



## TAX SUPPORT FOR ENTREPRENEURS: CALL FOR EVIDENCE

Issued 26 February 2026

ICAEW welcomes the opportunity to comment on the call for evidence on tax support for entrepreneurs by HM Treasury on 26 November 2025, a copy of which is available from this [link](#).

### MAJOR POINTS

- Support entrepreneurship and restore confidence by instilling greater stability in the tax framework, moving away from blunt tax hikes and tax policies that disproportionately increase the cost base of UK businesses, reducing their attractiveness to investors. As discussed in our [Autumn Budget 2025 representation](#), **doing business in the UK is too uncertain, too difficult, and too expensive**.
- Maintain and enhance the effectiveness of EIS including:
  - **Introduce rolling EIS limits (5–10 years)** rather than rigid lifetime caps, to reduce cliff edges and better support scale-up funding rounds.
  - **Simplify EIS and SEIS legislation administration**, reducing technical complexity and compliance burdens for early-stage companies.
  - **Raise employee limits** within EIS to align with other scheme thresholds.
- Strengthen EMI to support talent attraction including:
  - **Increase the individual EMI option limit** which has been unchanged since 2012, to remain competitive for senior and C-suite recruitment.
  - **Relax the EMI working time requirement** for spin-outs and key individuals working across multiple ventures.
- Reconsider the reduction in rate of income tax relief from 30% to 20% on VCT investment, undertaking further impact assessment and stakeholder consultation before implementing any change. This work should consider the potential negative effect on capital flows into higher-risk start-ups and scale-up businesses.
- Strengthen HMRC service levels and technical capability, particularly in specialist areas, to reduce uncertainty and compliance burdens for innovative businesses.

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This response of 26 February 2026 has been prepared by the ICAEW Tax Faculty with input from the Corporate Finance Faculty. Internationally recognised as a source of expertise, ICAEW's Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. Our response is based on input and evidence we have received from a variety of members in business operating in a variety of different industries, through organisations of varying size and across UK regions.

ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

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## INTRODUCTION

1. This call for evidence focuses on five distinct areas and the response is divided into these as follows:
  - a. Equity investment incentive schemes including
    - i. Enterprise Investment Scheme (EIS)
    - ii. Seed EIS (SEIS)
    - iii. Venture Capital Trust (VCT)
  - b. Enterprise Management Incentive Scheme (EMI)
  - c. General tax support to encourage investment and entrepreneurship
  - d. Reinvestment
  - e. Business Asset Disposal Relief (BADR)

## EQUITY INVESTMENT INCENTIVE SCHEMES (EIS/VCT/SEIS)

### ***Question 7) Which types of investors are incentivised by each scheme? What pools of capital do these schemes attract?***

2. VCT investment is a product widely marketed to private clients with many individuals using this type of vehicle to invest when other allowances have been utilised (eg, ISA allowance). This is a more diversified and lower risk product compared to EIS. It allows investors to readily access the benefits of a portfolio of equities, thereby managing their risk without the complex administration of an EIS portfolio.
3. In contrast, EIS tends to attract business angel investors who seek to provide not only capital but also expertise and strategic input to support business growth. The SEIS is also commonly used by family and friends investing in qualifying companies, reflecting its suitability for more direct and relationship-driven investment.

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

4. Members who provided comments regarding this call for evidence were unanimous in reporting the significant value that EIS has in supporting entrepreneurship, investment and economic growth. EIS facilitates access to patient, risk-tolerant capital for founders, enabling businesses to pursue long-term development objectives. The availability of income tax relief supports more balanced investment negotiations and helps secure terms that are sustainable for early-stage companies. In addition, EIS investment frequently provides access to experienced investment professionals who can offer strategic guidance and financial oversight, particularly benefiting businesses that may not yet possess the financial maturity of more established organisations.
5. Members welcomed the recent increases in the EIS investment limits, though at this early stage it remains difficult to assess the full impact of these changes. Though it is possible that the increased limit may help to bridge a funding gap and assist in scaling, many members observed that a significant “cliff edge” is likely to persist.
6. Current tax incentives were viewed to be deficient in unlocking investment from serial entrepreneurs and family office investors. Outside of EIS, there are few initiatives that meaningfully incentivise investment by this category of investor. For example, reliefs such as Investors’ Relief and BADR are generally not considered influential in investment decision-making, given their relatively modest thresholds.

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

7. ICAEW supports the Venture Capitalist Trust Association (VCTA) view that the age limit restriction on companies seeking investment could be better aligned to EU regulations. This would increase the number of businesses which meet the criteria for the VCT scheme, thereby unlocking greater investment into UK companies. Currently, the UK legislation requires consideration of both the date of the first commercial sale of the business activity, and the age of the legal entity when this sale was made. This means that businesses who meet the policy objectives of VCT may be denied relief (for example a new trade requiring investment within an established corporate vehicle).
8. ICAEW also supports the VCTA views around reform of the reinvestment of proceeds rule. We suggest that the period allowed for redeploying the proceeds of investment disposals be extended from 12 months to 36 months, to bring it in line with the time limit for investing newly raised funds.
9. The VCTA paper published [here](#) provides more details around these policies and other measures which would support the policy objectives of VCTs.
10. Members were disappointed in the reduction in income tax relief stating that they did not understand the Treasury's rationale as EIS and VCT are not competing sources of capital, rather they are complementary. In a recent [article](#), Wealth Club cited that there is approximately only a 19% overlap in their EIS and VCT client bases. VCT continues to attract a much broader investor base, as mentioned above. However, the proposed reduction in upfront tax relief from 30% to 20% (effective April 2026) is expected to negatively impact VCT fundraises. The assumption that EIS would naturally replace lost VCT funding is not supported by any evidence and does not reflect investor behaviour.
11. VCT typically attracts later stage, less risky capital with members advising us that EIS is typically used in early fund raises. The reduced income tax rate of relief could further skew this pattern.

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

12. Our members do not generally provide investment advice therefore we have not received significant feedback around fees and costs.

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

13. Members advise us that early rounds of EIS funding can help attract later stage strategic capital and institutional investors, particularly in sectors such as life sciences and deep technology but that a cliff-edge will likely still exist even with raised limits.

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

14. Members provided consistent feedback that the schemes are overly complex, to the extent that it is generally impracticable for claimants to prepare and submit claims without professional assistance. While some attempt to do so, many are unsuccessful, resulting in the need to incur additional professional fees to access the funding. Given that many EIS-

- qualifying companies are early-stage start-ups with limited financial resources, there is a strong case for simplifying the administrative process to enable businesses to submit claims directly. Streamlining the requirements would reduce compliance costs, support businesses in their formative stages and encourage wider uptake of the schemes.
15. EIS would benefit from further simplification, as areas of complexity can create uncertainty for both companies and investors. In certain cases, it can be challenging to determine whether relief is available, particularly where technical conditions apply, such as the four-month trading requirement. Greater clarity and simplification in these areas would improve certainty and accessibility, thereby supporting more effective operation of the scheme.
  16. Members also highlighted instances where minor administrative errors can have disproportionate consequences, including the loss of relief and the imposition of onerous compliance requirements. For example, one member cited a case in which the use of an incorrect form resulted in SEIS relief being denied. Such outcomes illustrate the need for a more proportionate approach to administrative errors within the operation of the schemes.
  17. Views were mixed regarding the value of capital gains tax (CGT) deferral relief, with many members considering it to be of less significance than income tax relief. As the benefit represents a deferral rather than a permanent exemption the tax liability ultimately remains payable, so it was not generally regarded as a key factor in investment decision-making, particularly among professional investors. However, some members noted that the relief can facilitate the reinvestment of disposal proceeds into new ventures, thereby supporting continued investment activity and capital recycling within the market.
  18. Members expressed the view that current restrictions on employee investment in EIS companies should be removed and that such investment ought to be fully incentivised, to encourage greater participation and alignment of employees with the growth and success of the business.
  19. The current definition of control is complex and, in practice, may capture arrangements that do not reflect substantive control, particularly those involving venture capital investment. As a result, otherwise qualifying companies may be unnecessarily prevented from accessing the EIS scheme. This definition should be reformed.
  20. Members considered that the employee limits should have been raised alongside the other limits and that this would appear a reasonable adjustment to the rules.
  21. Members also considered whether the list of disqualified trades could be reviewed to determine whether the policy objectives behind each exclusion are still relevant and if some could be relaxed or removed.
  22. Consideration could also be given to introducing a dividend exemption within the EIS framework. In practice, members note that relatively few EIS-qualifying companies generate sufficient distributable reserves to pay dividends, particularly in their early growth stages. However, the availability of such an exemption would send a clear signal that investment in innovative, high-growth and higher-risk sectors is actively supported by government policy. This could help foster a stronger culture of entrepreneurship and reinforce the UK's position as an attractive environment for growth capital investment.
  23. Members considered the current age limit for EIS companies to be overly restrictive and misaligned with commercial growth timelines. In practice, the limit can prevent otherwise qualifying companies from raising further funds, particularly in capital-intensive or research-led sectors where scaling takes longer. The enhanced company size thresholds announced at the Budget may further exacerbate this issue, as companies are likely to take longer to reach those limits, causing the age restriction to become a more significant barrier in practice. Members suggested that the Government review the continued policy rationale for the existing limit, with options including abolition or extension (for example, to fifteen years in line with the EMI exercise period limit).
  24. Members also noted that other jurisdictions offer more attractive investment incentives. For example, in the USA, early-stage technology businesses benefit from targeted schemes that successfully encourage investment, highlighting the potential for more competitive frameworks to support entrepreneurship and scaling. Members also suggested that the US

Qualifying Small Business stock regime could be an arrangement that might support entrepreneurship in the UK.

## **EMI SCHEME**

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

25. The EMI scheme has been widely regarded as both effective and popular, and the increase in the qualifying limits is particularly welcome. The revised thresholds address a longstanding concern that companies could fall outside the scheme at precisely the point when their talent requirements become more demanding. By expanding eligibility, the changes should better support businesses seeking to attract and retain employees during their scale-up phase, although it remains too early to assess the full impact.
26. Overall, the amendments are expected to be positively received. There is already early evidence of behavioural change with one member advising that a portfolio company previously excluded due to the size criteria is planning to reintroduce EMI from April, reflecting its progression along the scale-up journey and the practical benefit of the revised limits.

### ***Question 14) How could EMI and the wider share scheme offer be improved to better support founders/scaling companies?***

27. Many members raised the issue that the individual option limit has remained unchanged since 2012. Members report that this static threshold can present challenges when seeking to recruit senior executives, particularly at C-suite level, where competitive equity packages are often expected and the Company Share Option Plan (CSOP) is not regarded as an attractive alternative. In the context of competition for global talent, especially against US technology businesses and other well-capitalised international competitors, members consider that a materially increased individual EMI limit is necessary. Aligning the individual cap with the recent increases to the wider scheme limits, for example by doubling it, would complete the modernisation of the financial thresholds and strengthen the UK's ability to attract and retain senior leadership talent within growth companies.
28. The rules around disqualifying events (eg, a subsequent grant of CSOP options on top of unexercised EMI and CSOP options) and the independence requirement, which excludes private equity-majority owned businesses, were also seen as restricting availability of the regime.
29. Members did raise concerns around the working time requirement, suggesting this can be a blocker to incentivising staff. For example, spin-out companies will often have staff members that are working across a portfolio of companies or are part-time board members who bring key experience with them but do not meet the current rules on working time. These companies cannot use EMI to incentivise these individuals. This seems to be a very small anomaly that can be easily remedied by a relaxation of this working time requirement for spin-out companies or knowledge intensive companies more widely. This would enable the incentivisation of key individuals more effectively with very little cost to the exchequer.

## **GENERAL SUPPORT TO ENCOURAGE INVESTMENT AND ENTREPRENEURSHIP**

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

30. Discussions with members highlighted a consistent concern regarding the broader policy environment necessary to support investment and business growth. ICAEW's Business Confidence Monitor for Quarter 4 2025 fell for the sixth consecutive quarter and is now at its lowest level since Quarter 4 2022. Businesses report the tax burden as the biggest business challenge, with 64% of businesses citing this as an issue, a record high. There is a widespread perception that the UK is no longer sending a clear signal that it is open for business.
31. Members noted that rising cost pressures, including increases in the national minimum wage and higher national insurance contributions, have significantly affected operating costs. These challenges have been compounded by recent changes to inheritance tax, (IHT) particularly impacting business owners and farmers. Many members indicated that this uncertain environment has already influenced decisions likely to constrain growth, such as headcount reductions and recruitment freezes.
32. ICAEW considers it critical that the Treasury restores confidence by maintaining tax stability and introducing policies that clearly support and reward entrepreneurship.
33. Members also highlighted the impact of thresholds and associated "cliff edges" on growing businesses. For example, the £100,000 income threshold at which the personal allowance begins to be withdrawn creates a steep marginal tax rate, which distorts behaviour and undermines efficient tax design. These effects are further compounded by the withdrawal of other support, such as childcare assistance and child benefit, resulting in particularly high marginal rates for some individuals. Members reported that this has led to employees actively choosing not to increase their earnings by ignoring promotion opportunities and/or reducing their hours to avoid crossing the threshold. This presents a material challenge for businesses seeking to motivate their workforce, support progression and drive growth.
34. A significant step in supporting businesses would be to improve HMRC service standards. Members report ongoing difficulties in obtaining timely guidance and resolving routine matters efficiently. Delays and limited access to support can create unnecessary administrative burdens and uncertainty for businesses seeking to comply with their obligations. Consideration should therefore be given to investing in HMRC helplines, as well as improving staff availability and training, to ensure businesses can access clear and reliable assistance when required.
35. Concerns have been raised regarding the consistency and technical understanding of HMRC officers in certain specialist areas. In some cases, a lack of familiarity with the underlying technical matters can lead to prolonged enquiries and increased compliance costs. Furthermore, the timing and quantum of tax relief becomes uncertain which can impact investment decision making. Strengthening technical expertise in specialist teams would help improve the quality, efficiency and fairness of interactions between HMRC and businesses.
36. Access to global talent is increasingly cited as a significant challenge for growing businesses, particularly following recent changes to the non-domicile regime. Members report that one of the most common reasons international candidates decline to relocate to the UK is the perceived punitive tax treatment of internationally mobile entrepreneurs. In particular, there is concern about exposing foreign assets to the UK tax net. Members suggest that an absolute exemption from IHT for assets accumulated prior to becoming UK resident would help restore confidence and improve the UK's attractiveness as a destination for global talent. Some also consider that more favourable IHT treatment could be explored for shares held by non-UK founders who relocate to the UK to contribute their expertise and support business growth.
37. Although this consultation is largely focussed on supporting individuals to invest in new and growing businesses, the reintroduction of the corporate venture scheme (or something similar) could help to encourage companies to invest in another company where the substantial shareholdings exemption is not available.

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

38. To assist with cliff-edges within EIS, members considered that rather than lifetime limits, EIS companies could be subject to rolling limits over 5-10 years. This would enable later funding rounds to attract EIS, once early rounds have dropped out of the window. This way EIS becomes an effective scheme to support the scaling-up of UK businesses.
39. Under the current EIS and SEIS rules, where a company experiences a disqualifying event and ceases to meet the qualifying conditions, investors may lose relief in full. Given that investors often have limited control over, or visibility of, the company's ongoing compliance, members consider this outcome to be disproportionately harsh. By comparison, the Substantial Shareholdings Exemption (SSE) includes a six-year look-back provision, requiring the qualifying conditions to have been met for a minimum of 12 months within that period. A similar tapering approach, proportionately reducing relief following a disqualifying event, could offer a more balanced allocation of risk between investors and companies, while maintaining the integrity of the regime and supporting continued investment.
40. It was suggested that, to create a more attractive CGT regime for entrepreneurs, consideration could be given to a structure that incentivises long-term shareholding and sustained support for growing businesses. Members referenced the former taper relief regime as a potential model, noting that a similar approach could provide staged relief over time and reward original founders who build and expand their businesses over a number of years. Members advise that several European countries have a similar system where the CGT rate varies depending on how long the shares have been held for.
41. Tax policy on employment status needs further clarity and certainty. The tax system and employment rights framework operate with different definitions and categories of status meaning contractors, workers and employees are easily confused. There needs to be clarity over obligation and simplification of status for different purposes. Current tests are not fit for purpose and often do not reflect the reality of doing business or inspire entrepreneurship. Tax policy should support flexible labour models, to encourage hiring but minimise risk to entrepreneurs who may need to use specialist contractors and short-term labour, rather than longer term employees from the outset. Businesses which are scaling up may wish to use contractors during periods of fast growth but find they breach certain thresholds suddenly (eg, within the off payroll working and IR35 rules). This increases their obligations and costs during the scaling up process. Whilst compliance is important, the focus during such a period is often on growth, rather than complex administration.
42. Businesses are clear that they find the IR35 rules a barrier to hiring contractors and a deterrent to legitimate economic activity. An over-reliance on case law does not foster confidence that the tax system is transparent and fair. Better safeguards need to be put in place. This could include statutory or further guidance tests, or even a HMRC advance clearance process would assist with tax certainty whilst allowing for industry specific differences and exclusions if necessary.

## REINVESTMENT

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

43. Tax as an incentive is effective in encouraging re-investment though many felt an absolute saving rather than a deferral would be more effective. As described above the existing tax incentives were not viewed to be effective at unlocking some wealth and re-investment. Members suggested that a re-investment relief might be appropriate. In simple terms this could work to extend BADR in situations where the proceeds were re-invested in qualifying companies. Clearly this would need further thought and anti-avoidance and compliance measures would need careful consideration.

44. Changes in BADR and CGT can have an impact because entrepreneurs' experiences around their own exit can inform their willingness to invest again. Recent shifts in fiscal policy have encouraged some wealth offshore, with little incentive to retain funds in the UK.

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

45. Tax should be used as a lever to recognise the significant personal risk entrepreneurs take over and above other populations. This entrepreneurial investment fuels the economy, growth and is revenue generating for the exchequer in the long-term.
46. Members suggested removing the business property relief cap on private company shares so investors are able to retain their long-term investments in a tax-free environment.

## **BUSINESS ASSET DISPOSAL RELIEF**

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

47. BADR is no longer regarded by entrepreneurs as a significant factor in exit planning decisions, following successive changes that have reduced its overall value. For large high-growth disposals, the £1 million lifetime cap is modest, this combined with the relatively small differential in CGT rates mean it is no longer an incentive, particularly for serial entrepreneurs. This may constrain the recycling of capital into new ventures.
48. Some members felt that a per disposal limit as opposed to a lifetime limit for BADR would more effectively incentivise entrepreneurial activity. This would recognise and reward serial entrepreneurs who repeatedly establish, scale and successfully exit ventures, thereby contributing to economic growth, employment and wealth creation.

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

49. Members advise us that the changes to BADR have negatively impacted serial entrepreneurship within the UK, highlighting that the risk and value of wealth creation by entrepreneurs is not reflected appropriately in tax policy.
50. Furthermore, entrepreneurial incentives in the UK are perceived to be not as compelling as certain other jurisdictions. The US is often cited as having better fiscal policies to attract investment and entrepreneurship, such as its qualified small business stock regime which offers up to a 100% exclusion from capital gains tax on qualifying investments.
51. Please refer to earlier comments around an extended re-investment relief and taper relief as potential policy reforms which could better support entrepreneurship.

## APPENDIX 1

### ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory:** tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament.
2. **Certain:** in virtually all circumstances the application of the tax rules should be certain. It should not normally be necessary for anyone to resort to the courts in order to resolve how the rules operate in relation to his or her tax affairs.
3. **Simple:** the tax rules should aim to be simple, understandable and clear in their objectives.
4. **Easy to collect and to calculate:** a person's tax liability should be easy to calculate and straightforward and cheap to collect.
5. **Properly targeted:** when anti-avoidance legislation is passed, due regard should be had to maintaining the simplicity and certainty of the tax system by targeting it to close specific loopholes.
6. **Constant:** Changes to the underlying rules should be kept to a minimum. There should be a justifiable economic and/or social basis for any change to the tax rules and this justification should be made public and the underlying policy made clear.
7. **Subject to proper consultation:** other than in exceptional circumstances, the Government should allow adequate time for both the drafting of tax legislation and full consultation on it.
8. **Regularly reviewed:** the tax rules should be subject to a regular public review to determine their continuing relevance and whether their original justification has been realised. If a tax rule is no longer relevant, then it should be repealed.
9. **Fair and reasonable:** the revenue authorities have a duty to exercise their powers reasonably. There should be a right of appeal to an independent tribunal against all their decisions.
10. **Competitive:** tax rules and rates should be framed so as to encourage investment, capital and trade in and with the UK.

These are explained in more detail in our discussion document published in October 1999 as TAXGUIDE 4/99 (see <https://goo.gl/x6UjJ5>).