

Community Investment Tax Relief Account (CITRA)



FREQUENTLY ASKED QUESTIONS ON THE CHARITY BANK CITRA (COMMUNITY INVESTMENT TAX RELIEF ACCOUNT)

This leaflet provides information on the Charity Bank CITRA and how it relates to the Government's Community Investment Tax Relief (CITR) Scheme. It does not provide detail or advice on the application of tax relief under the Scheme, or any other tax or financial advice. Charity Bank recommends that investors take independent tax and financial advice. A CITRA investor is responsible for his/her/its own tax affairs and Charity Bank has no responsibility in relation to such matters.

The Inland Revenue provides guidance ("the Inland Revenue Guidance") on the CITR Scheme for investors (contact details in "Guidance on the CITR Scheme" at the end of this leaflet).

Further information on the general terms and conditions applicable to all Charity Bank accounts can be found in a separate leaflet "Deposit accounts - General Terms and Conditions".

WHAT IS CHARITY BANK?

Charity Bank is the first not-for-profit bank in the UK. It is the only organisation of its kind to be authorised and regulated by both The Financial Services Authority ("FSA") and the Charity Commission. It is the only bank that solely funds charitable projects. It subscribes to the Banking Code.

The bank has a simple structure. It has a range of savings accounts for individuals and organisations. All the money deposited in these accounts is used to provide charities and other not-for-profit ventures with loans and related support and advice. Any surplus funds are channelled back into the bank, to fund further charitable work.

Charity Bank developed out of Investors in Society, a fund launched in 1996 by the Charities Aid Foundation ("CAF") with £500,000 of its funds. In April 2002 Investors in Society was absorbed into Charity Bank, having attracted more than £10 million and funded projects since its establishment with a total project value of at least £50 million.

WHAT IS SPECIAL ABOUT CHARITY BANK'S CITRA?

It offers a 5% tax relief (worth up to 8.33% gross per annum) in addition to an interest rate of up to 2% gross per annum (2.02% AER, 1.6% net). And it also offers a social return. Charity Bank uses deposits in the account specifically to support enterprising charitable projects in disadvantaged communities in the UK, for example, to build new facilities, renovate buildings, start up new services, reinvigorate run-down areas and to create social and economic capital.

HOW DOES IT WORK AND WHO CAN APPLY?

Despite increased wealth, parts of the UK remain untouched by the general rise in prosperity, and some are still in decline. The Government would like to see more investment going into these under-resourced communities throughout the UK. So it has introduced the CITR Scheme. This offers a tax incentive to investors in Community Development Finance Institutions (CDFIs). CDFIs are organisations which invest in enterprises that operate within or for disadvantaged communities in the UK. The Scheme applies only to investments made through accredited CDFIs - direct investment in disadvantaged communities does not qualify.

The tax incentive is available to individuals and companies. It comes in the form of a tax relief, which reduces the investor's income tax or corporation tax liability. The Scheme is run jointly by the Inland Revenue and the Small Business Service of the Department for Trade and Industry.

The relief is worth up to 25% of the money invested, spread over five years (5% per year). The extent to which repayments can be made during the five year period is limited (see below). This relief is worth 8.33% gross per year for higher rate taxpayers, 6.41% per year for standard rate taxpayers and 7.14% per year for main rate corporation tax payers. (For more details see the box at the end of this leaflet.)

WHY IS THE RETURN SO GOOD?

The Government appreciates that investment in organisations working in under-resourced communities can yield enormous social benefits for those communities, providing local services, jobs, wealth and hope. But finding and assessing good investment opportunities requires considerable skill, patience and local knowledge, and is therefore expensive. So the Government is offering a financial incentive through the tax relief to encourage more people to invest in such areas, through trusted, accredited intermediaries like Charity Bank. These intermediaries have been accredited on the basis of their track record of lending in these communities, which are currently under-served by commercial banks.

HOW COME I HAVEN'T HEARD ABOUT IT BEFORE?

Because it is a new scheme. It was established under the Finance Act 2002 and the first CDFIs were accredited in March 2003. Charity Bank was one of the first CDFIs to be accredited.

WHERE IS CHARITY BANK'S LENDING TARGETED?

WILL THE CITRA BE TARGETED ANY DIFFERENTLY?

The CITR Scheme is intended to increase investment in enterprises, both for-profit and not-for-profit, that operate in or serve specific under-resourced communities. These are fairly widely drawn, and include specific geographical areas of deprivation throughout the UK as well as "thematic" disadvantaged communities such as the physically disabled or unemployed. For further details on the CITR Scheme criteria contact the Small Business Service, whose address can be found at the end of this leaflet. Charity Bank's lending overall covers a wider area than the CITR Scheme. Charity Bank loans can support any charitable project unable to access finance on affordable terms elsewhere. We support organisations throughout the UK, working in a wide variety of sectors. Charity Bank loans can help organisations to purchase or refurbish properties or buy new equipment. They can help them add to their services, innovate and respond to new needs.

For example, we provided a loan to Baby Lifeline to produce an educational video for midwives and GPs aimed at preventing unnecessary neonatal deaths. A loan to the Multiple Sclerosis Therapy Centre (South Yorkshire) helped them establish a new therapy unit in Sheffield. A loan to the Citizens Advice Bureau in Salford enabled it to build a new advice centre.

Deposits in Charity Bank's CITRA will only be used to support not-for-profit ventures based in or serving disadvantaged communities in accordance with the terms of its accreditation. A significant part of Charity Bank's lending already serves these communities, as they are where the greatest need often is.

CAN I CHOOSE WHAT MY MONEY GOES TOWARDS?

Charity Bank does not offer targeted accounts at present. As a bank it must be our decision where we lend money based on detailed due diligence. However, so that we may provide you with relevant information more effectively, we do encourage you to tell us of areas of specific interest to you (be they geographic or thematic).

HOW WILL DEPOSITORS KNOW WHAT THEIR MONEY HAS BEEN USED TO BENEFIT?

We write to all our depositors regularly to let them know what projects their money has funded. This information is also posted on our website. We also encourage depositors, where appropriate, to develop contacts with borrowers in their own communities or areas of interest.

IF THE GOVERNMENT IS OFFERING AN INCENTIVE AS ATTRACTIVE AS THIS, SURELY IT IS TO COMPENSATE FOR THE HIGH RISKS INVOLVED?

It is true that Charity Bank's borrowers have difficulties getting affordable finance for their projects from commercial banks, but this is not necessarily because they are inherently risky. The deals tend to be unattractive because the returns are low - the amounts required are small, yet the labour involved is high. Charities and other not-for-profits can often have complex and non-standard funding arrangements which take time and effort to understand. The view that lending to such organisations is riskier has not been borne out by the experience of Charity Bank and its forerunner fund, Investors in Society. As noted below, Investors in Society had a very good lending record over the six years of its existence. This represents substantial evidence of the fact that charities can indeed be reliable and responsible borrowers.

BUT WHAT HAPPENS IF CHARITY BANK'S LOANS DO FAIL? IS MY CAPITAL AT RISK?

Obviously there is no guarantee that all our borrowers will pay back their loans within the agreed terms. Charity Bank is in the same position as any other lending institution in this respect. But in six years' pilot experience of Investors in Society we did not lose a single pound. As a matter of prudential management, we maintain a loan loss reserve of 3% of our portfolio. Since the beginning of Investors in Society, specific provisions have been raised for less than 1% of the loan book. All the projects are assessed rigorously by experts at Charity Bank and we simply won't lend money to organisations that we don't think are sustainable or where the loan might put the organisation or its beneficiaries at risk. Charity Bank is authorised and regulated by The FSA and is required to keep its lending within prudential limits. Charity Bank is also a member of the Financial Services Compensation Scheme, providing you with a greater level of security. Further details are available on request from Charity Bank..

OUTLINE OF THE CITRA TERMS AND CONDITIONS

HOW DO I OPEN A CITRA ACCOUNT?

Simply fill in a Charity Bank CITRA form (which incorporates the applicable terms and conditions) and send it, together with the necessary supporting documentation, to Charity Bank at the address below.

Account opening forms can be obtained by:-

- phoning Charity Bank on 01732 520 029;
- writing to Charity Bank at PO Box 295, 25 Kings Hill Avenue, West Malling, Kent ME19 4WD;
- emailing enquiries@charitybank.org; or by
- downloading directly from our website at www.charitybank.org.

IS THERE A MINIMUM OR MAXIMUM AMOUNT THAT I CAN PUT IN?

The minimum you can put into a Charity Bank CITRA is £1,000. (Charity Bank also offers a range of other accounts where the minimum balance is just £10, but these are not eligible for the CITR Scheme tax relief.) For further details of these accounts please contact Charity Bank (contact details above).

There is no specified upper limit. However, because the amount of tax relief is limited at any time to a maximum of £10 million of qualifying investment, the Charity Bank CITRA is a limited issue account and Charity Bank reserves the right to close the issue to new depositors at any time without notice. As this money is lent, we would hope to be able to apply for further accreditation to offer further issues.

HOW IS THE RETURN ON THE CHARITY BANK CITRA CALCULATED?

Part of the return comes in the form of a tax relief and part as an interest payment from Charity Bank.

TAX RELIEF

For individuals, a deposit in a Charity Bank CITRA would reduce the investor's income tax liability for

- the tax year in which the deposit is made and
- each of the subsequent four tax years.

Providing the individual has sufficient taxable income to use it all, the amount of relief available for each of those years is 5% of the funds deposited.

Example

An individual makes a £10,000 deposit in a Charity Bank CITRA on 1st June 2004. The amount for each tax year for which relief may be claimed is £10,000.

Tax relief of £500 (5% of £10,000) may be claimed for the tax year 2004/5 (the tax year in which the deposit was made) and for each of the four subsequent tax years.

In the case of a corporate depositor, the company's corporation tax liability would be reduced

- for the accounting period in which the date of the deposit falls and
- for each of the accounting periods in which the subsequent four anniversaries of that date fall.

Providing the company has sufficient taxable income to use it all, the amount of relief available for each of those accounting periods is 5% of the funds deposited.

For both individual and corporate investors, if the investor has insufficient tax liability to make full use of the relief any unused relief is lost.

INTEREST FROM CHARITY BANK

On top of the tax relief, Charity Bank also pays interest on the account. You can choose how much interest is received on your CITRA account, from 0% pa up to 2% pa gross (2.02% AER, 1.6% net). Waived interest allows us to lower the interest charge to our borrowers. Interest can be paid into the CITRA account, into another bank account, or sent to you by cheque.

Alternatively, you can open a **Just Interest account** and donate the interest directly to a charity of your choice or to your CAF account.

If you open a **Partner account** the net interest is donated the partner charity to help them extend their programmes and achieve their visions.

HOW LONG DO I NEED TO KEEP MY MONEY IN MY CHARITY BANK CITRA?

The Inland Revenue stipulates that to obtain maximum tax relief under the CITR Scheme investors must keep their deposit in the account for at least five years. However, depositors are allowed to receive some of their funds back over the course of the five years of the investment without sacrificing all of their relief. Any repayments within the first five years of the loan will inevitably reduce the tax relief available to the investor, as tax relief will not be due on amounts that have already been repaid. For further details, please refer to the Inland Revenue Guidance.

With a Charity Bank CITRA, no withdrawals are permitted for the first three years. (The Inland Revenue rules allow for some earlier withdrawals of funds, but Charity Bank's permitted withdrawals, shown in the table below, take into account both the legislation and the requirements of Charity Bank to maintain prudent liquidity levels.)

The amounts that can be withdrawn without penalty in each year are shown below. At least 90 days' notice must be given for any withdrawal from the account.

Timing of repayment within the five year period	Upper limit of permitted repayment
Year 1 (from Investment Date to first anniversary of deposit)	No repayments permitted
Year 2	No repayments permitted
Year 3	No repayments permitted
Year 4	25% of amount deposited
Year 5	50% of amount deposited
End of fifth year	100% of amount deposited or balance of the account, whichever is smaller

HOW DO I CLAIM MY TAX RELIEF?

When you set up a Charity Bank CITRA, Charity Bank will send you a tax relief certificate relating to the investment within 30 days. Only one tax relief certificate is issued in respect of each investment. Statements will be sent to you twice a year showing the balance and any movements on the account.

Individual investors can claim the relief on their self-assessment tax return for the tax year for which relief is due. A separate claim must be made for each of the years for which relief is sought.

A company wishing to claim relief must make its claim as part of its company tax return for each relevant accounting period.

WHEN CAN I MAKE A CLAIM?

Tax relief cannot be claimed until the end of the tax year or accounting period to which it relates and until the investor has received a tax relief certificate from the CDFI. (But see the Inland Revenue Guidance for special measures for individual investors.)

HOW DO I MAKE WITHDRAWALS?

To make withdrawals from your Charity Bank CITRA within the permitted limits, we need 90 days' notice, in writing. We will then send you a cheque or transfer the funds to another account in your name.

WHAT IF MY TAX OR OTHER CIRCUMSTANCES CHANGE?

If you cease to have sufficient tax liability to make full use of the relief, any unused relief is lost. It cannot be carried forward. If you have any doubts or questions you should consult your tax advisor or the Inland Revenue.

It is your responsibility, taking appropriate advice (which Charity Bank cannot provide), to judge your own or your organisation's circumstances in relation to a possible CITR Scheme investment and to take account of how they might change. In particular, it is important to take account of the fact that the CITR

Scheme tax relief is linked to maintaining the invested funds in the account for prescribed periods of time.

ARE THERE ANY OTHER CIRCUMSTANCES IN WHICH I COULD LOSE MY RELIEF?

Relief may be reduced or withdrawn if the investor receives withdrawals from the account above the allowed limits set out above. It can also be lost if the investor, or a connected individual or organisation, receives value in some other form from the CDFI. This would apply to the receipt of a Charity Bank loan by a CITRA investor organisation, or by another organisation connected with the investor. If you believe this might affect you or your organisation please discuss it with us on 01732 520029. For details on the possible loss of tax relief, please refer to the Inland Revenue Guidance.

WHAT HAPPENS IF CHARITY BANK CEASES TO BE ACCREDITED?

Relief could also be lost if Charity Bank were to lose its accreditation. In a case where an accredited CDFI did lose its accreditation, the number of tax years for which relief may be claimed is reduced. The Inland Revenue Guidance gives further details on how this is calculated.

However, accreditation would only be withdrawn by the Small Business Service if the CDFI breached the conditions on which its accreditation was granted. Charity Bank will strive to abide by those conditions. In the unlikely event of accreditation being withdrawn, Charity Bank will not accept any liability for any relief lost by any CITRA investor.

WHAT HAPPENS IF THE CITR SCHEME RULES CHANGE?

As in the case of any tax relief, a change to applicable rules (including the discontinuance of a relevant scheme) and the consequences arising from any such change are a matter for Government. Charity Bank will not accept any liability for any consequence of any change to the CITR Scheme.

IS THERE ANYTHING ELSE I HAVE TO DO?

The investor is required to notify the Inland Revenue if the amount of relief attributable to a CITR Scheme investment is reduced or withdrawn because of withdrawals from the account, or for any other reason. Please refer to the Inland Revenue Guidance for further details.

WHAT HAPPENS AT THE END OF FIVE YEARS?

The legislation presently provides for the accreditation period for the CDFI to run for three years at a time and for the tax relief for investors to be available for five years from the date of investment. Extensions beyond this will depend upon further legislation.

CALCULATION OF RETURN ON THE CITRA

TAX RELIEF

Higher rate (40%) taxpayers

5% tax relief is equivalent to 8.33% gross annual return at prevailing tax rates

Standard rate (22%) taxpayers

5% tax relief is equivalent to 6.41% gross annual return at prevailing tax rates

Main rate (30%) corporation tax payers

5% tax relief is equivalent to 7.14% gross annual return at prevailing tax rates

INTEREST PAYABLE

The depositor can choose to receive gross annual interest of 2%, 1.5%, 1% or 0% on the CITRA.

Gross per annum	1%	1.5%	2%
Net* per annum	0.8%	1.20%	1.60%
AER**	1.01%	1.51%	2.02%

Notes

Based on prevailing tax rates in March 2003.

* After deduction of basic rate income tax.

** AER stands for Annual Equivalent Rate and illustrates what the interest rate would be if interest was paid and compounded each year.

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FURTHER GUIDANCE

INLAND REVENUE

The Inland Revenue has published Guidance Notes on the CITR Scheme which can be accessed from the Inland Revenue website at www.inlandrevenue.gov.uk and from Inland Revenue Enquiry Centres, whose addresses are in your local phone book under "Inland Revenue".

SMALL BUSINESS SERVICE

The Small Business Service publishes material concerning the accreditation of CDFIs. This can be found at www.sbs.gov.uk/finance/citr.php

For further details, contact:

Mark Hambly
The Community Finance Team
Investment & SME Finance Directorate
Small Business Service
St Mary's House
c/o Moorfoot
SHEFFIELD S1 4PQ

COMMUNITY DEVELOPMENT FINANCE ASSOCIATION

This is the trade association for CDFIs. Charity Bank is a charter member of the CDFA. It holds a list of accredited CDFIs for the purposes of the CITR Scheme and also produces guidance notes.

For further details contact:

The Community Development Finance Association (CDFA)
Unit LF3.11
The Leathermarket
11-13 Weston Street
London SE1 3ER
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Fax: 020 7357 7387
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