

Autumn Budget Submission

October 2025

Our letter to the Chancellor

Dear Chancellor,

In 2025, the government has taken a number of positive steps to support the UK's startup ecosystem: committing billions in new R&D investment, strengthening the British Business Bank, publishing a pro-technology Industrial Strategy, and appointing Alex Depledge as the UK's first Entrepreneurship Adviser. These measures have begun to rebuild a relationship with founders that was badly damaged by last year's Autumn Budget.

The repercussions of the 2024 Budget is still being deeply felt by our community. Revenue was raised by reducing the generosity of the policy that matters most to founders and startups: Capital Gains Tax, Business Asset Disposal Relief, and carried interest. Many founders now feel uncertain about their role in the Government's growth agenda and we have seen a growing number question whether they should remain in the UK. Another round of tax rises, particularly to Capital Gains Tax, would be a further blow to UK competitiveness and send a damaging signal that Britain is closed to those building the technology companies of the future.

At a minimum, it is vital that HM Treasury does not seek to plug the fiscal gap at the Autumn Budget at the expense of the UK's high-growth entrepreneurs and startup community, which is essential to our future prosperity, productivity, and growth.

If the government is serious about restoring trust and unleashing the potential of the startup economy to harness the productive power of emerging technologies, it must pursue a package of measures directly targeted at these companies and their founders, designed to:

- Support tech companies to scale and stay in the UK
- Improve capital incentives and boost financial markets
- Make the UK the world-leading startup talent hub

Such a package would send a clear message that Britain intends to be the best place in the world for founders to start, scale, and grow. It would also give you and your ministerial colleagues the arguments needed to demonstrate, both domestically and internationally, that this government is serious about supporting the UK's startup community.

I would be very happy to meet with you to discuss these proposals further.

Yours sincerely,

Dom Hallas

Executive Director, Startup Coalition

A package to reignite startup-led growth...

Summary of recommendations

Supporting UK tech companies to scale and stay in the UK

1. **Introduce a Distribution-Based Corporation Tax (DBCT)** model taxing profits only when distributed.
2. **Extend full expensing** to intellectual property and other intangible assets.
3. **Broaden VCT eligibility** to include later-stage scale-ups.
4. **Raise VCT investment limits to £20–30m per company.**
5. **Ensure government direct investment is fit-for-purpose.**
6. **Commission an independent review into corporate venture capital.**
7. **Launch a review on how to encourage entrepreneurship through the tax system.**

Improving capital incentives and financial markets

8. **Increase SEIS raise cap** beyond £250k to boost deep tech investment.
9. **Launch a review of SEIS/EIS fund fees** to cap excessive charges.
10. **Introduce pre-approved SEIS documentation** for faster applications.
11. **Extend ASA longstop** to 24 months for SEIS/EIS investments.
12. **Reinstate pre-2018 SEIS “advance assurance”** without requiring an investor first.
13. **Make regulated fintechs eligible** for SEIS and EIS reliefs.
14. **Abolish stamp duty on share transactions** to boost liquidity and secondary markets.
15. **Clean up R&D tax credits** by introducing a de minimis expenditure threshold.
16. **Lower the R&D-intensive SME threshold** to 20% qualifying spend.
17. **Create an HMRC “Domino’s-style” tracker** to monitor R&D claims.
18. **Protect UK venture capital** by keeping carried interest under CGT, not income tax.
19. **Stocks & Shares ISA threshold reform** to maximise the attractiveness of investing.

Make the UK the world-leading startup talent hub

20. **Expand EMI limits** from £30m to £150m and 250 to 500 employees.
21. **Extend EMI lifecycle** from 10 to 15 years.
22. **Reinstate board discretion** for secondary share sales within EMI.
23. **Create an EMI+ scheme** for later-stage companies (up to 1,000 employees / £1bn assets).
24. **Introduce a “Right to quit” framework** to align with startup hiring cycles.
25. **Restrict non-compete clauses** to a statutory 3-month limit.
26. **Back Tech Nation** to attract non-research talent via the Global Talent Fund.

SUPPORTING UK TECH COMPANIES TO SCALE AND STAY IN THE UK

MODERNISE CORPORATION TAX TO INCENTIVE TECH COMPANIES TO INVEST AND GROW IN THE UK

The UK's corporation tax system remains anchored in an older industrial model – one that taxes profits as soon as they appear, regardless of whether those earnings are reinvested into growth. For modern, venture-backed companies, this creates a structural disadvantage. Startups spend years loss-making while developing products and building teams. When they finally reach profitability, they are immediately taxed at a point when cash flow is still tight and every pound of retained earnings is needed to scale.

The tax system should recognise and reward scaling, not penalise it. A modern Corporation Tax regime that supports reinvestment would do exactly that, ensuring that as these companies grow, they do so here in the UK.

Recommendation 1: Introduce a Scaleup Distribution-Based Corporation Tax (DBCT) regime to provide essential cash flow to firms as they begin to scale.

The UK's corporate tax system taxes profits as soon as they are earned, even when they are fully reinvested into growth. This discourages the retention of capital for expansion and penalises companies that have just transitioned to profitability but are not yet at scale.

Under DBCT, companies would pay 0% corporation tax on retained and reinvested profits, and would instead pay tax only when profits are distributed (e.g. as dividends or share buy-backs). During this period, retained earnings could be deployed as working capital to fund new hires, sales expansion, or export growth. This approach, modelled on Estonia's successful system, would allow growing UK firms to reinvest early profits tax-free during their critical scaling phase, improving productivity and the likelihood of remaining and listing in the UK. This is not a tax cut, but a change in timing: companies would ultimately pay a larger bill once they are stronger, more established, and able to afford it.

Eligibility and guardrails

The scheme should be targeted and time-limited to control cost and focus on genuine growth companies. Eligibility could be determined through existing HMRC frameworks to really show the government is backing scaling companies. It could also be narrowed to only be applied to those who have received equity funding from a VC and/or through government incentive structures.

To ensure the pilot operates fairly and prevents misuse, the government could consider several guardrails. One option would be to apply deemed-distribution rules, so that benefits in kind, shareholder loans, or related-party transfers are treated as taxable distributions where appropriate. Existing transfer-pricing and controlled-foreign-company (CFC) rules could remain in place to maintain consistency with the wider corporate tax framework.

It may also be sensible to exclude companies that derive the majority of their income from passive assets, such as property or financial investments, to ensure the relief focuses on active, growth-oriented businesses. Within groups, intra-UK dividends could continue to be exempt so that tax only applies when profits ultimately leave the UK group.

Recommendation 2: Expand full expensing to cover intellectual property and other intangible assets.

The permanent full expensing of capital investment has been an important step towards a more pro-investment tax system - in 2023 the Office for Budget Responsibility (OBR) estimated that the shift from temporary to permanent full expensing would increase total business investment by £14bn over the forecast period. However, it remains narrowly focused on physical assets such as plants and machinery. This misses the reality of the modern UK economy, where the majority of business investment takes the form of intangible capital: software, data, patents, proprietary technology, and AI models. These are the assets that define the UK's fastest-growing firms, yet they sit outside the scope of full expensing.

The current system draws an arbitrary line between tangible and intangible investment. Plant and machinery qualify for immediate 100% deduction, but intellectual property and other intangible assets must usually be amortised over time under the Corporate Intangible Fixed Assets regime (CTA 2009, Part 8). This distinction, as the Institute for Fiscal Studies has repeatedly argued, distorts business behaviour and undermines neutrality by encouraging investment in “kit over code.” It also increases compliance complexity, as firms must navigate two parallel regimes and exercise judgment over which side of the line a given expenditure falls.

Extending full expensing to qualifying intangible assets would remove this distortion and bring simplicity and neutrality to the system. It would ensure that the tax base reflects economic reality – recognising that investment in algorithms, data, and proprietary software is every bit as productive as investment in machinery. The reform would allow firms to claim a full, immediate deduction for new and unused intangible assets, including internally developed software, data acquisition and curation, patents, registered intellectual property, and licences used in the course of trade.

Together, these two reforms would transform the UK's approach to business taxation. They would allow growing firms to reinvest profits with confidence, help bridge the gap left as R&D tax credits taper, and encourage greater long-term investment in innovation and exports. They could also make redundant the need for complex and underused mechanisms such as the Patent Box, replacing them with a simpler, more flexible framework that rewards scaling rather than static ownership of IP.

LEVERAGE VCTs TO SOLVE BRITAIN'S LATE STAGE INVESTMENT GAP

VCTs are an established part of the UK funding ecosystem and have been extended to 2035. They provide an important c.£1bn a year funding to innovative companies, especially at the earlier stages.

However, the UK faces a scale-up funding gap, forcing companies to flee or sell abroad as they approach maturity. While seed and Series A rounds are well served, high-growth companies struggle to find larger follow-on capital domestically. As Atomico's State of Europe Report set out, London now ranks second best VC hub, behind San Francisco, for check sizes less than \$15m, but this falls to fourth for checks larger than \$15m, with New York and Beijing overtaking.

In order to help channel more capital into later stages, we should broaden the VCT scheme to channel more investment into scale-ups. This can be achieved by tweaking qualifying criteria and raising the investment limits:

Recommendation 3: Expand VCT eligibility for later-stage companies.

Currently, VCTs can only invest in relatively small, young companies. By allowing VCTs to back larger scale-up firms, by raising the age and size limits for qualifying investments, this could provide the £10–50 million checks that UK scale-ups need, filling the funding gap between venture and public markets. There is also evidence that increasing the age limit can better support regional businesses, as was seen in some regions following SEIS expansion (HMRC Key Statistics, May 2025). If additional certainty that VCTs were moving further up the market was needed then mandated requirements could be considered over time.

Recommendation 4: Raise VCT investment limits and improve scheme functioning.

To complement the above, the government should consider increasing the per-company VCT lifetime and annual investment limits (currently around £12 million total for EIS/VCT for KI companies). Allowing higher amounts, for example, £20-30 million per qualifying scale-up over its life, would enable VCTs to lead later funding rounds. This pairs well with pension fund reforms to unlock institutional money.

The Government could also adopt accounting rules that support deeptech companies: In order to support investment into high-growth hardware companies it has been argued that the government should also consider adopting a “frozen GAAP” approach to accounting for gross assets as it was pre-IFS16. We agree that the government should prioritise making it easier for deep-tech companies to scale in the UK, particularly as sovereign capability in areas like defence, space and advanced materials has become a matter of national security.

Finally, the Government could remove the Gross Asset Test: The post-investment Gross Assets Test should be removed to simplify the scheme and allow VCTs to participate in larger investment rounds alongside institutional investors. Since the test is intended to assess suitability before investment, applying it afterward is unnecessary and restricts the UK's ability to scale successful startups.

ENSURE GOVERNMENT DIRECT INVESTMENT IS FIT-FOR-PURPOSE

We welcomed the increase in funding allocated to the British Business Bank (the Bank) at the Spending Review. The has provided an important service to the British startup ecosystem, with key programmes like the Enterprise Capital Fund and British Patient Capital catalysing a host of successful UK-based VC funds, deploying capital into high-growth potential startups. It was

therefore great to see the Bank commit to increase and expand its work as an LP to back the next wave of UK fund managers.

We understand that the Bank is now looking to take a more active role in direct investing, as part of its 5 year strategic mandate. **We believe direct investment should form a small and limited part of the Bank's toolkit. With the Bank's energy spent on what it does best - cornerstoning the best and brightest GPs.**

This is because there are obvious and important challenges to consider when a government does direct investment, such as:

Expertise: Public institutions do not often have the requisite expertise, or incentives, to successfully invest in this way, and arguably, nor should they. VC investors are incentivised to find high-quality startups as they profit from returns. They increasingly have sectoral expertise and use their commercial judgment to undergo due diligence, pricing, and provide post-investment support. These characteristics are even more important in highly technical areas, such as those in deep technology, which the government is trying to prioritise as part of its Industrial Strategy.

Without the credibility and negotiating power of seasoned investors, direct government investment often suffers from poor terms including overvaluation, weak governance rights, and limited follow-on support. This not only increases the risk of poor outcomes, but may also discourage future investors from engaging in these companies, compounding the problem.

Strategy: Therefore there is a fundamental tension at the core of any strategy in which a public capital makes direct equity investments into startups and scaleups.

Either, public direct investment is incentivised to provide better terms than private actors. This distorts the market and weakens the overall ecosystem by crowding out private capital. If startups know there is a pool of government capital available with fewer strings attached, they may delay or avoid raising from private investors altogether. This disincentivises private VC participation and may reduce total investment into high-growth sectors, running counter to government-backed funds-of-funds strategic objectives.

Adverse selection: Or, the public direct investment matches the market and fails to compete on expertise and the wider support offer, as top-tier founders often prefer raising from investors who can offer strategic value, introductions, and fast decision-making.

As a result, when public finance vehicles directly in startups, especially at early stages, it risks attracting a lower-quality applicant pool. This includes startups unable to raise from commercial VCs, with the government ending up backing companies the market has already passed on.. This undermines the intended economic impact of direct investment

Proposed approach

Recommendation 5: In order to overcome the challenges set out above the government should ensure the Bank's strategic mandate on direct investment mitigates these challenges.

This can be achieved by ensuring:

- a. **The Bank should establish a distinct vehicle with its own identity, governance, and culture.** The development of any direct investment arm should take inspiration from ARIA which was intentionally designed as a high-autonomy, high-risk counterpoint to UKRI. This will ensure it is viewed by founders and investors as a serious commercial partner, not a funder of last resort. Sufficient operational independence will also reduce the chances of the investment being used to placate the political whims of the day. The new vehicle could also be used to revitalise NSSIF, by absorbing responsibility for the fund under a new banner centred around national and strategic capacity.
- b. **The vehicle should be led by an experienced and credible private sector practitioner, backed by a new team.** This means actively targeting leaders who fit this description and paying them handsomely to undertake a “tour of duty” in the public sector. They should be a “brand name” in the startup and venture community.
- c. **The team must be built around commercial investors, sector specialists, and technologists.** This is especially critical in domains like sovereign AI, semiconductors, or quantum, where assessing commercial viability and scientific merit requires frontline experience. Partnering with domain-led public institutions such as DSIT, DSTL, or NHS AI Labs should also help augment technical diligence, but this must be paired with personnel who have real-world investment track records and are empowered to make high-quality decisions at pace.
- d. **Direct investment should only be deployed when the risk-return profile deters traditional VC, where public capital can act as a first-mover catalyst, or where strategically important companies with significant track record are looking to raise growth capital.** This should be focused on deep technology companies that have long development timelines, complex IP and capital requirements are high. At the early stages this will likely be for nascent deep technology sectors that might have significant national capability consequences, but where there is currently no market (for example, nuclear fusion, quantum and parts of the AI stack). At the later stages this might be dual-use and sovereign technologies where national interest may outweigh short-term returns.
- e. **The vehicle should be complimented by other government levers.** This includes public procurement and advanced market commitments e.g. pledging to buy a category of sovereign AI or biosecurity tools once built, or even regulatory sandboxes or fast tracks to accelerate deployment (another reason that sufficient independence is required). It would create a stronger demand-side signal for private investors and derisks commercialisation for startups, ensuring public capital is not just patient, but strategic and catalytic. In this instance, if deployed successfully, the direct investment vehicle will act in a similar way to a Corporate Venture Capital arm, with strategic objectives, buying power and the ability to act as a positive market indicator.

Relatedly, in July of this year the SovereignAI Unit was given a £500 million injection to, in part, invest in UK companies in partnership with the Bank and others. We should recognise that this pales in comparison to investments being made by others (both public and private). Therefore, it is even more important that investments are made with laser focus on where the UK can carve out strategic advantage and where public money may act as a bridge or catalyst. For example, the UK has strong roots in both security and assurance as well as chip design and the app layer. A full assessment of where these strengths lie should be made to exploit our natural advantages.

COMMISSION AN INDEPENDENT REVIEW INTO INCREASING LEVELS OF CORPORATE VENTURE CAPITAL IN THE UK

The UK's startup ecosystem continues to face a shortage of viable exit opportunities and scale-up pathways. While reforms such as the Mansion House Accord aim to unlock pension capital for productive investment, there remains an untapped opportunity to mobilise the balance sheets of major UK and international corporations. Large firms should be investing more systematically in growth - both to strengthen their own innovation pipelines and to help promising British startups reach commercial scale. Corporate Venture Capital (CVC) is a critical mechanism for achieving this, bridging the gap between early-stage innovation and long-term corporate deployment.

At present, however, the UK's CVC market remains underdeveloped compared to international peers. According to Beauhurst, there have been 429 announced CVC deals into UK startups between 2011 and 2021, worth £5.55 billion in total. While this marks a steady increase from just £17 million across 16 deals in 2011, it remains modest when compared to the United States, where CVCs account for roughly a quarter of all venture deals and deploy tens of billions annually. Mountside Ventures' 2024 global review found that one in four VC deals worldwide now includes a corporate investor, yet UK corporates remain relatively conservative in their participation, both in volume and in deal value.

This shortfall matters. In economies like the US, France, and South Korea, CVC has become a major pillar of industrial innovation - linking large corporate balance sheets with startup dynamism, driving technology diffusion, and providing founders with more robust exit and acquisition routes. For the UK, deeper corporate engagement in venture could help scale up domestic companies in strategic sectors such as AI, clean energy, advanced materials, and defence - areas where sovereign capability and commercial competitiveness increasingly overlap.

Recommendation 6: The government should therefore commission an Independent Review into Increasing Levels of Corporate Venture Capital in the UK.

The review should:

- Assess the current level and structure of UK corporate participation in venture deals, benchmarked internationally.
- Identify barriers that deter corporates from investing in startups - whether regulatory, accounting, tax, or cultural.
- Explore potential incentives or reforms (for example, corporation tax reliefs for approved CVC vehicles, or improved treatment of minority holdings).

- Consider mechanisms to connect corporates with early-stage venture ecosystems, such as co-investment platforms with the British Business Bank or Innovate UK.
- Examine how CVC can complement existing pension reforms and public investment programmes to broaden the pool of domestic growth capital.

Unlocking more corporate venture investment would not only support a stronger pipeline of scale-up finance and exit opportunities for founders. It would also enable UK corporates to innovate faster, build supply-chain resilience, and capture the returns of the technologies shaping the next industrial frontier.

LAUNCH A REVIEW ON HOW TO ENCOURAGE ENTREPRENEURSHIP THROUGH THE TAX SYSTEM

The UK needs a tax system that actively pulls more people into entrepreneurship, supports reinvestment, and attracts global talent. Currently, the UK has various incentives for investors (EIS, SEIS, VCTs etc), several for companies looking to innovate and grow (R&D tax credits, full-expensing etc), but limited for the original risk taker - the entrepreneur or founder.

This has only worsened in recent years, with the increases to the Capital Gains Tax (CGT) rate, including on Business Asset Disposal Relief (BADR) and earlier reforms that reduced the lifetime limit from £10 million to £1 million in 2020.

To truly encourage individuals to take the risk of creating something from nothing, the government needs to reassess how it encourages entrepreneurship through the tax system. It should consider how to create virtuous cycles of successful founders remaining in the UK, becoming second-time founders, and investing back in the British startups.

Recent high-profile cases highlight the issue. Nik Storonsky, the founder of Revolut, recently became tax resident in Dubai, a move reported to save him more than £3 billion in UK capital gains tax. His departure has raised many questions about how and if our incentive structure could have kept him in the UK by offering a more competitive and forward-looking regime that rewards reinvestment.

Recommendation 7: We therefore recommend that HMT launches a review on how to encourage entrepreneurship through the tax system.

The consultation could consider an ambitious set of measures (see example options below) aimed at those backing British growth - and could even be named after this.

Backing British Growth Relief (BBGR)

Option A: Reinvestment-Based Model

- Individuals could defer or reduce CGT by reinvesting capital gains into approved high-growth UK investments. For example, a founder selling a company could reinvest their gain into a certified UK venture fund within a set timeframe and pay zero or reduced CGT on the rolled-over amount. This mirrors rollover relief but targets entrepreneurial ventures, encouraging founders and angels to recycle wealth into new British companies.

- The policy could use a scaled CGT reduction based on the share of gains reinvested into UK-based companies or VC funds. A simple “50:50 rule” could apply - reinvest 50% of gains for a 50% discount on the rest.

Option B: Create a UK growth nexus

- Eligibility could be tied to a clear UK nexus, for example through minimum PAYE headcount, UK-based R&D spend, or a UK permanent establishment. This would link the relief to real domestic spillovers, anchoring talent and capital in the UK. This approach would mirror international practice, where countries like France and Singapore link founder incentives to domestic activity.

By consulting now, the Treasury can design incentives which place the founder at the centre of economic growth. Shaped through consultation with founders, investors, and advisers, would help reposition the UK as the best place in the world to start and scale a company.

IMPROVING CAPITAL INCENTIVES AND BOOSTING FINANCIAL MARKETS

IMPROVE EARLY STAGE INVESTMENT RELIEFS AND ALIGN THEM TO THE INDUSTRIAL STRATEGY

SEIS and EIS have historically excelled at getting money to companies at the early stages, but we need to reinvent them for the next wave of technology and ensure they are providing maximum value to the development of the startup ecosystem, aligning with the government's Industrial Strategy.

Recommendation 8: Increase the SEIS investment limit cap beyond £250k to encourage investments in deeptech.

The extension of SEIS investment limit cap from £150k to £250k in 2023 has enabled more capital intensive companies to raise pre-seed capital. In order to align SEIS with the new Industrial Strategy and play its part in supporting companies to raise money in deep tech sectors, the government should raise the cap further, as many R&D-led companies require £1m+ pre-seed rounds, especially those in sectors aligned with the government's industrial strategy (AI, quantum, life sciences, energy). This would fill the gap between SEIS and EIS.

If a greater focus on the types of companies this money is going to is required, then over time you could consider adding a KI criteria to investments above a certain threshold.

Recommendation 9: Launch a review of SEIS/EIS fee charges.

While SEIS and EIS have unlocked vital funding, there is growing criticism that excessive fees and complex rules blunt their effectiveness. Many EIS/SEIS funds charge high upfront and ongoing fees, meaning a significant share of investors' money never reaches innovative companies. For example, typical EIS funds levy ~5% initial setup fees, ~2% annual management fees, plus performance fees – far higher than mainstream funds. In some cases less than 85% of an investor's capital ends up invested in businesses due to these charges. Such costs can undermine the schemes' purpose.

In order to deliver the right change, we recommend that the government launches an independent review of SEIS/EIS focusing on investor fees. The review should consult founders, investors, and fund managers, to identify reforms that ensure more capital reaches growing businesses.

The review should evaluate imposing reasonable fee caps or requiring a minimum percentage (e.g. 90%+) of investor funds to be invested in qualifying companies. This would curb tax wrapper funds that currently take 10-15% in fees off the top. One idea is to link tax relief only to the portion of investment that goes into companies, not fees, to discourage excessive charges. This aligns incentives so that taxpayer subsidies reward founders, not intermediaries.

Recommendation 10: The Government could also look at introducing Pre-Approved Contractual Language for SEIS.

The introduction of pre-approved contractual language for SEIS pre-approved Shareholders' Agreements and Articles of Association would make the application process more efficient, it would also lower barriers to firms accessing the scheme. Companies using standardised documents could qualify for a fast-tracked decision. Measures like this that explicitly seek to mitigate the resource constraints of earliest stage companies are highly desirable.

Recommendation 11: Extend the ASA Longstop for EIS & SEIS to 24 Months.

The December 2019 changes to the Advanced Subscription Agreement Longstop halved the time limit between ASA issuance and longstop, meaning firms have been compelled to adopt sub-optimal terms and have had to rush valuations. Many people we have spoken to acknowledge and appreciate HMRC's desire to limit the indefinite use of ASAs (though the success of SAFE notes in the US suggest that this could be challenged more significantly), but six months is too short and should be extended.

Recommendation 12: Reinstate Pre-2018 Speculative Applications to HMRC for SEIS Eligibility ("Advanced Assurance").

To apply for advanced assurance on the SEIS scheme from 2018, applicant firms must already have an investor identified. This has led to a 'chicken and egg' situation whereby investors seek SEIS eligible companies, while companies must have investors locked in to understand if they qualify for SEIS. While it is hard to definitively identify causation, there has been an undeniable correlation between the decline in first time raises and the introduction of the 2018 investor identification requirements. Leading regional investors have called for this change to boost regional ecosystems.

Recommendation 13: Make all fintech firms eligible for SEIS & EIS.

Today, startups undertaking regulated financial services activities including lending and banking are ineligible for SEIS and EIS reliefs. The 2021 Kalifa Review reported that 97% of surveyed fintechs outside the scope of FCA regulation had used the reliefs but that 47% were concerned about their ability to qualify for such tax relief if their business models switched from being unregulated to regulated in the future. The government should change the eligibility criteria to permit regulated fintechs to apply by updating VCM3040 in the HMRC Manual.

ABOLISH SHARE TRANSACTIONS STAMP DUTY

The UK remains one of the few major economies that taxes the buying and selling of shares. The current 0.5% stamp duty and Stamp Duty Reserve Tax (SDRT) on equity transactions may have made sense in an era of slower, paper-based trading, but today it acts as a friction on investment, liquidity, and market growth. Whether in the public markets where it adds cost and complexity to trading on London exchanges, or in the private market where it penalises employee ownership and secondary transactions, stamp duty is a drag on capital formation across the entire ecosystem.

For listed equities, stamp duty undermines the government's ambition to make the UK a more attractive place to list and invest. It reduces trading volumes, limits liquidity, and raises the cost of capital relative to competitor markets like the US, where no equivalent tax exists.

Recommendation 14: Abolish stamp duty on share transactions to boost liquidity and secondary markets.

At a time when London is striving to regain its edge as a global listing destination, abolishing SDRT would make a meaningful impact on the dire state of our and a step to improving participation from retail and institutional investors alike.

CLEAN UP R&D TAX CREDITS BY REPRIORITISING IT ON INNOVATIVE COMPANIES

Startup Coalition has long campaigned for improvements to the R&D tax credits scheme. The scheme is an essential part of how fast-growing companies innovate and grow. Alongside other associations and advocacy groups focused on supporting innovation in the economy, we have coalesced around a set of proposals that would improve the functioning of the scheme by design. The measures below would carve out fraud and prioritise limited financial and human capital on innovation.

Recommendation 15: Introduce a de minimis expenditure threshold for both schemes.

- **Merged scheme:** The current scheme assumes firms can conduct genuine R&D for a very low cost and has no minimum threshold for application. According to the HMRC data covering 2022-2023, this has led to a scenario whereby there is a concentration in the number of claims in the lower bands (64% in cost bands up to £50k), whilst those claims below £50k make up below 10% of the overall cost of the scheme. If we closed off part of these claims - which are less likely to be meaningfully innovative - we can reduce the levels of claims that HMRC must administer.
- **Enhanced R&D-intensive SME scheme.** For example, a technical project needed to conduct significant innovation in a business would at a minimum include 3 software engineers paid at c.£55,000 per annum per person (estimates according to Indeed.com).

Recommendation 16: Whilst at the same time, increasing access for innovative firms by reducing the R&D expenditure threshold for Enhanced R&D-intensive SME scheme to 20%.

Startup Coalition believes that to truly incentivise R&D and support the most innovative firms in our economy, this enhanced credit threshold should be lowered. This will prevent innovative companies falling out of this scheme as they begin to scale.

Recommendation 17: Introduce a “Dominos Pizza” style tracker for claims.

Startup Coalition has long-called for a way to combat what many startups feel is a black hole once claims are submitted. Alongside some other changes, the addition of Domino's pizza tracker saw it achieve "40% year-on-year increase" in sales. We believe HMRC should use the same logic to

improve the claimants process. A beta webpage could be created quickly and iterated to help manage claimant anxiety about progress.

HALT CARRIED INTEREST CHANGES

Recommendation 18: Protect UK venture capital by halting unnecessary changes to the carried interest regime.

The government is driving ahead with a complicated and unnecessary transition of the legal frameworks underpinning carry – moving it from a capital gains tax regime to an income tax regime. This move to an income-based tax regime was not directly consulted on and raises numerous technical questions, such as around dual taxation and filling, and the location of team members. Most importantly, the UK is now one of the only countries where carried interest is part of income tax rather than capital gains, leading to significant practical changes being forced on VCs. It will encourage them to designate the primary jurisdiction of residency for fund managers outside the UK.

This transition does not encourage positive behavioural change, nor does it increase the revenue take for the exchequer, in fact it likely decreases it due to the increased bureaucracy and reduced competitiveness of the UK for international funds.

VC funding in the UK is already down. Since changes were announced, fundraising has declined significantly, with the total value raised in Q1 and Q2 in 2025 only at £5.3bn, compared to £9.4bn over the same period of 2024 (see table in Annex B). The number of fundraisers has also decreased from 951 in the first two quarters of 2024, to just 574 in the first two quarters of 2025.

Following recent events – such as the fallout of the OBR's miscalculation of the impact from changes to non-doms – the Chancellor stated that she would revisit any measures that could have a negative impact on the UK's growth trajectory. This has similar characteristics and there is still time to prevent the worst of the behavioural change from crystallising.

Instead, retain the current regime, put taxes up in line with the increases made to capital gains, and implement reforms to the average asset holding period, better rewarding fund managers making long-term bets on high-growth assets.

OPTIMISE ISAs

Recommendation 19: If the Government plans to proceed with proposed changes to the ISA thresholds, it should focus on incentivising investment into growth assets, such as the stocks and shares ISA.

For instance, increasing the stocks and shares ISA annual threshold to make it the most generous option for consumers would be a clear statement of intent from the Government that this is where it believes the best returns are over the long-term.

The Chancellor could also consider creating a new Venture ISA that would act as a way to gear finance into UK venture capital. This would give retail investors the option to invest in private technology companies. It could be linked to new vehicles being designed by the BBB.

In parallel with any changes to the ISA thresholds, the Government should also consider a series of reforms to modernise and expand the ISA system:

- a. Eligibility should be broadened to include any exchange-listed or retail-accessible fund, increasing diversification, investor choice, and market liquidity.
- b. Allowing different currencies to be held within the ISA wrapper would enhance efficiency, reduce costs, and provide greater flexibility for those dealing in multiple currencies.
- c. Employers should be enabled to make post-tax direct payments into employees' ISAs, following the successful model of pension auto-enrolment to encourage regular saving and investment.
- d. An ISA switching service, mirroring the current account model, should be introduced, incorporating digital interoperability, a guarantee scheme, and clear SLAs to enable consumers to switch ISAs within seven days.
- e. The Government could consult on a transformational simplification of the system into a single ISA account capable of holding both cash and shares.

MAKE THE UK THE WORLD-LEADING STARTUP TALENT HUB

ENSURE THE UK'S SHARE OPTIONS SCHEMES CONTINUE TO BE GLOBALLY COMPETITIVE

Whilst EMI has created one of the most startup-friendly environments in the world, and has undoubtedly contributed to the county's leading position in Europe, its parameters are out of date and no longer fit for purpose. The fastest growing British tech are now forced to adopt much less employee-friendly approaches, damaging their ability to effectively reward talent, and losing out on the talent needed to secure growth to both bigger tech rivals (through higher salaries) and international competitors (through better stock option schemes).

Recommendation 20: The government should increase the current limits of EMI from a £30M asset capitalisation to £150M and from 250 to 500 employees.

This was one of the key recommendations made by the UK Tech Competitiveness Study in 2021, which was commissioned by the Government.

To qualify for the Enterprise Management Incentive (EMI) scheme, companies must have gross assets of £30 million or less at the time options are granted, and fewer than 250 full-time equivalent employees. These thresholds haven't been meaningfully updated since EMI was introduced in 2000 – yet the UK startup ecosystem has changed dramatically since then.

Today, British tech companies are raising larger rounds earlier, scaling faster, and hitting higher valuations far sooner than they did even a decade ago. They're also growing teams at faster rates: between 2000 and 2020, highly successful venture-backed tech companies reduced their time to scale to 500 employees from 8+ years to just over 5 years.¹ As a result, promising companies can unintentionally outgrow EMI eligibility simply by closing a major funding round or rapidly hiring to support growth. These are the very companies EMI was designed to support, but the scheme now excludes them at the point they need it most.

If firms outgrow the scheme, alternatives like the Company Share Option Plan (CSOP) exist, they aren't always a suitable or timely substitute, leaving growing firms with legal uncertainty and employees with fewer incentives. The rules urgently need to catch up with the scale and ambition of modern UK companies.

Recommendation 21: Extend the EMI lifecycle to 15 years to ensure the longest serving employees aren't losing out if a company takes longer to exit.

Under current rules, Enterprise Management Incentive (EMI) options must be exercised within 10 years of the grant date to retain their tax-advantaged status. Most EMI option agreements are

¹ <https://www.indexventures.com/scaling-through-chaos/changing-landscapes-consistent-challenges>

written to expire automatically after this period. However, this fixed 10-year window is increasingly misaligned with the reality of startup growth trajectories.

Recent data suggests the average time from startup founding to IPO now exceeds 10–12 years, and timelines may be even longer for companies focused on sustainable growth over aggressive scaling. For most startup employees, particularly those with small stakes, the first real opportunity to exercise and sell shares comes only at a liquidity event (such as an IPO, majority acquisition, or secondary sale). If no such event has occurred by the time their 10-year EMI period expires, employees face a double loss: their options lapse entirely, and even if their contributions were critical in the company's early years, they receive no equity upside at all.

This problem disproportionately affects the longest-serving employees – often the earliest joiners who took the biggest risks for the lowest salaries. Without flexibility in the 10-year rule, the EMI scheme risks undermining its original intent: to help companies compete for top talent by offering a meaningful, long-term equity stake in success.

Recommendation 22: Reverse the blanket ban on 'board discretion' creating greater flexibility for employees to sell some of their share options during the scaling journey (i.e. through secondary sales).

Early-stage businesses often design their EMI share option plans with the assumption that value for employees will be realised at the point of a clear "Exit Event" – typically defined as an IPO, majority share sale, or asset sale. These plans frequently include provisions allowing boards some discretion to permit the exercise of EMI options in other circumstances that may also mark a meaningful change in shareholder control or company ownership, in line with the commercial realities of startup growth and liquidity paths.

The company and its advisers don't know everything at the outset. Agreements can often require adjustments down the line. Historically, companies have commonly used "Board discretion" clauses in share option agreements as catch-alls. These enable the Board to create new opportunities for employees to sell their options when the environment shifts, and ensure the option grant behaves as intended when circumstances change or new information is learned.

However, recent HMRC guidance appears to adopt a rigid interpretation of the EMI legislation, particularly around paragraph 37(2) of Schedule 5, ITEPA 2003, which now requires agreements to specify a "clear right of exercise from the outset," meaning liquidity events must be specifically defined in each share option agreement – and it has been applied retroactively. Before this new HMRC guidance was issued, use of Board discretion was common practice and was advised by employee share scheme lawyers. Now, those same lawyers are now dealing with consequences of the "incorrect" advice they gave to companies. This narrow view may have unintended consequences: employees who were incentivised through EMI to drive growth may be denied the expected tax treatment in emerging exit scenarios that fall outside the original narrow definitions.

Recommendation 23: Consult on the creation of a more generous EMI scheme for high growth late stage companies which outgrow limits, including hiring more than 500 employees.

CSOPs are not well understood by high growth companies who have engaged with the EMI scheme earlier in their development. In order to simplify the process, an EMI+ scheme should be developed that provides advantages to fast growing companies looking to hire the right talent on their journey to unicorn. This would be at a less generous rate than the main EMI scheme due to the scale of the companies. This could be for companies with between 500 - 1000 employees, and with a gross asset cap of up to £1bn.

INTRODUCE A BAN ON NON-COMPETES TO REDUCE THE HEADACHE OF THOSE WISHING TO WORK IN OR START A BRITISH STARTUP

For the most part, the Employment Rights Bill (ERB) is not relevant to early stage startups or even those scaling their businesses. Simply put, to remain competitive on talent, our startups tend not to use zero-hours contracts or fire-and-rehire tactics; their success depends on building committed, high-performing teams rather than more transactional labour models which is why EMI is so critical. Nevertheless, the vibes around the ERB have a damaging impact on perception of the Labour government as pro-growth and pro-business. We believe introducing, even at this late stage, amendments that signal UKG's commitment to, and recognition of its startup ecosystem could be incredibly powerful.

Recommendation 24: Introduce a "Right to quit" framework

Currently, notice periods are typically set in an employee's contract and while there are statutory minimums, there is no maximum. For some specialist roles there are often long notice periods of 6 or even 12 months.

Capping notice periods would increase labour market fluidity, helping startups attract top talent from larger, more established companies and allowing them to get that talent in quickly. For someone who has already decided to make the jump, a long notice period is not only demoralising for the individual concerned but could be life threatening to the startup who needed that talent yesterday.

Legally capping notice periods at 3 months, except for the most senior levels (C-suite) to prevent prolonged employee retention would create stronger alignment with startup hiring cycles, and supports faster redeployment of skilled labour.

Recommendation 25: Restrict non-compete clauses.

Alongside significantly higher salaries, non-compete clauses often hinder big-tech employees from leaving to join or found a startup in the same sector. We propose limiting the use of non-compete clauses to ensure fair access to opportunities within the startup sector. This is not a radical proposal and should have support across the House.

In May 2023 the previous government announced its intention to legislate and introduce a statutory limit on non-competes, capping their duration at 3 months. This would boost labour market flexibility, spur innovation and strengthen competition.

The CMA agrees. In January 2024, after studying the issue, it concluded employment law may need updating and that: “the widespread prevalence of non-competes across the economy could act as a barrier to job switching.” It is time to press ahead with this change.

This would also go some way to addressing an issue called out in the Labour party’s manifesto, namely that “people face barriers when trying to move into a better job.”

USE THE GLOBAL TALENT FUND TO SUPPORT RELOCATION OF GLOBAL TALENT OUTSIDE OF RESEARCH

The government recently launched the Global Talent Fund, £54mn in institutional grants awarded to 12 selected UK universities and research organisations, enabling them to rapidly recruit and embed teams of international researchers by covering both relocation and research costs. We propose that the Treasury extend this scheme to commercial talent.

Recommendation 26: Add Tech Nation to the list of Institutional Grantees for the Global Talent Fund, and increase funding by £4.5m for Tech Nation to use to support costs of relocation of Global Talent visa applicants.

It could do this by designating Tech Nation as an institutional grantee of the Global Talent Fund and allocate an additional £4.5 million to support relocation costs for Global Talent visa applicants. Tech Nation has demonstrated significant expertise in identifying and supporting exceptional talent in the technology sector, making it ideally positioned to administer targeted relocation assistance that will enhance the UK’s competitiveness in attracting world-class innovators and specialists.

This funding increase would enable Tech Nation to provide meaningful relocation support making the Global Talent visa even more attractive addressing a critical barrier to entry that currently disadvantages the UK relative to competitor nations offering comprehensive relocation packages. By reducing the financial burden of international moves, this investment will strengthen the UK’s position in the global competition for talent and directly support economic growth in high-value sectors

