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Tax Support for Entrepreneurs: Call for Evidence

Response by the Chartered Institute of Taxation

1. Executive Summary

1.1. The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 20,000 members, and extensive volunteer network, in providing our response.

1.2. We suggest that this call for evidence is too limited in scope. The focus on reliefs for investors at start-up and on exit ignores the tax, administrative and regulatory hurdles faced by small businesses who do not need or want outside investors, or indeed those looking for investment to scale up. In other words, this call for evidence should not be restricted to the tax system, but should be expanded to include the plethora of non-tax related administrative and regulatory hurdles, the burden of which is a common theme throughout this report.

1.3. Growth is not necessarily solved by more capital investment, but by removing the barriers to increasing staff count, opening up new markets, accessing practical support and cutting down time and money spent on understanding complex requirements and mandatory filings. For those businesses seeking investment to expand, the complexities of the tax system increase the risk that errors may be made in managing their tax affairs. Such mistakes can erode the value of the business and deter potential investors, thereby reducing opportunities for further investment.

1.4. We recommend gathering evidence on how tax policy supports sole traders, partnerships and smaller owner-managed businesses that have growth ambitions throughout their lifecycle.

1.5. For tax policy to successfully support entrepreneurs, investment and business growth, we believe that it should be guided by a clear joined-up government strategy, informed by international best practice and measured through better use of qualitative and quantitative data.

1.6. We highlight that the existing reliefs contain many complexities and would benefit from simplification:

1.6.1. Businesses issuing EIS/SEIS shares face high administrative burdens in obtaining clearance and approval, and ongoing compliance with the many relief requirements. Investors themselves may lose out on valuable CGT reliefs due to the complex income tax relief rules, particularly for those with fluctuating income levels.

1.6.2. EMI schemes are an attractive option for smaller businesses but can fail to have the intended benefit due to onerous administrative requirements, overly restrictive working time requirements and a lack of flexibility in combining the scheme with private equity investment.

1.6.3. Business asset disposal relief (BADR) is a seemingly straightforward relief for trading businesses but can trip up many genuine entrepreneurs when sales are not structured specifically with the relief in mind, for example in terms of the way proceeds are paid out or the timing of shareholders ending their directorships.

1.7. We believe some reliefs could be modified to remove cliff edges, for example by introducing tapering, grandfathering provisions, a cap uplift mechanism in certain cases or new reliefs that bridge the gap between small and mid-size businesses. While such changes would reduce rather than improve simplicity, this should be balanced against the need to create a fairer tax system.

1.8. We recommend that as part of HMRC's 'digital first' ambitions, tax relief application processes are streamlined, automated where possible and built around online data-sharing, reducing the lengthy delays from processing incoming post.

1.9. Linked to the above, an online investors' hub pulling together information on what tax reliefs are available, how they work, the risks involved and the processes/timelines for each stage would provide greater confidence in the system and encourage take-up of existing reliefs in line with tax policy.

1.10. We suggest that BADR and investors' relief do not encourage start-up businesses or reinvestment, though this may not be the policy intention. To achieve this specific purpose, reliefs should link directly to reinvestment of sale proceeds and encourage long-term planning based on real growth. Alternatively, if the purpose of these reliefs is solely to encourage start-up businesses or reinvestment, consideration could be given to repealing them completely and recycling the savings into encouraging early-stage businesses instead.

2. About us – Respondent Questions 1-6

2.1. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

2.2. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

2.3. The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

2.4. Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

2.5. Our stated objective for the tax systems include:

- A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.
- Greater simplicity and clarity, so people can understand how much tax they should be paying and why.
- Greater certainty, so businesses and individuals can plan with confidence.
- A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).
- Responsive and competent tax administration, with a minimum of bureaucracy.

3. Introduction

3.1. The call for evidence seeks views and evidence on the effectiveness, accessibility and generosity of existing tax incentives for entrepreneurs and investors, the wider tax system for founders and scaling firms, and how the UK can better support these companies to start, scale and stay in the UK. It focuses on the following reliefs:

- Enterprise Management Incentives (EMI)
- Seed Enterprise Investment Scheme (SEIS)
- Enterprise Investment scheme (EIS)
- Venture Capital Trusts (VCTs)
- Business Asset Disposal Relief (BADR)
- Investors Relief (IR)

Additionally, the types of innovative, high-growth companies this call for evidence focuses on may be able to claim Research and Development (R&D) tax credits, which can also play a role in investing into and growing such businesses.

While not mentioned in the call for evidence, reliefs such as the Inheritance Tax (IHT) Business Property Relief (BPR) are equally important. One must consider what might happen should a founder or investor die prior to realising their investment. Such considerations can affect investment decisions.

3.2. An entrepreneur is defined as "*the organizer of a business venture, especially one who organizes, owns, manages, and assumes the risks of a business or enterprise." (Merriam Webster)*. Entrepreneurial businesses come in many shapes and sizes, from local tradespeople and small e-commerce sellers to national and international manufacturers, distributors, service providers and technology developers. While this call for evidence focuses on one type – the founders and investors in innovative, high-growth companies: that is, those assuming great financial risk for potential great reward – the UK should support all businesses to grow.

Recommendation: We recommend that the government issues a call for evidence to gather views and evidence on how tax policy and the tax system support sole traders, small partnerships, owner-managed businesses and family businesses that have ambitions to grow that business. It is important for the UK to support such businesses through their lifecycle from start-up to sale, succession or public offer, including how such enterprises are taxed on the death of an owner or investor.

3.3. The Office of Tax Simplification (OTS) made numerous recommendations for how the tax system that could be simplified to better support entrepreneurs. For example,

- OTS Capital Gains Tax Review: Simplifying practical, technical and administrative issues – which looked at both the interaction of reliefs including EIS/SEIS and BADR, and the timing of the reliefs, and the compound effect of losing a relief;

- OTS Capital Gains Tax Review: Simplifying by design – which looked at whether BADR encourages entrepreneurship;
- Simplifying everyday tax for smaller businesses – which highlighted that "*Start-up businesses in the UK are very diverse, ranging from freelance individuals supplying their own services through to high-tech entrepreneurs with significant capital backing*";
- Simplifying the taxation of key events in the life of a business – which noted a previous HM Treasury review that identified gaps in later stage funding for growth and which sought ways to increase the availability of patient capital (investment by entrepreneurs) in the UK;
- Small company taxation review – which reviewed how our international competitors taxed entrepreneurs;
- Tax reliefs review – which illustrated that CGT reliefs such as entrepreneurs' relief (now BADR) "*does not encourage serial entrepreneurs*"; and
- Small business tax review – which recommended that "*HMRC should do more to understand entrepreneurs and commercial activity, and reflect this in their administration of the tax system*" and noted "*the considerable role that emotion can play in HMRC's relationship with small businesses*."

We recommend that these reports are reviewed by the government on the basis that they contain many valuable insights.

4. Evidence gathering – CIOT comments

4.1. The existing tax schemes, EMI, SEIS, EIS and VCTs, have been subject to change in the recent Budget and current Finance (No.2) Bill. It is, of course, too early to know if increases in limits will increase funding for high-growth and scaling businesses, although the reduction in VCT income tax relief from 30% to 20% is likely to deter some investors.

4.2. Questions on efficacy of existing venture capital schemes (SEIS, EIS, VCT)

4.3. Q7: Which types of investors are incentivised by each scheme? What pools of capital do these schemes attract?

Not answered.

4.4. Q8: 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?

Many founders initially assume EIS compliance is a simple "tick box" exercise, but in practice it involves multiple steps, time sensitive paperwork, and potential delays. Founders frequently underestimate how much administration is involved and the high cost of obtaining much needed support from professional tax and legal advisors.

Advance Assurance causes confusion; founders often misunderstand that Advance Assurance is only a preliminary indication and not actual EIS approval, which comes later. It is optional but widely expected by investors, especially angel networks. If mishandled, it can create friction or delay commitments, particularly if founders miscommunicate timelines.

EIS investors are often risk-aware and structured in how they evaluate opportunities. While EIS reliefs make investing more attractive, investors still expect strong compliance, clarity, and clean cap table mechanics. For example:

- EIS boosts investor confidence but adds diligence. EIS investors expect founders to have prepared documentation correctly, including share structures, valuations, and eligibility checks. If founders lack preparation, they face pushback, delays, or renegotiations. Poor preparation around EIS rules is a major friction point.

- EIS funds tend to be more selective and governance driven. Investors and fund managers demand realistic valuations, strong governance, commercial traction, and transparency.

EIS eligibility can be fragile and founders often experience anxiety around inadvertently breaking the rules:

- Mistakes can invalidate investor tax relief (even years later). Small missteps in timing, company age, qualifying activities, or share issuance can invalidate tax relief. This creates ongoing pressure for founders to maintain compliance during the multiyear holding period.

- Maintaining compliance becomes a long-term operational burden. For example, founders must ensure:
  - the company continues to meet qualifying trade rules;
  - shares are issued correctly;
  - funds are used for allowable purposes; and
  - no disqualifying arrangements occur.

Failure at any stage risks clawback of previous tax relief for investors, often damaging trust and future fundraising prospects.

Despite the challenges, EIS participation genuinely improves fundraising outcomes if founders understand and manage expectations correctly.

The scheme allows businesses to grow by providing larger follow-on investment to support scaling. It also enhances business quality as securing EIS backing signals compliance, good tax governance, and financial rigour, which can help attract institutional investors or other buyers later.

In terms of the impact of EIS schemes in supporting businesses to scale, a review of HMRC's available data could provide greater insight. For example, looking at the level of EIS income tax relief claimed, gains deferred, gains exempted and losses claimed, while of course not providing a direct correlation, would at least give some idea of the costs, benefits and risks of the scheme overall. Given this information is recorded in self-assessment tax returns, the findings could also be compared on an annual basis.

4.5. Q9: 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?

We believe that the scheme does support investment into high-risk, high-growth UK companies. The use of generous tax reliefs attracts private investors willing to take on significant risk to fund early-stage, innovative businesses that drive economic growth.

4.6. Q10: 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?

Although VCTs and EIS funds market themselves primarily as investor vehicles, many of their fees are actually charged to the investee companies themselves, something founders often only discover during due diligence or term-sheet negotiation. This is a friction point for founders, because these fees directly reduce the amount of capital available for growth and may not be clearly disclosed upfront.

Whether corporation tax relief can be claimed on these fees may be difficult to determine, requiring analysis of the nature of the investment and the structure of the fees. This is something that policy could determine to provide clarity and simplicity.

4.7. Q11: 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?

The recent changes to limits (taking effect from April 2026) are likely to increase how much funding a company can raise while remaining eligible for VCT/EIS investment. Companies can now carry out larger funding rounds while remaining eligible for VCT/EIS tax-advantaged capital. Investors (including non-VCT/EIS investors) may be more willing to participate in rounds that include VCT/EIS funds. This is because investors often view VCT/EIS qualification as a positive signal that a company has strong tax governance and demonstrated high-growth potential.

4.8. Q12: 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?

Recent reforms significantly expand eligibility for both VCT and EIS through higher company age limits, doubled capital limits, increased asset thresholds, and increased employee caps. These changes help address the long-standing "scale-up gap", where companies aged out of the schemes too soon. However, we consider there are some challenges that need to be addressed.

Of paramount importance is the need to simplify the reliefs so that they can be more readily taken up without the need for expensive legal advice and high administrative time/cost pressures. As examples, we set out below real issues and complexities faced by our members when supporting business to make use of these schemes.

- An individual agreed to invest £100,000 into a qualifying EIS company. The issue of shares and request to the bank for payment was made on the same day, however, due to banking limits, the actual payment was split into 4 lots of £25,000 on consecutive days. HMRC refused the relief solely on the basis the strict interpretation of the legislation required the shares to be fully paid up on the same day as the shares were issued.

- A company aimed to raise SEIS qualifying funds up to the SEIS limit of £150,000 followed by (the less generous) EIS qualifying investments. The price per share didn't provide neat multiples so the final SEIS investor took the total up to £150,030, meaning their investment was split between SEIS and EIS shares. The strict requirement that SEIS shares cannot be issued on the same day as EIS shares meant the final investor, whom the company had advised would get SEIS relief for most of their investment, didn't get anything.

- Business owners have their work cut out persuading potential investors to part with their money, meaning funds from numerous investors can arrive piecemeal. Due to the aforementioned requirement for shares to be fully paid up on the same day, businesses frequently find themselves having to issue separate EIS1 forms on multiple dates instead of a single form covering the most recent funding round.

- In practice, fundraising negotiations are difficult to timetable. Delays mean that agent authorisation often expire by the time shares are issued, requiring duplication of the authorisation process. Conversely, if authority letters are submitted only once the shares are issued, investors are then frustrated by the time taken for the forms to be submitted.

Recommendations

- Smooth or eliminate remaining funding cliffs. Even after the 2026 reforms, companies can still hit eligibility cliffs at key moments (e.g. crossing asset or employee thresholds, or ageing out).
- Introduce a scale-up investment relief layer above EIS/VCT. These reliefs remain primarily early-stage tools despite the 2026 expansions.
- Restore VCT investor incentives to maintain capital flows. VCT relief is scheduled to fall from 30% to 20% in April 2026. The last time VCT relief fell (from 40% to 30% in 2006/07), fundraising reduced 65% year-on-year[1].
- Expand VCT flexibility for follow-on funding. Scaling companies often need multiple follow-on rounds at speed.
- Reduce complexity and provide helpful checklists/links to guidance of the key requirements for business owners to lean on. Many businesses unintentionally breach rules mid-round, for example:
  - Misunderstanding the circumstances in which directors and employees are regarded as connected and therefore ineligible for EIS.
  - Missing the requirement that investors must not already hold shares in the company at the time of the investment.
  - Inadvertently allowing shares to be subscribed for other than in cash and/or fully paid up at the time they are issued.
  - Misunderstanding the date of first commercial sale cut-off for EIS, especially where there is a lot of research and development early on.
  - Acquiring a subsidiary that does not meet the definition of a qualifying subsidiary.
- Reduce administrative complexity by testing and implementing optional online recordkeeping for EIS/VCT allowing data to be prepopulated and formatted in a way that works for both high- and low-volume investor numbers, and provide permanent (until revoked) authorisation for agents supporting businesses with their investor administration.
- Review the trades and industries that are excluded from EIS/VCT eligibility (such as financial activities and professional services) to see if the business case for excluding such activities remains valid.
- Expand the eligible investor base (for example, institutional and pension capital).
- Encourage founder reinvestment into the next generation.
- Support later-stage companies transitioning toward IPO.

4.9. Questions on the EMI scheme continuing to deliver against its objectives

4.10. Q13: 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?

[1] Venture Capital Trusts statistics: 2025 - GOV.UK

EMI options are often the incentive of choice of startups and scale-ups as they are flexible and tax efficient, helping recruit and retain growth-critical staff. We expect that the changes taking effect from April 2026 will remove some constraints that caused high-growth companies to "outgrow" EMI too quickly. The new thresholds should bring larger and scaling companies within the regime for the first time. Raising the EMI exercise window from 10 to 15 years will offer employees more certainty and reduce the risk of losing tax advantages due to delayed exits.

4.11. Q14: How could EMI and the wider share scheme offer be improved to better support founders/scaling companies?

The main employee-focused share schemes for growing businesses are EMIs and CSOPs. While both EMI and CSOP are UK tax advantaged share option schemes, they target different types of companies and offer different levels of flexibility, tax efficiency and eligibility.

Companies often juggle between EMI options, CSOP options, unapproved options, growth shares, restricted stock units (RSUs), and nil-paid shares. The fragmentation adds cost and complexity. Creating a unified framework including consistent valuation principles, streamlined SAFE-style equity instruments, integrated HMRC reporting, and standard tax treatment rules would significantly reduce the administrative burden on scaling companies.

Form of schemes

EMI and CSOP mostly benefit employees, not founders.

Recommendation: One solution to further support founders is a reinvestment option scheme allowing founders who reinvest sale proceeds into a new business to grant themselves or new key hires EMI-level options with enhanced CGT treatment. This would strengthen UK serial entrepreneurship.

Often there is a gap between out-growing EMI eligibility (even with the increased limits coming into effect from April 2026) and the significantly lower option limits offered by CSOPs. This can make it difficult for businesses to attract high-quality employees.

Recommendation: One option might be to introduce a mid-tier share scheme for companies too big for EMI, but for whom the £60,000 option limit of CSOPs is too small. For example, a new scheme offering EMI-level tax treatment (no income tax/NIC on exercise; CGT on sale), higher option limits suitable for growth firms and no 5% personal company requirement (mirroring favourable EMI rules). If such a scheme followed EMI eligibility rules but with higher limits on company size, this would smooth the cliff edge between EMI and CSOP schemes and prevent founders from losing key incentive tools just as growth accelerates.

While CSOP was reformed in 2023, it still lacks competitiveness for scaling companies and has stricter eligibility criteria relative to EMI.

Recommendation: CSOP could be reformed to close the gap between it and the EMI scheme by introducing a scaling-band structure (e.g. larger limits for companies with 250–1,000 employees). This would make CSOP a viable next step for EMI graduates. Another option to close the gap between the schemes would be to increase the CSOP options limit and reduce the 3-year minimum holding requirement.

Eligibility criteria

Recommendations: Several small improvements could be made to EMIs to make them more attractive and less likely to inadvertently fall foul of eligibility rules. For example:

- Remove or ease the 25-hour/75% working time requirement in EMI schemes, which is overly restrictive and prevents, for example, highly motivated workers splitting their time evenly between two employers (such as a 'stable' part-time job and a less stable but potentially very rewarding start-up). It could be replaced with either a material contribution test, or a tiered qualification test (e.g. seniority and strategic role). This would give scaling companies greater flexibility in hiring elite talent.
- Remove or ease the 30% combined shareholding restriction where family members are employed by the business.
- Relax the control and influence rules (independence test) to allow more businesses to qualify for the EMI scheme; consider further relaxing the 3-year qualifying rule (from April 2026 the limit is increased to allow up to £250,000 worth of shares to be granted in a 3-year period).
- Review the rules on adding a top company and allowing a demerger etc. to permit business reorganisation without loss of EMI entitlement.
- Allow leavers, meeting defined requirements, to retain the tax-advantages of their EMI options until an exercise event arises, as this would help businesses to take on experienced staff for set periods to help grow the company and develop their successor.
- Review the trades and industries that are excluded from EMI eligibility (such as financial services, professional services, and asset-heavy or passive investment activities) to see if the business case for excluding such activities remains valid.

Often a company that has sought private equity investment cannot offer EMI options because if the private equity fund (or any corporate investor) controls the company, EMI options cannot be granted. Only if the company remains truly independent and not under corporate control, EMI may be possible.

Recommendation: This requirement could be relaxed so that entrepreneurship and private equity can co-exist.

Scheme administration

Current EMI rules require extensive documentation, valuation checks, and administrative precision: these rules are complex and mistakes can easily be made. This may lead to the eligibility of schemes that have been in existence for many years being challenged at the point of exit by the incoming buyer/investor.

Recommendations: There are administrative simplifications that could be addressed to lessen the burden and protect schemes from failing at exit. For example, they could be improved by introducing HMRC-approved safe valuation ranges valid for 12 months (similar to US 409A), and the provision of standardised digital templates for option agreements and notification filings. These changes would reduce friction for scaling companies that lack legal resources and provide a clearer path for ensuring options are granted in the correct way. The extension of valuations from 90 days to 12 months would also reduce HMRC's workloads (often the 90 days is not a sufficient timeframe to issue the options leading to repeated applications to HMRC).

One welcome recent change is to the notification process which from April 2024 allows the grant of options to be notified to HMRC annually at the same time as the share schemes return rather than requiring notification within 92 days. This avoids multiple deadlines and inadvertent breaches of the time limit.

Separately from administrative simplifications, we recommend resources are given over to providing simpler accessible HMRC guidance aimed at business owners and finance professionals who are not tax experts—providing more of the key points for businesses to check, potential problems to watch out for, and important

dates beyond the overly simplistic guidance on HMRC's gov.uk website but less detailed than the HMRC manuals.

Other aspects

Furthermore, EMI benefits apply primarily to UK-based employees, limiting the scheme's attractiveness for international leadership hires, albeit many companies are prepared to accept this as a cost of operating across multiples jurisdictions.

Recommendation: The creation of a parallel international option regime that allows EMI-like CGT treatment on UK-sourced shares even for overseas hires, and/or provides employer NIC relief or corporate deductions for granting equity to global employees, would support the hiring of specialised talent during scale-up phases.

Recommendation: The government could increase the option limits further for Knowledge-Intensive Companies (KICs). KICs (especially biotech, deep tech, and advanced engineering) require large teams and long development cycles. These industries need significantly more capital and talent over long periods. By giving KICs higher EMI limits, larger individual grant caps and flexibility to offer tax-advantaged equity to PhD researchers and fractional scientific advisors, this would bring EMI in line with the realities of long-cycle innovation.

4.12. Questions on options to go further

4.13. Q15: 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?

4.14. Q16: How can tax policy better support founders, avoiding abrupt transitions or cliff edges, which risk unintended consequences and hindering growth?

We have answered questions 15 and 16 together, as the points we raise overlap with both.

Alongside tax policy, overall government policy needs to have a clear strategic direction for UK business. Reviewing the effectiveness of specific tax reliefs in isolation without linking them to government priorities risks undermining their success and bringing different goals into conflict. For example, government might consider the following questions:

- Is the goal to incentivise as many start-ups as possible, or to provide greater support to a narrower base?
- Is the primary aim to promote job creation or are technological advancements or some other objective the priority?
- Are there any sectors or particular populations that should be targeted and how do these tie into government policy on e.g. climate change, gender equality, intergenerational fairness, etc?
- How is the effectiveness of these goals being measured; do we know what support is available to individuals and entrepreneurs in a range of circumstances, who is taking up that support and, if not, why not?

Having greater clarity on what needs to be achieved and understanding the different value placed on sometimes competing priorities will naturally shape tax policy. It should also make cost/benefit analyses more meaningful.

According to a recent report by the Global Entrepreneurship Monitor[2], the UK ranks 29 out of 56 countries on a scale measuring the strength of various entrepreneurial framework conditions, such as availability of finance, supportive government policy, level of regulatory burdens, etc. We recognise that the government have taken steps to address some of these areas, for example the new Digital Business Growth Service and improvements to business.gov.uk. However, there is clearly more that can be done.

One way of encouraging an entrepreneurial, risk-taking environment is to remove tax relief cliff-edges, which constrain ambition and distort investor behaviour in a similar way to businesses approaching the VAT threshold. As an example, tax-advantaged investors may pull out of companies when they hit EIS/VCT investment limits.

Business owners and investors may be more likely to plan for the long term if tax policy does likewise. Greater certainty about future tax rates, reliefs, thresholds, etc. encourages more risk-taking and investment.

Additionally, simplifying tax reliefs and making them easier to obtain would encourage repeat investments. Some filing/administrative requirements make reliefs less effective than they should be, for example, the old EMI returns. The high level of complexity involved in some tax reliefs translates into a barrier to accessing the relief, for example through the need for specialist advice, reducing the effective rate of tax relief obtainable.

Entrepreneurs reinvesting after an exit play a crucial role in the venture capital ecosystem. A combination of simple tax reliefs and efficient processes should work together to make reinvesting after an exit as desirable as possible.

Recommendations:

- Review government policy aims across a wider range of areas to establish a cohesive strategy that can be applied to future tax policy decisions affecting businesses of any size.
- Investigate key differences in entrepreneurial support available internationally compared with in the UK, with the aim of identifying potential areas for improvements.
- Introduce tapered reliefs rather than hard eligibility cut-offs. For example, gradually reduce (not eliminate) EIS/VCT relief as companies exceed size, age, or funding thresholds.
- Introduce a new category of incentives specifically for companies transitioning out of EIS/VCT eligibility.
- Enhance the transition when start-ups hit EIS/VCTs limits. For example, allow grandfathering provisions for existing investors so they can continue participating even after limits are exceeded, create follow-on relief for companies that recently graduated out of EIS/VCT eligibility, and introduce a cap uplift mechanism for companies demonstrating strong economic potential (mirroring similar approaches in France and Finland).
- Explore options for incentivising corporate venture capital and greater investment by pension funds.

[2] GEM 2024/2025 Global Report: Entrepreneurship Reality Check

- Review the potential for enhanced R&D tax credits, tax relief for regulatory approval costs, longer EIS eligibility windows, or other targeted tax reliefs to encourage companies to invest in riskier, innovative products, processes or software.
- Work with business owners and other stakeholders to understand where tax policy is not well translated into legislation and/or guidance, causing uncertainty and complexity around major transactions like the purchase or sale of businesses. This is particularly important in the case of anti-avoidance legislation designed to catch abusive arrangements but which, in doing so, causes issues for ordinary commercial transactions. As an example, our submission[3] regarding the use of upstream loans in a typically structured business sale highlights the arguably unintended consequences of the legislation for founders wishing to exit the business.
- Lower CGT rates for founder reinvestment into qualifying high-growth companies, reintroduce or enhance reinvestment relief (similar to the reinvestment deferral once allowed under VCT), and reduce stamp duty on purchasing shares in private growth companies.
- Simplify relief rules to reduce complexity wherever possible. For example, introduce safe harbour rules for common founder scenarios (reorganisations, bridge rounds, secondary transactions), provide automated HMRC advance assurance via digital tools, and standardise criteria to lower the administrative burden for scaling companies.

4.15. Q17: 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?

Entrepreneurs typically review their personal financial affairs after an exit, often seeking professional advice on attractive market opportunities and strong emerging sectors. Reinvestment decisions are strongly influenced by factors such as the desire to diversify wealth after having had most assets tied up in their business and the structure and timing of their exit, which shapes the level of cash available personally (e.g. sale of business within a company vs sale of shares, deferred proceeds, ongoing employment, etc.).

Successful entrepreneurs familiar with the fast pace and constant demands of running a large business can sometimes find they are not well suited to a quiet retirement following a sale. In these cases, factors influencing their decision to reinvest in new ventures include ease of finding appropriate opportunities in their sector/area of expertise and the ability to share their knowledge and experience. Anecdotally, such individuals are often seeking high-risk high-reward ventures, or are looking to 'give back' by investing their time as well as their wealth. The ethics and environmental credentials of new businesses are also increasingly a factor for investors.

Tax is generally of less importance in these scenarios; it can nevertheless cause frustration and delays when valuable tax reliefs are lost due to falling foul of the many complexities in the legislation. As an example, a business angel may agree to a paid directorship initially to familiarise themselves with a start-up before investing, and find their subsequent investment no longer qualifies for EIS income tax relief. Similarly, start-ups needing access to quick cash may offer convertible loan notes without understanding the impact on the availability of tax reliefs for individual investors. The constant vigilance needed by business owners to consider EIS conditions when carrying out ordinary commercial transactions, particularly in relation to the qualifying subsidiary and receipt of value rules, can lead to complex or uncommercial arrangements to avoid withdrawal of the relief.

[3] Loans to Participators Charge on Upstream Loans | Chartered Institute of Taxation

The laborious administrative hurdles for serial SEIS/EIS investors is a relatively minor factor but can influence decisions on the number and frequency of future investments following their own business exit. This takes in the time needed for the clearance and approval process, the manual issuing of signed paper forms to and from HMRC, the claim process for investors when EIS3s are issued after the tax return filing deadline, the (lack of a) process for repaying income tax relief to HMRC. Having an easy, efficiently managed tax relief would do no harm in incentivising wealthy individuals to invest.

4.16. Q18: 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 policy can support reinvestment from successful entrepreneurs into the next generation of start-ups. For example, lower or deferred CGT when proceeds are reinvested, including deferral or rollover relief, enhanced relief for angel/seed investments, and reductions in stamp duty for purchasing shares in private growth companies (similar measures were discussed in 2025 knowledge-based sectors).

Tax incentives can meaningfully shift founder behaviour, especially when liquidity events trigger high tax exposure. But tax alone cannot fix non-tax barriers. Even generous reliefs under EIS/VCT do not always translate directly into higher reinvestment because of complexity and traps for the unwary, which deter founders and investors, and cliff-edge limits distort investment timing and discourage follow-on investment. Simplification and predictability are just as important as generosity. This said, tax incentives are highly appropriate for encouraging early-stage reinvestment but less so for later-stage capital. The most effective use of tax policy is to remove friction, not force behaviour.

4.17. Q19: To what extent does Business Asset Disposal Relief (BADR) influence decision-making when considering the sale of a business, compared to other factors e.g. market conditions or personal circumstances?

BADR is one factor but not usually the primary driver. BADR influences the timing of a sale more than the strategic decision to sell and, given the low value of the relief now, it is no longer a major influence on timing. Commercial decisions may be held up due to the need for thorough professional advice; BADR is easy to get wrong, and planning/restructuring may be needed to ensure all relevant requirements are met. This can extend to uncommercial decisions, for example bringing in other family members or trust structures to maximise the relief available, particularly for smaller businesses finding themselves just over the £1m lifetime limit.

4.18. Q20: 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 practice, BADR's impact on entrepreneurial behaviour is limited, especially now that the beneficial CGT rate has increased from 10% to 18% and the lifetime gains qualifying for that rate have been reduced from £10m to just £1m, so that the maximum benefit any individual can obtain is just £60,000. We believe that entrepreneurs do not go into business because there may be tax incentives available on an eventual disposal.

The benefit of BADR is therefore a reward for success rather than an encouragement to set up a business in the first place. Policy will dictate whether that is a worthwhile goal, and in doing so should consider that many business owners consider their business to be their pension pot (the reliefs on which include a tax-free element). One option to distinguish between two distinct policy aims could be to consider a relief for older individuals disposing of their businesses, allowing them to keep more of the proceeds for their retirement.

Nevertheless, in the context of this submission we suggest BADR is not well-targeted at supporting entrepreneurial activity.

BADR's complexity is disproportionate to the relief it offers: the rules were designed when the relief was far larger, providing tax relief of £80,000 initially (over £130,000 in today's money) rising to £1m of relief at its peak. Examples of complexity abound in the case law: founders who resign from their directorship on selling the business can scupper their relief by mis-timing the resignation by just a few days; older farmers downsizing are forced to restructure or cease their business entirely to benefit from any relief; small partnerships lose out from a lack of professionally drafted written agreements differentiating partnership from partners' assets; management buy-outs structured with loan notes or deferred contingent proceeds realise the relief's restrictions too late. BADR's strict 24-month tests and 5% minimum thresholds can also create cliff-edges that distort decision-making. Simplifying the criteria or introducing safe harbour rules would improve fairness and predictability.

Recommendations

A new relief could replace BADR with a system that directly encourages reinvestment and long-term entrepreneurship. It could offer a lower CGT rate tied to reinvesting proceeds into UK start-ups within 2-3 years (as opposed to Rollover Relief (ROR) or EIS deferral relief, which rolls the gain into the new business asset or freezes the gain on qualifying shares respectively, thereby risking potentially higher CGT rates when the new asset is sold in future). Or provide a lower CGT rate if desirable outcomes are achieved, for example the founder holds the shares longer-term (i.e. 5-7 years), grows employment or R&D activity, keeps the headquarters and intellectual property in the UK, etc. This could be tailored to founders and serial entrepreneurs, rather than passive sellers, creating a genuine reinvestment lever, not just a disposal discount.

Another option could be to remove BADR but to make EIS deferral relief more generous alongside removing some of the complexities outlined above. The use of EIS deferral relief has significantly reduced in recent years because there is so much uncertainty about future CGT rates; investors do not want to reinvest a capital gain that may result in more CGT in future. If the gain came back into charge at the lower of the original and current CGT rate, this barrier would be removed.

Consideration could also be given to changing how Rollover Relief works, perhaps giving relief as a proportion of the gain instead of the current system, to incentivise business reinvestment. As an example, imagine a farmer with a £1m arable business who needs to free up £100,000 for working capital. They sell a £200,000 plot of land and plan to reinvest the balance in a smaller, more suitable plot, perhaps diversifying their business. If their land cost £115,000, they have an £85,000 gain. Counterintuitively, reinvesting half the proceeds does not provide any Rollover Relief. Instead, there is £20k CGT to pay and no tax incentive to reinvest the remainder.

If BADR were to be replaced with a relief better targeted at supporting entrepreneurial activity, the reintroduction of something akin to the old retirement relief (which was replaced in 1998-99 by business taper relief) should be considered.

4.19. Other tax issues and reliefs

Investors relief (IR)

IR is a CGT relief designed to encourage external, non-employee investors to provide equity to unlisted trading companies. It reduces the rate of CGT payable (18% from April 2026) when qualifying shares are sold, provided strict conditions are met. It is subject to a £1 million lifetime limit. In practice, IR is under used. While government statistics suggest there is no available data on the volume of IR claims, HMRC has identified only

a small number of claimants[4]. IR is designed for business angels, wealthy private individuals, friends and family investors, but often such investors can obtain shares through EIS/SEIS schemes. As such, it is mostly of benefit where a company is ineligible for EIS/SEIS (e.g. because they carry on an excluded activity), or a company's shares fail EIS/SEIS compliance later, or an investor has already used their BADR lifetime limit. While the relief is generous, it has strict conditions and applies to a narrow group of external investors—so take-up has been limited. This may also be because IR is only available to cash-subscribed, newly issued ordinary shares and investors cannot be employees or officers, which excludes most founder-investors. As noted above, many early-stage investors already use EIS/SEIS, which give even more generous tax reliefs.

Inheritance tax (IHT)

Relief from IHT is an important part of the support available to grow UK businesses long term. Despite the last-minute increase to the forthcoming limit, the reduction to business property relief (and agricultural property relief) will impact on the growth of businesses and could create a disincentive for entrepreneurs to continue building the business for the next generation. Whatever a founder or investor plans to do with their company in future—trade sale, MBO, floatation, pass to family, etc.—they must now take into account that, for as long as they own the business, their death will trigger a tax charge up to 20% of its value. For those with businesses over the £2.5m threshold, the expected IHT will need to be planned and budgeted for, restricting what they can do in many ways. For example:

- They can take out key man insurance personally to free up cash in their estate to cover the IHT but that can be a significant drain on cash generation, restricting the amount available for investment into growth;
- If the personal estate does not have the funds to pay the IHT, it may be possible to distribute available cash out of the company. However, that in itself creates a further tax charge;
- Holding back significant liquid reserves in a company to meet a 6-month payment deadline will likely conflict with the company's growth plans, potentially causing conflict between owner(s) and management;
- IHT may be paid by instalments where there is insufficient cash available but even paying 2% of the value of the company every year for ten years (which must be paid after income tax and so becomes more like 3.5%) represents a high burden, even more so than insurance premiums.
- The company can purchase the deceased's shares from the estate's executors if it has sufficient distributable reserves and can pay the proceeds in full on completion. However, the proceeds will be treated as taxable income in the executors' hands unless they can prove to HMRC that paying the IHT any other way would create undue hardship.
- If the company, fellow owners or management cannot afford to buy out the deceased's shares, the family may be forced to sell to a third party or close the business down to liquidate and realise the profits, to pay the IHT. This is a serious concern for investors, who may be disinclined to invest as a result. That can affect things like EIS fundraising.

The last point has always been something of a concern, but without the IHT liability it has not been such a problem. Up to now you can have an estate holding shares for several years while the future ownership is agreed, but that may no longer be possible with a looming IHT bill.

Recommendations:

We question the lack of data concerning IR claims and recommend efforts are made to establish a clear picture of its use since introduction, with a view to considering its overall impact and future cost/benefit. This is in

[4] Tax relief statistics (January 2026) - GOV.UK

light of the requirement for IR claims to be clearly identified in annual self-assessment tax returns, details of which are regularly used for the purpose of HMRC's one-to-many campaigns targeted at IR claimants.

We recommend that two of the more stringent company purchase of own shares conditions are removed to help businesses fund IHT due on a shareholder's death: the requirement to show undue hardship and the requirement for the purchase price to be paid immediately on completion rather than over a longer period.

National Insurance (NI)

The increase in employers' NI from 13.8% to 15% combined with the reduction in the threshold at which employers become liable for paying NI on employee earnings together increases the hiring costs for start-ups. These increases are somewhat tempered by the increase in the annual employment allowance. However, as set out in the government's tax impact note for the NI changes, the overall tax burden increases for the majority of businesses. These added costs come on top of increases in minimum wage and complex changes to salary sacrifice arrangements on the horizon, reducing the capacity to grow the business and disincentivising taking on more staff.

Employment status

We welcome the findings of the House of Commons Business and Trade Committee "Small Business Strategy" report that a government review of employee, worker and self-employed status is needed. Growing businesses often need workers at short notice but recruiting additional employees takes time. Businesses need the flexibility to engage workers for short periods to meet operational needs without fear of falling foul of employment status legislation. Tax policy should minimise cliff edges caused by unclear distinctions between genuine contractors, workers, and employees, as this creates administrative burdens and operational uncertainty during key growth stages. Clearer, more accessible classification rules would help founders plan staffing confidently and avoid unintended compliance issues and costs.

5. Acknowledgement of submission

5.1. We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation

3 March 2026