no share capital, so investment in it takes the form of a loan. Most CDFIs are companies limited by guarantee, so in practice most CITR investment is debt.

Direct or pooled

An investor can invest directly in an accredited CDFI, or through a specialist pooled fund. Pooled routes are often restricted to investors who certify as high-net-worth or sophisticated under the financial promotion rules, and can carry high minimum subscriptions. Whether either route suits an individual's circumstances is a matter for personal advice.

A worked example

To show how the pieces fit together, here is a simplified illustration. It is an example, not advice, and it ignores the time value of money and the possibility of default (see the notes below the table). A £100,000 investment is close to the average: across the eight years in Briefing #3, CITR investment raised per investor averaged about £124,000, though it varies year to year.

Assumptions: a £100,000 loan to an accredited CDFI; interest of 8% a year, as a rough illustration; a five-year, interest-only term; the investor pays income tax at 40% on the interest received (this varies by investor, and a company would instead pay corporation tax, at a different rate and under different rules); and CITR relief of 5% of the investment, that is £5,000, in each of five years, assuming the investor has at least that much tax to set it against.

Illustrative cash flows on a £100,000 CITR loan at 8%, interest-only, with income tax at 40% on the interest. Rounded; ignores the time value of money and default. Negative figures are shown in brackets.

Year	Loan principal	Interest at 8%	Income tax on interest (40%)	CITR relief	Net cash flow
0 (invest)	(£100,000)				(£100,000)
1		£8,000	(£3,200)	£5,000	£9,800
2		£8,000	(£3,200)	£5,000	£9,800
3		£8,000	(£3,200)	£5,000	£9,800
4		£8,000	(£3,200)	£5,000	£9,800
5 (repaid)	£100,000	£8,000	(£3,200)	£5,000	£109,800
Total	**£0**	**£40,000**	**(£16,000)**	**£25,000**	**£49,000**

Bullet, not amortising

These CITR loans are structured as interest-only, with the £100,000 repaid in full at the end (a "bullet" loan) rather than repaid gradually (amortising). Repaying capital during the five-year period reduces the CITR relief, so the capital is kept outstanding across the period. HMRC's Community Investment Tax Relief Manual sets out the detailed repayment conditions.

Capital at risk: this ignores default and recovery

The example assumes the loan performs and the £100,000 is repaid at year 5. If the borrower defaults, some or all of the £100,000 is not returned. In a default the lender may recover part of the amount later, through security or debt recovery, so a loss may be partial rather than total. The tax relief lowers the net cost of the investment, but it does not compensate for a loss of capital. The five CITR tranches are shown in years 1 to 5 for simplicity; in practice the first tranche falls in the tax year the investment is made.

The risk

A CITR investment is not a deposit. The return depends on the interest the CDFI pays and on its own performance, the capital is at risk, and the investment is generally not FSCS-protected. The tax relief reduces the cost of the investment but does not remove the underlying risk. Briefing #3 in this toolkit sets out the sector's published write-off history, which is context on the lending as a whole and not a guide to any individual investment.

Where this sits in the toolkit

This note explains the relief from the investor's side. "CITR: the rules for community lenders" covers the conditions on the lending, and "CITR: the lending statistics" explains the relief and presents the published HMRC data. The Foundation note explains how CITR relates to CDFI, GGS and CEF.

HMRC, Community Investment Tax Relief guidance: https://www.gov.uk/guidance/community-investment-tax-relief

HMRC Community Investment Tax Relief Manual, CITM9900 (brief guide for investors): https://www.gov.uk/hmrc-internal-manuals/community-investment-tax-relief-manual/citm9900

HMRC helpsheet HS237, Community Investment Tax Relief (self-assessment): https://www.gov.uk/government/publications/community-investment-tax-relief-hs237-self-assessment-helpsheet

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

Financial Services Compensation Scheme, what it covers: https://www.fscs.org.uk/what-we-cover/

Financial Services and Markets Act 2000, section 21 (financial promotion): https://www.legislation.gov.uk/ukpga/2000/8/section/21; Financial Promotion Order 2005: https://www.legislation.gov.uk/uksi/2005/1529/contents