HM Treasury

28 February 2026

UK Private Capital response to the Call for Evidence on Tax Support for Entrepreneurs

Introduction

UK Private Capital (formerly the British Private Equity and Venture Capital Association, or BVCA) welcomes this opportunity to respond to the HM Treasury Call for Evidence on Tax Support for Entrepreneurs.

We represent 600 firms including the wider ecosystem of professional advisers and investors. Private capital consists of private equity and venture capital which makes long-term investments to grow British businesses and build a better economy. Private credit and venture debt also provide active and engaged debt finance to businesses.

The private capital industry backs 13,000 UK businesses, nine in ten of which are small or medium-sized enterprises. Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP.

In 2024, £29.4bn was invested by private capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (58%) of the businesses backed in 2024, located outside the capital. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets.

UK-based private capital specialists have raised £190bn of funds, known as dry powder, expected to be invested over the next three to five years.

The UK venture capital industry

The UK's venture capital market is the third largest in the world, behind only the US and China. It provides vital investment and expertise so that founders and entrepreneurs can start, scale and grow their businesses. Venture capital is a fundamental driver of economic growth, with UK venture-backed companies receiving £9bn of investment in 2024.

The UK has made significant progress in the last decade in building a globally competitive technology sector, underpinned by world-class research, a strong early-stage investment ecosystem, and a growing pipeline of innovative companies. However, there are well understood issues for companies looking to scale at their later stages, where they either struggle to secure the funding they need, or are reliant on overseas investors[1].

[1] BVCA Venture capital in the UK 2024 – see "Bridging the scale-up gap" (November 2024)

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The role of venture capital in supporting growth

UK venture capital firms, including EIS funds and VCTs, invest in companies with the potential to generate outsized returns, but those returns can come through different growth trajectories and exit paths. Broadly, venture-backed companies fall into two categories: hyper growth companies and steady-growth, acquisition-oriented companies.

Hyper growth companies target very large or emerging markets, rapid revenue growth with scalable business models, and a strong focus on building a dominant brand or platform. In the age of AI, these companies can scale very quickly, especially those developing new technologies and applications, reaching unicorn status in very short time periods and with small teams. While there is a higher failure rate, these companies often drive the success of a venture capital fund.

Many venture capital firms also invest in companies that grow more predictably, serving focused or well-defined markets with an emphasis on capital efficiency and strong unit economics. While growth is slower, it is often more reliable and products are often intended to complement existing platforms or incumbents. These companies have a lower risk profile compared to hyper growth companies, and many venture capital firms will invest in both types of company. Both require strong teams, defensible technology, and clear customer value, differing in risk tolerance and growth expectations rather than quality or ambition.

Some companies may start out as hyper scalers, but if their growth slows, it may be appropriate for their further financing needs to be met by growth equity investors or debt providers, rather than mainstream venture capital firms. Many of the high-profile companies that achieved unicorn status in the UK were backed by EIS and VCT firms, but the majority of high growth companies are on a slower growth trajectory that still generates returns for investors and growth in the UK economy. Ensuring there is the right mix of investors in the market is key, to ensure all companies on a high growth trajectory can access the appropriate finance.

The tax system is key

SEIS, EIS and VCTs are vital to the early-stage and growth investment ecosystem, playing a critical role in securing funding for smaller, entrepreneurial companies. SEIS facilitates very early-stage investments, EIS supports businesses to advance in maturity and VCTs provide further growth and scale up capital. VCT and EIS have different risk profiles and are not interchangeable, so reducing VCT incentives is likely to shrink the pool of venture capital rather than shift investment into EIS. If capital becomes constrained, managers face making difficult trade-offs between supporting existing investments, and backing new entrants to the market.

We agree with the Call for Evidence that the tax system should encourage reinvestment and mobilise more capital across the ecosystem to the innovators powering economic growth. The 2025 Budget increases to the EIS/VCT annual and lifetime investment limits were a welcome and important step. We have set out below ways in which the schemes can be further improved, together with a proposal for a new Scale-up Reinvestment Relief to incentivise founders and entrepreneurs who support the "flywheel" effect by reinvesting their capital and expertise into the UK's startup and scale-up ecosystem.

The tax system can, and should, also support entrepreneurs in other ways. The EMI scheme is highly effective in giving employees a meaningful stake in growing businesses. The Budget 2025

measures have broadened its reach, but further easing of unnecessary restrictions would enable companies to unlock its full potential. Likewise, R&D tax relief is essential to many startup businesses, but there are a number of potential improvements that could strengthen the growth-building potential of the current scheme. We have provided our recommendations on EMI and R&D below.

If you have any questions or would like to discuss any of the above in more detail, please do not hesitate to contact Rachel Gauke rgauke@ukprivatecapital.co.uk and Chris Elphick celphick@ukprivatecapital.co.uk.

Yours sincerely,

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Directors of Policy, UK Private Capital

28 February 2026

UK Private Capital responses

We have set out below our responses to the questions in the Call for Evidence (beginning at question 7, after the "about you" questions).

7. Which types of investors are incentivised by each scheme (EIS and VCT)? What pools of capital do these schemes attract?

EIS and VCT incentivise distinct but complementary pools of private capital, both of which are essential to the UK's growth ecosystem and are not readily mobilised through other channels.

EIS primarily attracts higher-net-worth individuals with the capacity and appetite to invest directly into early-stage companies. While individual EIS investments are often made on a deal-by-deal basis, in practice EIS investors rarely invest in only one company. Most build diversified portfolios over time, reinvesting repeatedly as familiarity with the scheme increases. These investors are willing to take highly concentrated, illiquid and binary risk, frequently at the seed and early venture stage. EIS funds also play a very important role in the market as they pool investment from high-net-worth individuals and retail investors seeking to invest in early-stage companies via a diversified portfolio.

In many cases, EIS investors bring local knowledge, sector expertise and hands-on engagement, particularly outside London and the South-East. This form of capital is critical at company formation and during early product and technology development, when commercial risk is highest and alternative sources of finance are limited. This recurrent reinvestment behaviour is an important feature of how EIS operates in practice, with experienced EIS investors often following on across multiple rounds as companies develop.

In contrast, the reduction in the initial income tax for VCTs from 30% to 20% represents a material weakening of the VCT incentive and risks undermining the effectiveness of the scheme

at a critical time for UK growth capital. The 30% rate has historically been central to sustaining investor participation in VCTs, reflecting the long-term, illiquid and higher-risk nature of the underlying investments. Evidence from previous fundraising cycles and market behaviour indicates that VCT demand is highly sensitive to changes in upfront tax relief. A reduction of 20% is therefore likely to lead to a significant contraction in VCT fundraising, rather than a marginal adjustment in investor behaviour.

VCTs attract a broader base of UK retail investors who would not otherwise allocate capital directly to high-risk growth companies. Evidence from investor surveys and member data indicates that VCT investors are typically higher-rate taxpayers, often in the later stages of their working lives or in retirement, who seek diversification, professional management and a degree of income stability. The diversified and managed structure of VCTs makes venture exposure accessible to this cohort in a way that is distinct from EIS.

Investor behaviour evidence strongly indicates that EIS and VCT are not substitutable. The majority of VCT investors do not invest in EIS, citing differences in risk tolerance, complexity and liquidity. As a result, any weakening of VCT incentives is likely to result in a net loss of capital from the venture ecosystem rather than a reallocation into EIS. This substitution risk is material in policy terms because it implies that reducing VCT attractiveness is likely to shrink the overall pool of venture capital available, rather than shifting it within the tax-advantaged ecosystem.

Case study: EIS and VCT are not substitutable from an investor behaviour perspective

Investor survey evidence from a UK venture manager shows that only around 24% of VCT investors also invest in EIS. The remaining majority cite risk tolerance, complexity and liquidity constraints as reasons for not participating in EIS. Correspondence from VCT investors indicates that where incentives are reduced, capital is more likely to be reallocated to lower-risk assets such as ISAs, pensions or public markets, rather than redirected into EIS. This evidence indicates that reductions in VCT incentives are likely to reduce aggregate venture capital available to UK growth companies, rather than redirect capital within existing tax-advantaged schemes.

Both schemes are therefore necessary to attract different forms of risk capital at different stages of company growth. Taken together, they broaden participation in the UK growth economy and materially increase the overall supply of risk-capital available to innovative businesses. Over time, this also creates a "flywheel" effect within the UK ecosystem: founders who achieve exits often become angel investors; experienced angels go on to establish or back fund managers; and both capital and expertise are recycled into the next generation of UK companies.

EIS and VCT are also distinctive in that they consistently mobilise UK private investors to back UK growth companies at early stages. At later stages, the UK has historically relied more heavily on international institutional capital, which has been a strength of the UK ecosystem as it has

supported the scaling of globally competitive businesses. Current Government initiatives, including the Mansion House reforms, aim to increase the depth of domestic institutional capital investment and participation in growth assets over time. In this context, EIS and VCT should be seen as complementary and foundational, anchoring early-stage domestic participation while supporting the development of later stage investment pathways.

8. What has been the experience of founders in working with EIS investors and EIS funds? In what ways have the scheme supported businesses to scale?

Founder experience with EIS and VCT is overwhelmingly characterised by the schemes' role as enablers of company creation and early growth. Many founders report that without EIS or VCT support, their businesses would not have been established at all. This is particularly true in innovation-led sectors where technical and commercial risk remains high for a sustained period and conventional finance is less accessible.

EIS capital is particularly important in the earliest stages of a company's lifecycle. It commonly supports research and development, product development and initial market entry, often alongside founder capital, friends and family funding, university spin-outs or incubator programmes. EIS investors and funds frequently provide strategic input, governance support and early credibility, helping companies become investable for future rounds. These early rounds often fund the "de-risking" work required to demonstrate product feasibility, regulatory readiness, or initial commercial traction.

Case study: Endomag - The critical role of EIS and VCT investment

Endomag is a UK medical technology company developing the Sentimag system for use in breast cancer surgery. The technology has been adopted globally and, at the point of exit, had been used in more than 500,000 patient procedures worldwide.

The company followed a long and capital-intensive development path typical of life sciences businesses, requiring sustained investment to progress from clinical validation to international commercial scale. Despite strong technical and clinical foundations, Endomag remained high-risk for an extended period, with limited access to alternative sources of finance.

EIS and VCT investment played a critical role in supporting the company through this scaling phase. Approximately £10 million of UK risk capital was invested across multiple rounds, providing both funding and strategic support at a stage when commercial risk remained high.

In 2024, Endomag was acquired by global medical technology company Hologic for $310 million. The case illustrates how EIS and VCT enable founders to build globally competitive companies over long development cycles and successfully bridge the gap to international strategic investment.

VCT investment plays a critical role at the early stage as well as the subsequent scale-up phase, where capital requirements increase and funding needs become more structured. VCTs often provide larger, committed rounds of capital and are able to support companies through multiple follow-on investments. This stability allows management teams to focus on execution rather than continuous fundraising. This role is particularly important where longer sales cycles, regulatory complexity or capital intensity mean companies require a sustained runway to reach commercial maturity.

Where founders report challenges, these are rarely related to dissatisfaction with investors or fund behaviour. Instead, the most common issue is ineligibility or the loss of eligibility as companies grow. The recent Budget increases to annual and lifetime investment limits are a welcome and important step, and will materially improve the ability of EIS and VCT investors to support companies as their funding requirements increase.

However, these changes do not address a number of structural eligibility constraints that continue to create cliff edges for growing companies. Company age limits, transaction rules and other technical constraints can prevent companies from raising further EIS or VCT capital even where they remain high-risk, capital intensive and within the schemes' underlying policy intent. As a result, companies may continue to fall out of eligibility despite remaining firmly within the schemes' underlying policy intent, and notwithstanding the increased investment caps. We

therefore urge the Government to reform these key technical criteria to ensure the schemes properly support growing companies and operate as intended.

Market views also highlight that these cliff edges can arise unexpectedly, including as a result of technical rule interactions following corporate actions, restructurings or minority shareholdings that fall outside the core objectives of the schemes. In practice, this can disrupt growth plans, increase management distraction and, in some cases, accelerate the need to seek overseas capital earlier than would otherwise be necessary.

Case study: CS Genetics - Eligibility limits and value migration

CS Genetics is a high-potential genomics company founded in Cambridge that needed to raise £30 million to fund growth. Despite strong technical validation and early UK backing, it was no longer VCT qualifying when it sought this growth capital because of existing eligibility thresholds.

This was not a failure of the underlying science or market opportunity. CS Genetics remained loss-making and highly R&D-intensive, exactly the type of business that depends on continued follow-on support from early backers. However, the eligibility rules prevented UK investors from participating once the company had matured beyond the prescribed limits.

As a result, the company restructured into a US entity to access the capital it required. It is now majority-owned by overseas investors, and much of the value creation, jobs and tax receipts that originated in the UK will accrue abroad.

CS Genetics demonstrates how rigid eligibility limits – including age horizons and lifetime caps – can cut promising UK companies off at a critical stage, forcing them overseas just as they are positioned to scale.

These constraints disproportionately affect companies with longer development cycles, including deeptech and life sciences, as well as founders outside London and the South-East and those which operated informally prior to incorporation.

Overall, and despite these limitations, founder experience demonstrates that the schemes are effective and well-targeted. While the direction of travel in the recent Budget is welcome, particularly the increases to investment limits, it will be important to ensure that the overall policy framework continues to support sufficient levels of risk capital deployment. Addressing remaining eligibility and structural frictions would help ensure that the schemes operate as effectively as possible and continue to play a central role in supporting the UK's innovation and growth landscape.

9. Does the design of the VCT scheme, and investment decisions of VCTs using it, align with the original objectives of the scheme to support investment in the most high-risk, high-growth scaling companies?

Yes. In its current form, the VCT scheme is clearly aligned with its original objective of supporting high-risk, high-growth companies.

Today's VCTs invest in the same underlying universe of venture-backed growth companies as EIS, including technology, life sciences, deeptech, climate and other innovation-led sectors. Individual investments remain highly risky, with a wide dispersion of outcomes and a significant probability of loss. Portfolio diversification does not reduce the inherent risk of the companies being backed, but instead allows that risk to be accessed by a broader range of investors. This is consistent with the purpose of VCTs in mobilising retail capital into growth companies that would otherwise struggle to access patient risk capital.

There have been periods in the past where alignment with original objectives weakened. However, successive reforms have addressed these issues, and current market practice is firmly focused on venture-style growth investing.

Capital allocation and deployment dynamics

While current investment behaviour is aligned with the scheme's objectives, it is important to understand how VCT managers allocate capital in practice and how changes to investor inflows influence those decisions.

VCTs operate within structural constraints that materially shape deployment. In particular:

- A proportion of assets must be retained to meet liquidity expectations, including share buybacks and dividend commitments.
- Managers have existing portfolio companies requiring follow-on capital to protect prior investments and support scaling.
- New investments are funded from residual available capital after these obligations are met.

In periods of reduced inflows, managers must therefore make allocation trade-offs between:

- Providing follow-on capital to high-performing companies
- Supporting the broader existing portfolio, and
- Deploying capital into new opportunities.

Liquidity commitments and follow-on obligations are typically prioritised. As a result, new investment activity becomes the most sensitive margin of adjustment when inflows decline.

This dynamic is particularly relevant in the context of the recent increase in annual and lifetime company investment limits alongside the reduction in VCT income tax relief. While higher company limits provide greater flexibility to support scale-ups, reduced investor inflows constrain available aggregate capital. In practice, this may result in capital concentration within existing portfolios rather than broader expansion of support for new high-risk companies.

The principal structural area where alignment is undermined is not investment behaviour, but eligibility rules. In particular, age limits – which remained unchanged after the 2025 Budget – meaning that a growing number of companies which are clearly high-risk and scaling are excluded from VCT support despite fitting the scheme's original policy intent. Addressing these constraints would strengthen alignment with the scheme's original objectives. In practice, the effect is that eligibility can be determined by timing and corporate history rather than the company's risk profile, capital intensity or growth characteristics. This is not consistent with the underlying intent of the policy.

10. What are founders' experiences with the fees charged by VCTs/EIS funds to investor companies? What are founders' experiences of the investment terms offered by VCTs/EIS funds to investee companies?

Founder experiences with fees and investment terms vary across the market. UK Private Capital members report a range of approaches, but most do not charge fees directly to investee companies. In most cases, the manager's operating costs are covered through fund-level management fees, and portfolio companies bear only the standard third-party transaction expenses (such as legal or tax advice) associated with completing the investment.

Founders' views on fees and investment terms also vary across the market. Some founders value the strategic support and operational engagement that typically accompany the investment, whilst others are more sensitive to the additional charges associated with funding rounds. A range of factors often influence this – including the stage of the company, the competitiveness of the fundraising environment, sector dynamics and the extent of ongoing involvement provided by the investor.

This sits within the broader context of how EIS and VCT investment operates in practice. EIS and VCT investors operate at the early stage of investment, and typically undertake intensive due diligence and provide ongoing strategic, governance and operational support, often including board participation. This level of engagement reflects the high-risk, high-involvement nature of early-stage and scale-up investing.

Where fees are charged to investee companies, they are generally structured around defined services or support arrangements. Market practice suggests that such fees are typically time-limited and linked to specific forms of additional involvement, such as access to talent networks, operational expertise, data capabilities or internationalisation support, particularly in more complex or later-stage transactions.

In these instances, transparency and clarity are critical. Where fees or specific investment terms apply, they are typically disclosed and discussed with founders at the point of investment. Market practice has also evolved over time, with some managers reducing or discontinuing certain fee arrangements in response to founder expectations and competitive dynamics.

Overall, there is a range of practice across the market. Ensuring that founders clearly understand the terms associated with any investment – including the purpose, duration and

scope of any charges – is central to maintaining confidence and effective partnership between investors and companies.

11. For start-ups and scale-ups, how does early stage VCT and EIS investment impact the ability to secure funding from other sources? How do the new scheme limits support that transition?

EIS and VCT form a central component of the UK's early-stage venture capital ecosystem and, in most cases, support a company's ability to raise follow-on capital as it scales. Market experience from our members indicates that early EIS and VCT backing is well viewed by later-stage investors as a positive signal, reflecting robust initial due diligence, improved governance and increased strategic maturity.

Many later-stage venture and growth equity funds actively track portfolios of established EIS and VCT managers and regularly co-invest alongside them. This is particularly relevant in the UK context, where EIS and VCT help develop companies to a stage where they are suitable for larger pools of domestic and international institutional capital.

Case study: Quantexa – EIS/VCT as a stepping stone to institutional capital

Quantexa is a UK-founded data analytics and decision intelligence company applying advanced AI and machine learning to help financial institutions and governments detect financial crime and manage risk.

Quantexa received EIS and VCT backing at an early stage, providing growth capital alongside strategic and governance support as the company developed its platform and expanded internationally. This early support helped the business professionalise its operations, strengthen governance and build commercial credibility with enterprise and public-sector customers.

Following this period of EIS and VCT backing, Quantexa successfully attracted substantial later-stage investment from global institutional investors and achieved unicorn status. The company has since scaled into a global leader in decision intelligence, with major customers across financial services, government and technology markets.

Quantexa's trajectory demonstrates that EIS and VCT investment can act as a stepping stone to large-scale institutional capital, supporting companies through their highest-risk phases and enabling them to graduate to global scale without constraining future funding options.

This dynamic is especially important for knowledge intensive companies, which are typically more capital intensive and require longer periods of sustained investment before reaching commercial maturity. Similar challenges can also arise for a broader group of regional growth businesses, including advanced manufacturing and industrial technology companies, where scaling timelines are longer and capital requirements remain significant.

VCTs typically reserve capital for follow-on rounds, providing companies with funding continuity as they scale, and EIS fund managers also follow on into existing portfolio companies via later fund vintages. This is especially valuable in more challenging market conditions, where the availability of new capital may be constrained and continuity of support becomes critical to execution and growth.

The recent increases in annual and lifetime investment limits improve this dynamic by enabling EIS and VCT investors to support companies for longer as their capital requirements grow. In sectors such as life sciences and deeptech, the increased limits allow companies to progress further towards proof of concept, revenue generation or clinical and technical validation, thereby improving their ability to attract later-stage venture capital and growth equity investment. This reduces funding gaps, supports smoother transitions to larger institutional rounds and helps retain high-growth companies within the UK ecosystem for longer.

12. How could these schemes be enhanced in future to better support founders, scaling companies, and the broader investment pipeline for the UK's high-growth companies?

The welcome Budget increases to annual and lifetime investment limits represent a positive step and will materially improve the ability of EIS and VCT investors to support companies as their funding requirements grow. However, these changes do not address a number of structural eligibility constraints that continue to create cliff edges for growing companies. As a result, businesses may still fall out of eligibility despite remaining high-risk, capital-hungry and firmly within the original policy intent of the schemes.

While access to follow-on funding is influenced by a range of commercial factors, including market conditions, valuation expectations and sector-specific risk, eligibility constraints remain among the few barriers directly shaped by policy design. Addressing these remaining frictions would therefore further enhance the effectiveness of the schemes in supporting companies through successive growth stages.

Reform the company age limits

The most impactful enhancement would be reform of company age limits. The current rules require a company to receive its first relevant risk finance investment with seven years of its first commercial sale (extended to ten years for Knowledge-Intensive Companies), after which access to EIS and VCT capital becomes restricted.

Current age thresholds exclude many high-growth, high-risk businesses that remain capital-intensive and far from commercial maturity. This is particularly acute for deeptech and life sciences companies, but also affects a broader set of growth businesses with longer development and scaling timelines. The impact is felt disproportionately by regional businesses,

founders who operated informally prior to incorporation, and underrepresented groups who often take longer to reach key commercial milestones.

Case study: Dwelly – Age limits and acquisition-led innovation

Dwelly is a UK company scaling legacy businesses through a proprietary technology platform. Its growth model relies on acquiring established firms and modernising them through digital integration, operational turnaround and expansion.

Despite strong investor demand and clear growth potential, Dwelly was deemed ineligible for EIS and VCT because the acquired operations exceeded the age limit, excluding the company purely on the basis of its consolidation-led innovation model. The business subsequently raised capital from a major US venture fund, enabling growth but shifting long-term value creation and ownership overseas.

Dwelly illustrates how rigid application of age limits can exclude innovative UK companies pursuing recognised routes to scale, pushing them towards overseas capital despite clear alignment with the schemes' objectives.

Reform in this area could take several forms, including extending existing thresholds, adjusting the point from which company age is measured, or placing greater emphasis on commercial maturity rather than time since the first commercial sale. Importantly, such reform would expand the pool of eligible companies without altering the underlying risk profile of the schemes. Given that overall investment volumes remain constrained by annual and lifetime limits, widening eligibility would not automatically increase fiscal cost.

There is also a clear administrative case for reform. Market feedback highlights the significant time and cost currently incurred by both founders and HMRC in establishing company age, often involving detailed historical analysis with limited policy value. Simplifying this aspect of the rules would reduce friction, improve certainty and lower administrative burden for all parties.

Maintain policy stability

Market participants consistently emphasise that long-term stability is critical to the effectiveness of venture capital tax reliefs. These schemes operate across multi-year investment cycles, and fundraising decisions are highly sensitive to perceived policy risk.

Frequent or unexpected changes to relief rates or structural design can materially affect investor participation and capital mobilisation. Maintaining predictable parameters – particularly in relation to relief levels and eligibility design – will therefore be essential to ensuring that recent reforms achieve their intended impact and that investor confidence is sustained over time.

Address technical issues

In addition, a number of technical rules continue to prevent further investment even where companies remain within size limits and aligned with policy objectives. These include restrictions on mergers between EIS companies, small share buybacks triggering loss of relief, and limitations arising where investors hold non-EIS shares due to inheritance or employee leaver situations. These cliff edges can arise unexpectedly following corporate actions or restructurings, often discouraging otherwise appropriate follow-on funding. Many of these rules were designed for a simpler ownership and financing environment and would benefit from modernisation, to reflect how venture-backed companies now grow and evolve.

Upfront income tax relief for Knowledge Intensive EIS funds

EIS fund investors receive income tax relief once each individual investment is deployed, which can take 12-18 months after the investor commits capital. This timing mismatch puts EIS funds at a significant disadvantage when competing for adviser-intermediated capital.

One practical improvement would be to allow EIS5 certificates to be issued on fund close for Knowledge Intensive EIS funds, rather than requiring deal-by-deal deployment before investors can claim relief. This would markedly shorten the time investors can claim tax relief and provides more certainty.

Manager-level HMRC approval for established EIS funds

Rather than relying on deal-by-deal advance assurance, another option or change would be to allow established managers to be given approval as a fund. Manager-level approval wouldn't remove HMRC's ability to audit the fund but removes the bottleneck of deal-by-deal advance assurance for established managers with a demonstrable track record of qualifying investments. If the manager did not pass subsequent EIS tests, they would still be liable to lose the tax reliefs, so it is incumbent on the manager to maintain their EIS status. Established managers who have consistently met the "risk to capital" test across multiple funds and vintages should be able to demonstrate suitability at the manager level rather than repeating the process for each deal.

Modernise rules on investment instruments and share structures

Certain technical rules relating to investment instruments and share structures are increasingly misaligned with current venture financing practice.

In particular:

- Differences between EIS and VCT treatment of anti-dilution rights
- Restrictions on the use of convertible loan notes and Advance Subscription Agreements (ASAs)
- The requirement that a minimum proportion of each funding round be in ordinary equity.

These rules can limit participation in syndicated rounds, particularly where international investors use standardised instruments such as SAFEs or convertible notes. Updating these provisions to reflect modern venture practice would reduce disadvantages for UK investors in an international fundraising environment and ensure that tax-advantaged capital is not unintentionally excluded from otherwise suitable growth investments.

Improve HMRC administration and advance assurance

Improvements to HMRC administration would also materially enhance scheme effectiveness. Introducing clearer service standards, statutory turnaround times for advance assurance, greater consistency of guidance, and more timely issuing of EIS certificates would reduce uncertainty and speed up fundraising. Delays and retrospective reinterpretations can disrupt funding rounds, distract founders/management teams and, in some cases, cause companies to miss critical investment windows. Addressing these issues would improve scheme delivery without increasing fiscal cost.

Case study: Advance assurance delays – HMRC processes

In a recent case, a company submitted an EIS advance assurance application in December but did not receive approval until June, following multiple rounds of delayed queries. During this period, the company was unable to close its funding round, delaying hiring, product development and market expansion and leaving it close to insolvency.

Members report that similar delays have, in other cases, contributed to companies entering administration, resulting in the permanent loss of jobs, intellectual property and future tax receipts. These outcomes arise from process delays rather than policy intent, and could be mitigated through clearer service standards and predictable timelines.

Extend the reinvestment window

There is also a strong case for extending the VCT reinvestment window beyond the current 12-month period. The existing timeframe does not reflect the lumpy nature of exits or the long lead times required to identify and complete new investments. Extending the window would improve capital recycling, reduce the need for special dividends, and help keep already-relieved capital productively deployed within the UK growth economy. This could also reduce overall Exchequer cost by limiting the need for replacement fundraising that attracts new upfront relief.

Review AIM to ensure it serves SMEs

The Alternative Investment Market ("AIM") is an important part of the funding ecosystem for SMEs across the UK as a whole. However, changes to the tax treatment surrounding AIM are, in part, contributing to a decline in this part of the stock market in recent years, further reducing the capital available to SMEs on the platform.

To help support this part of the market, VCTs could be allowed to buy shares on the secondary markets in AIM, as they are currently restricted to new issues at IPO or placings, and not able to acquire secondary shares on the market. A wider review of AIM should also be undertaken to

ensure it serves the market and provides an effective alternative source of finance for innovative SMEs.

Monitor impact of income tax relief changes

Finally, UK Private Capital notes the importance of monitoring the behavioural impact of recent changes to VCT income tax relief. Market evidence indicates that relief levels can materially influence investor participation and fundraising volumes. Ensuring that the schemes continue to mobilise sufficient scale-up capital will be important for maintaining momentum in the UK's innovation pipeline.

Taken together, these enhancements would strengthen EIS and VCT as effective, predictable and fiscally responsible tools. By reducing unnecessary frictions, improving delivery and modernising eligibility rules, the schemes can better support the UK's innovation ecosystem, retain capital and expertise domestically, and maximise the impact of recent reforms on long-term growth.

13. Considering the new scheme limits, how effective is the current EMI scheme for founders/scaling companies in accessing the talent they need to grow and develop?

The EMI scheme has been extremely effective in giving the employees of new businesses a material stake in their companies, and so catalysing growth. The scheme ranks among the best in Europe, behind only the Baltic states on independent benchmarks.[2]

The increased limits for qualifying companies, announced in the 2025 Budget, have been very well received as they allow a larger pool of companies to benefit from the scheme. There is, however, scope to remove unnecessary restrictions imposed by the current rules, so that the full benefit of the scheme can be realised.

Broaden the scope of permitted activities

We would urge the Government to review the list of excluded activities in paragraphs 16 to 23 of ITEPA schedule 5, to consider whether there remains a good policy justification for each exclusion. There are innovative companies in many of these sectors that have great potential to drive growth and create employment, in areas as diverse as fintech, professional services and hospitality, whose employees are currently unable to benefit from the incentivising power of EMI.

A related area of uncertainty arises where a company holds large cash reserves that have not yet been deployed in the business. The rules require the company not to be carrying on an investment activity, and it is not clear at what point a large holding of cash would cause this test to be failed. Clearer guidance on this point would be helpful.

Abolish or increase the individual EMI limit

[2] For a country-by-country comparison of stock option schemes across Europe, see: Rewarding Talent | Country by country review | Index Ventures.

We would recommend that the Government reconsider the individual limit of £250,000 on the market value of shares under EMI options held by each employee. This limit has not been revised since 2012 and is unduly restrictive, particularly when considered in light of the increases announced at the Budget to the other limits applying to the scheme. We would suggest that, at a minimum, the limit should be doubled, in line with the other Budget increases. There are also complications arising from the requirement to obtain a market valuation at the date of grant of the option, and the fact that different classes of shares are valued differently for this purpose.

Relatedly, the restriction whereby an individual can only be granted the maximum amount of EMI options once every three years is complex to operate in practice, for instance in the context of option surrenders and re-grants. We would suggest that this rule is removed or simplified.

Case study: the effect of the individual EMI limit

The founder of a tech business was diluted significantly during a "down-round", together with the holders of other ordinary shares. The business was in difficulty, and it needed the cash to continue as a going concern. The founder and investors knew the founder's equity position would be insufficient to incentivise him longer term, so they agreed to "top him up" with additional ordinary shares.

Once the funding was secured and the business stabilised, attention turned to the top-up. The founder was under the 30% material interest test but, using the round price as a starting point for the valuation of the ordinary shares, the top-up would have exceeded the £250,000 EMI individual limit. Various alternatives were considered but ultimately a non-tax favoured option had to be granted instead. In this situation the EMI scheme has failed to operate as intended, because the business (and by extension the UK economy) has not benefited from the founder being incentivised through EMI options to drive the business forward.

Separate EMI and CSOP limits

We also recommend that the Government look again at how the EMI rules interact with CSOP. We can see no policy reason for EMI options to lose their qualifying status if an individual's combined holding of EMI and CSOP options exceeds £250,000. We are aware of instances where individuals have unintentionally exceeded the EMI limit as a result of a later receipt of CSOP options. In our view, these limits should be assessed and calculated separately, particularly when many companies look to implement CSOP once they no longer qualify for EMI.

Case study: the interaction of EMI and CSOP limits

A small number of employees of a biotech company exceeded the EMI limit as a result of the company granting an additional number of "top up" CSOP options. The EMI options were then treated as unapproved options resulting in additional administrative complexity for the

company (including submission of multiple annual returns for Employment Related Securities, managing any tax due on the exercise of unapproved options, and ensuring that impacted employees and participants were aware of the implications). This was a genuine error, but in this scenario, it is usually the employee who is ultimately penalised by having to fund any dry tax charge that may arise on exercise of the unapproved options.

Widen the pool of potential participants

At present, EMI options can only be made available to employees, but other countries (such as the US) allow all workers in a company, whether employees or not, to be included in the same incentive arrangements. A company's human resources often include workers who are not employees, such as partners and non-executive directors. We would recommend changing the EMI rules, and company law, so that EMI options can be made available to all the talented individuals on whom the success of a business depends.

Amend the rules on leavers

We would highlight the requirement for leavers to exercise options within 90 days of their departure, if they are to keep the valuable EMI tax benefits. These individuals would then need to fund the exercise price at a time when there may not be a market for their shares. In our view it would be consistent with the policy rationale for "good" leavers (such as those who leave due to death, injury, disability or redundancy) to be allowed to retain EMI options beyond 90 days, without losing the associated tax benefits.

We also note that this requirement for good leavers to exercise within a certain time limit after leaving to obtain beneficial tax treatment does not apply to CSOP options (good leavers can be permitted under a CSOP to exercise in tax favoured circumstances within six months of leaving, even within three years of grant). There does not seem to be a policy reason for this difference.

Review the use of Board discretion

We encourage the Government to review the relatively strict approach that HMRC takes towards the use of discretion by the Board in relation to EMI schemes, particularly around the variance of performance-related vesting conditions and allowing the Board to decide that certain events (such as a secondary fundraising) should be treated as an exit. We would ask that this stance is reviewed and that HMRC considers whether the use of Board discretion is ultimately for commercial reasons rather than driven by tax avoidance, as over the course of an EMI scheme it is natural for companies to shift their commercial goals.

Revisit the Finance Bill changes to the time limit for exercise of EMI options

We note that changes in the current Finance Bill will allow existing EMI options to have their term extended from 10 years to 15 years without this being treated as a release and regrant (with associated loss of EMI status). However, the legislation only permits this extension for a "fixed-date qualifying option", which is defined as "a qualifying option granted before 6 April 2026 that is capable of being exercised on a single date set by reference to its date of grant". Similarly, the provisions apply only when the extension "results in an option that is capable of being

exercised on a single date falling on or before the fifteenth anniversary of the grant of the option".

The wording of this provision has caused considerable confusion. The reference to a "single date" could be interpreted to exclude the many EMI options that are not currently drafted so that they can only be exercised on a single date. Instead, EMI options are often exercisable on multiple occasions, such as on a PISCES event, a sale event, a good leaver event, or when fully vested. There is also a risk that EMI options that are exercisable before a certain date, or on or after a certain date, would be excluded. We would question whether the Government intended the scope of this new provision to be so restrictive.

Case study: EMI option not exercisable on a fixed date

A biotech company implemented an EMI scheme 10 years ago. The EMI plan rules provided that on the tenth anniversary, unless there had been a "realisation event" (such as a sale or listing), the options would lapse unless employees resigned, exercised their options within 90 days and then rejoined the company. For a number of commercial reasons, the company has not had a realisation event, and the options are expected to lapse. In 2024, the company wrote to HMRC to ask for advanced assurance that revising the EMI plan so that the options could be exercised on the tenth anniversary and mitigate employees resigning purely to exercise their options, would not constitute the cancellation and regrant of an option. HMRC denied this request and currently, it is expected that the options will lapse later this year.

The Finance Bill provisions applying to "fixed-date qualifying options" appear not to apply to an EMI option which, like this one, is only exercisable on an exit event. There appears to be no policy reason why this should be treated differently from an option that was originally drafted so that it could be exercised on an anniversary of its grant.

14. How could it/the wider share scheme offer be improved to better support founders/scaling companies?

UK Private Capital has long called on the Government to reconsider the independence requirement within the EMI scheme. This makes EMI options unavailable to many SMEs that are backed by a private capital fund, if that fund has taken a majority stake in that business. The effect of the rule is that when a partnership fund controls the company that would issue the EMI options, and there is a corporate partner in that partnership (whether a limited or general partner), the independence requirement is not met. The rules also include a condition that there must be no arrangements for independence to be lost, which would be failed where (as is frequently seen with private equity investors, though not with venture capital investors) the relevant shareholders' agreement gives the corporate shareholder additional rights in some limited circumstances.

Typically, private equity funds take a majority stake in the businesses in which they invest, while venture capital funds do not. However, businesses that receive private equity backing remain operationally independent from other businesses that are backed by the same private equity firm. Small and medium sized private equity-backed businesses are therefore genuine SMEs, and there is no policy reason to exclude them from the EMI scheme. From the perspective of the employees of a high-risk business, it seems arbitrary that they cannot benefit from EMI options if their employer has received private equity backing through a partnership, but not if the employer has received funding through a different route.

We note the focus in the Call for Evidence on the need to address the scale-up gap. Companies may seek private equity investment at a later stage in their growth journey compared with venture capital, and the increased EMI company size limits mean that the scheme is potentially available to these larger later-stage businesses. In the context of EMI options, removing this systemic disadvantage for companies backed by private equity would be one way to assist companies looking to scale up.

We could discuss with you how best to address this issue from a technical perspective. One approach could be to disregard, for the purposes of the independence test, shares that are held through a collective investment scheme. Collective investment schemes are often regulated entities, and so the risk of abuse would be low.

Case study: the effect of the independence requirement

A biotech company relies on private capital investment to fund clinical research and reach clinical milestones. Its ownership profile means that it does not meet the independence requirement for the purposes of the EMI rules, so it is unable to grant EMI options. The company instead has to incentivise its employees through growth shares, which have an upfront acquisition cost and require detailed third-party valuations to mitigate the risk of being granted at an undervalue.

It is expected that the company will meet the independence requirement in future, when it has been through several funding rounds, as these will dilute the private capital investment until it no longer represents a majority stake. By this time, however, the company will already have achieved some of its more complex clinical milestones, and may well exceed the EMI size limits. To achieve the scheme's policy objectives, EMI options should have been available to this company in its early start-up phase, to incentive employees to take the risk of joining a company with a high risk of failure.

15. In what additional ways could the UK's tax system strengthen the investment pipeline, and further encourage an entrepreneurial, risk-taking environment in the UK?

We would emphasise, in this context, the critical importance to businesses of a stable and predictable tax policy environment. The Corporate Tax Roadmap published with the October 2024 Budget gave larger businesses important reassurances concerning key features of the

UK's corporate tax framework. We would recommend that the Government consider providing similar long-term commitments to investors and entrepreneurs, including undertaking not to introduce an exit tax, or measures with retroactive effect. Policies that are announced, or briefed about, and then withdrawn contribute to a lack of confidence in the stability and certainty of the UK tax system, and we would urge the Government to take seriously the need to avoid this situation arising.

In a similar vein, we are firmly of the view that meaningful and early consultation, with as wide a group of stakeholders as possible, is key to both good policy and good laws. Some recent legal developments affecting private capital, particularly the new qualifying asset holding company regime, have been exemplary in terms of the collaborative approach of Government officials towards industry. We would encourage the Government to consult industry stakeholders as early as possible on all tax measures that will affect entrepreneurs and investors, and to be open to changing its approach throughout the consultation process, particularly following the publication of draft legislation.

16. How can tax policy better support founders, avoiding abrupt transitions or cliff edges, which risk unintended consequences and hindering growth?

R&D tax credits are essential to many founders who establish start-up businesses, but our members' experience is that the practical difficulties associated with the regime significantly reduce the effect of this relief in encouraging innovation. The current system of advance assurances for R&D relief is too narrow. We welcome the news that HMRC will pilot a new advance assurance service this spring, and would suggest that the scope of any new service is as wide as HMRC resources permit.

It should also be a priority for the Government to look at other ways in which the processing of R&D claims could be made more efficient. In our May 2025 response to the consultation on R&D advance clearances, we expressed our support for the reintroduction of a minimum expenditure threshold for claiming R&D relief.

This is because we understand that the majority of fraud and errors occur in very small claims, requiring a disproportionate use of HMRC's compliance capacity. Businesses with low levels of R&D expenditure are likely to be best supported through grants targeted at small innovative businesses in sectors aligned with the Government's strategic priorities, rather than by making R&D claims which tie up HMRC resources and undermine the efficacy of the entire system of R&D tax relief. This is a change that would save the Government money and enable the relief to be targeted at the genuinely innovative R&D activity for which it was intended.

Other areas the Government could explore to improve the innovation-boosting potential of R&D tax relief include:

- Making the incentive available in real time by providing it in the form of a relief from employers' national insurance contributions for the salaries of skilled employees (using the existing definition of a skilled employee in the VCT rules). This would link the relief more closely to job creation, and could be revenue-neutral if deducted from the total amount of the R&D claim. Inspiration could be drawn from France's "Young Innovative

Company" regime, which provides a total exemption from employer social security contributions for employees involved in R&D work, for the first 8 years of the company's existence. Alternatively, for larger companies the R&D expenditure credit (RDEC) could be offset against quarterly instalment payments of corporation tax.

- Expanding the RDEC to include capital expenditure. This would promote long-term investment in capital-intensive research infrastructure, increasing the likelihood that innovative start-up businesses stay in the UK as they grow, rather than taking their expertise and growth potential overseas once they are ready to scale up.

- Aligning the R&D Claim Notification timeline with other tax deadlines, for example the corporation tax payment date of nine months from the end of the accounting period, as the current six-month deadline is outside the compliance cycle and can easily be missed.

- Allowing groups to submit one R&D Additional Information Form per group, instead of requiring one group per legal entity. Often in a large group, with many R&D claimants, the introduction of the AIF and mandatory technical narratives can mean multiple narratives need to be produced.

- Simplifying the current "contracted out" R&D rules, so that companies can agree which party will claim R&D relief and document this by contract. Under the current guidance, even if the party which is to claim the R&D relief is set out in the relevant contract, this is not sufficient evidence that they are the party entitled to claim.

- Broadening the scope of the Patent Box regime to include US patents (rather than only those granted in the UK and Europe). These are often easier to obtain, particularly for the software/technology sectors, but would still act as a robust gateway to the regime.

- Implementing a scheme modelled on the US "tax equity" scheme, whereby tax credits may be transferred from the business to the investor. This approach could be broadly revenue neutral through attracting institutional investment that would otherwise not come to the UK.

We would be happy to discuss with you in more detail how these proposals could be implemented in practice.

17. What are the main factors that influence whether entrepreneurs reinvest in other start-ups or scale-ups after a successful business exit, and to what extent is tax an appropriate lever for encouraging this?

There are many factors influencing an individual's decision as to how to utilise the returns from a successful business exit. However, the more the UK is seen as a place where entrepreneurs are allowed to keep the returns from hard-won business successes, the more inclined they will

be to stay here, and to reinvest the money in other businesses. This may be as angel investors, or sometimes as emerging fund managers.

As we set out in our response to question 20 below, current UK tax policy treats founder exits as final events, with no tax-advantaged pathway for a successful founder to recycle capital into UK ventures, whether as an angel investor, an LP in a venture fund, or a repeat founder. Hence the case for a new relief, to incentivise precisely these types of behaviour.

18. Is tax an appropriate lever to incentivise reinvestment? If so, how can the UK tax system encourage stronger reinvestment activity, including through removing any existing barriers that might disincentivise this?

Tax needs to be used as a lever to incentivise reinvestment because the UK competes directly with jurisdictions that have powerful structural incentives. In the US, Section 1202 (the Qualified Small Business Stock exclusion, or QSBS) provides up to 100% exemption from federal capital gains tax on qualifying startup exits, with a per-taxpayer cap recently raised to $15 million. This incentive is deeply embedded in US venture culture: founders, investors, and fund managers plan around it. A US founder expects to pay zero federal CGT on a successful venture exit. A UK founder faces 24%. That gap is visible and it influences where ambitious, globally mobile founders choose to build.

The UK does not need to replicate QSBS's design. A Scale-up Reinvestment Relief ("SRR"), with CGT deferral on reinvestment and a reduced rate on eventual disposal, is a more targeted and fiscally disciplined response, and would create a seamless incentive for successful founders to keep their capital and expertise in the UK venture ecosystem.

19. To what extent does BADR influence decision-making when considering the sale of a business, compared to other factors e.g. market conditions, personal circumstances?

In terms of overall economic impact, the significance of BADR has been greatly reduced since the lifetime limit was reduced from £10 million to £1 million, although it is still of value for relatively small business disposals. For entrepreneurs whose stake in a business could qualify for BADR even with the reduced limit, the availability of the relief will be a strong factor influencing the timing of disposal. If BADR were more generous, greater numbers of business owners would be incentivised to sell, allowing capital to be reinvested and facilitating the scaling of technologies by larger businesses.

The BADR rules relating to EMI options are well-regarded, and are often seen as a favourable benefit for those implementing EMI schemes. We would be strongly in favour of retaining this part of the BADR legislation.

20. Do you consider BADR to be well-targeted at supporting entrepreneurial activity, or are there ways that it could be changed, or a better alternative?

In our members' experience, entrepreneurs who are setting up a business are not generally, at that stage, focused on any tax relief they will receive on exit.

We would urge the Government to encourage reinvestment activity by a introducing a new CGT relief in addition to BADR, to apply where proceeds are reinvested in a qualifying business: a Scale-up Reinvestment Relief.

Scale-up Reinvestment Relief - a new incentive to turbo charge the UK flywheel

We agree with the Chancellor that tax policy plays an important role in driving growth[3] and can be used to create a fiscally responsible lever to accelerate the UK's technology "flywheel". There is a clear case for a Scale-up Reinvestment Relief, which better aligns tax incentives with post-exit reinvestment and continued ecosystem participation. This will help improve long-term productivity, deepen domestic capital markets, and strengthen national technological resilience.

The key benefits of the SRR scheme would be to:

- increase the supply of experienced founders and angel investors;
- improve the depth and quality of UK venture capital;
- reduce premature exits driven by tax or capital constraints; and
- strengthen the UK's position in globally competitive sectors.

UK policy has traditionally focussed on tax schemes that provide support to growing businesses (e.g. R&D tax credits, EMI, SEIS/EIS & VCTs) or exit-point taxation (e.g. BADR). These schemes are very important to the UK ecosystem and must be retained and improved, as set out above, so they continue to play a central role in supporting founders and entrepreneurs at all stages of the business lifecycle.

However, what is less systematically supported by the current UK tax framework is the post-exit phase, when founders accumulate capital, possess scarce high-value operational experience, and make location and reinvestment decisions with long-term consequences. International evidence suggests that ecosystem maturity is driven less by the number of startups created, and more by how success is recycled[4].

Highly successful founders are globally mobile, and other jurisdictions are openly courting them to relocate[5]. In the absence of competitive, predictable incentives to remain engaged in the UK, there is a greater risk that capital is increasingly deployed elsewhere, founder expertise benefits other ecosystems, and that the UK loses repeat founders, angel investors, and scale-up leadership. This represents not only a loss of potential tax base, but a loss of commercial knowledge, ambition, and compounding growth capacity.

The SRR should therefore be earned not only through value creation, but through value recycling in the UK economy. While BADR rewards entrepreneurial risk at exit, it treats that exit as a final event rather than a transition and does not distinguish between founders who disengage and those who reinvest. This in turn provides limited incentive to remain economically active in the

[3] "Reeves accepts impact of taxes on growth as she orders Cabinet to tighten belts" – Independent (September 2025)
[4] See Dealroom's "Europe and Israel's founder factories report 2025" (March 2025)
[5] "British interest in relocating to Portugal surges ahead of UK tax changes" – The Portugal News (October 2025)

UK post-liquidity and as a result, it under-captures the broader growth generated by continued founder participation.

Design and qualifying criteria

This new relief needs to fit with existing schemes and focus firmly on rewarding founders and founding teams that reinvest in the UK economy. There are limited ways that exited founders can gain tax reliefs from the proceeds of their exit, through investment via EIS for example, but this is not focused on reinvestment and does not apply to investment in VC funds or in late-stage companies.

We propose an SRR taking the form of a deferral of CGT for a gain that is reinvested into a qualifying business within three years, to be followed by a 10% CGT rate (or perhaps a rate that falls over time, to encourage longer-term reinvestment) on eventual disposal of the reinvested asset.

There should be no upper limit on the amount of proceeds that can qualify for this relief, because the founders who drive disproportionate economic impact are those building companies with the potential for large exits, and who can choose to relocate their capital to jurisdictions with more attractive tax regimes.

For proceeds that are reinvested in a later tax year than the year in which they are received, provisional relief could be provided in the same way as under the current rules for CGT business asset rollover relief. Under this model, if no reinvestment occurs within the three-year period, the tax must be paid, together with interest.

A qualifying business would be one of the following companies or funds:

- UK-headquartered scale-ups
- UK-focused venture and growth equity funds
- R&D-intensive UK companies aligned with strategic priorities (e.g. IS8)

As regards the definition of a scale-up, we would welcome the opportunity to discuss this with you further but would recommend that this is not limited to particular business sectors, as this risks stifling innovation when new economic opportunities arise, as well as requiring Government resource to police the boundaries between sectors. Instead, concerns as to how the relief could be restricted to fit the Government's affordability criteria could be addressed by limiting its availability to founders who receive sizeable exit proceeds (e.g. £5 million or above) and who reinvest a minimum proportion (e.g. 50%) of those proceeds.

The qualifying criteria would need to be carefully considered within existing HMT frameworks to ensure this relief is targeted appropriately. We would suggest, for instance, a three-year minimum holding period for the reinvestment, and that investors should be permitted to be employees or directors of the qualifying business, without this being a requirement. We believe this approach preserves tax revenue where capital may exit the ecosystem, while rewarding domestic reinvestment. In our view, the relatively low level of current CGT receipts means that the revenue that would potentially be lost through the lower CGT rate would be outweighed by the growth promoted by the scheme.

SRR would extend to founders, founding teams, or early executives in UK startups. Upon exit, the relief would encourage them to reinvest in a new company as a repeat founder based in the UK or allow them to commit to a defined post-exit engagement period to build a UK company or VC fund. This acknowledges the importance of the technical expertise of experienced founders operating within the tech ecosystem.

This scheme could also encourage ambition rather than capital preservation by allowing the offsetting of losses from subsequent UK ventures against prior gains and provide preferential treatment for founder capital invested in new UK businesses. It could also be expanded to enhance R&D incentives for repeat founder-led firms.

The design elements of the scheme must be considered carefully to ensure it rewards the right type of investment and is not open to manipulation. The relief should be conditional, time-bound, and activity-linked where benefits accrue only where reinvestment occurs in the UK.

If implemented appropriately, this would support long-term capital formation and support the flywheel of talent and expertise in the UK tech ecosystem. This would in turn encourage the scale-up capability of the UK investment landscape and develop strategic technology development as part of the government's Industrial Strategy. These are consistent with HM Treasury's stated objectives on productivity growth and economic resilience[6]. This scheme should be seen as a reward for high-risk value creation, and continued economic contribution from our best founders and entrepreneurs.

[6] "HM Treasury Policy paper - Budget 2025" (November 2025) – see Secure Future