

Tax Support for Entrepreneurs: Call for Evidence

Comments from Saffery LLP, submitted through the online response form, together with our executive summary and general points

1. Executive summary

1.1 We welcome the chance to comment on how the tax system can help to unlock the UK's scale up potential.

1.2 In summary, our key points are as follows:

- The EIS independence rules can prevent companies from entering genuine commercial joint venture arrangements, reducing flexibility and distorting decision making during a critical stage of growth.
- SEIS complexity can be disproportionate to the modest levels of funding typically raised.
- The EMI per-employee limit has not kept pace with wider scheme expansions and no longer reflects the equity expectations of scaling businesses.
- EMI independence rules can prevent commercially appropriate group-level arrangements, particularly where founders operate through multi-entity structures.
- Many scaling businesses face wider cashflow pressures which sit outside share scheme design but influence their ability to attract and retain key staff and to progress towards eventual exit.
- The increase in employer National Insurance contributions from April 2025 may have affected hiring decisions at important points in the scale-up journey.
- Access to sector-specific skills can materially influence decisions on where to base growth activity, raising the question of whether targeted tax support for UK workforce development could help address capability gaps.
- The reduction in the BADR lifetime limit from £1 million to £60,000, without a corresponding simplification of the rules, has changed the balance between the complexity of the relief and the benefit provided, potentially eroding some of the relief's effectiveness in supporting entrepreneurial activity.

1.3 Section 2 below makes some general comments on the proposals, and section 3 covers our responses to the specific questions raised in the consultation document.

1.4 We would be happy to discuss the points raised here in further detail. If you have any questions, or would like any further information, please contact: Ami Jack on +44 (0)330 094 3079 or email ami.jack@saffery.com.

2. General points

2.1 Scaling companies rely on a tax environment that provides clarity, predictability and proportionate compliance requirements. Where the design or interaction of reliefs becomes overly complex, or creates unintended barriers to otherwise straightforward

commercial steps, this can delay investment decisions and reduce the effectiveness of the support available.

3. Specific consultation questions

3.1 Question 7: Which types of investors are incentivised by each scheme? What pools of capital do these schemes attract?

3.1.1 No comment

3.2 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?

3.2.1 No comment

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

3.3.1 No comment

3.4 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?

3.4.1 No comment

3.5 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?

3.5.1 No comment

3.6 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?

3.6.1 One weakness within EIS is the difficulty of using the scheme where a company wishes to enter a genuine commercial joint venture. The current ownership rules mean that EIS qualifying companies can be prevented from adopting structures that would otherwise be commercially sensible during the three-year qualifying period. We have seen companies delay entering commercial joint venture arrangements until after that period to avoid jeopardising their EIS status. This reduces flexibility at a critical stage of growth and can distort decision making. Updating the rules to allow genuine commercial joint ventures

would make the scheme more practical for scaling companies and support businesses in pursuing commercially driven opportunities at the right time.

3.6.2 Although SEIS offers a strong incentive for early-stage investment, we do see friction between the relatively small sums typically raised and the level of complexity in the rules, which closely mirror those of EIS. Advisers are required to price work at a level commensurate with the risk and technical detail involved, but this can be disproportionate for founders seeking only modest initial funding. Simplifying aspects of SEIS, or differentiating it more clearly from EIS in terms of compliance requirements, could help founders access early finance more efficiently.

3.7 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?

3.7.1 The per employee EMI limit has not been increased for a number of years and therefore no longer reflects the equity expectations or valuations typical of scaling companies. In our experience, this cap now sits at odds with the wider increases made to the scheme. EMI was designed to help companies attract and retain key people, often a small group of senior employees whose contributions drive long term value. The value of individual option grants in scaling companies frequently exceeds the current £250,000 limit, leading businesses towards growth share structures or other alternatives that add cost and complexity and can create outcomes contrary to commercial objectives. Increasing the per employee limit in line with the expanded company limits would ensure that EMI continues to operate as an effective and practical tool for talent attraction and retention.

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

3.8.1 We encourage the government to revisit the restriction that prevents subsidiaries from granting EMI options. We appreciate there may be avoidance concerns, but in practice the rule pushes companies towards growth-share or other arrangements that deliver similar outcomes but involve more cost and complexity. In one recent case, EMI could not be used because the business was carried on through several subsidiaries and the founder wished to reward management based on the growth of individual entities within the group. Without the option of using EMI, the founder is potentially faced with the significant additional complexity of separate classes of growth shares in each of the subsidiaries or significant income tax charges for transferring full rights shares directly to managers. Allowing subsidiaries within qualifying groups to grant EMI options would make the rules more practical, reduce professional costs, and better reflect how growth companies are structured.

3.9 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?

3.9.1 No comment

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

3.10.1 The recent changes to EMI are helpful for businesses planning for an eventual exit, particularly where growth-focused companies want to attract or retain key people through a period of uncertainty and where cash to fund bonuses can be in short supply. However, we see many scaling businesses facing wider cashflow pressures that sit outside the scope of share scheme design. These pressures can limit the ability of founders to invest, to recruit, or to take the commercial steps needed to reach the point where an exit becomes viable. It may therefore be helpful for the government to consider the underlying reasons why many growing businesses are struggling for cash, alongside the operation of specific tax reliefs, when assessing how best to support companies through the scale-up phase.

3.10.2 The increase in employer National Insurance contributions from April 2025 may also have affected the ability of some entrepreneurs to expand their workforce at a critical stage in their development. Changes in employment costs can have a material impact on scaling businesses, particularly where margins are tight. Understanding the interaction between employment taxation and growth could help ensure that tax policy supports, rather than constrains, the creation of new roles in innovative companies.

3.10.3 We are aware of cases where access to industry-specific skills has influenced decisions about where to base growth activity. In one recent example, a client chose to expand operations overseas because the relevant skills were more readily available and, in some areas, perceived to be stronger than in the UK. This raises the question of whether there is scope for targeted tax support for UK-based skills training in sectors where capability gaps may act as a barrier to scaling. Measures that incentivise investment in UK workforce development could help ensure that growing businesses have access to the specialist skills they need.

3.11 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?

3.11.1 No comment

3.12 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?

3.12.1 We see merit in exploring a more flexible form of CGT-based reinvestment relief to encourage individuals with larger gains to reinvest in UK businesses. While EIS deferral

relief allows gains to be deferred when reinvested into EIS-qualifying shares it's tied to narrow qualifying conditions and requires high-risk equity investment into very small to mid-sized companies, which does not suit all investors, including those looking to reinvest substantial gains. A more flexible CGT reinvestment relief, potentially available for investment into a wider range of UK companies or through a broader set of instruments, including debt, could help channel more capital into growing UK businesses.

3.13 Question 19: 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?

3.13.1 No comment

3.14 Question 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?

3.14.1 Before 11 March 2020, the maximum tax saving available under BADR was £1 million. From 6 April 2026, this will reduce to £60,000, yet the underlying rules have remained largely unchanged. This has altered the balance between the complexity of the relief and the benefit it provides. Although BADR continues to be important for many individual shareholders, especially on sales where companies have large numbers of smaller shareholders, the level of administrative and technical research and detail now required can feel disproportionate to the relief available. With a lower tax saving, it becomes even more important for the compliance requirements to be straightforward to avoid eroding the effectiveness of BADR in supporting entrepreneurial activity. We consider this to be an aspect of the relief worth reviewing.

4. About Saffery LLP

4.1 At Saffery, we're more than just chartered accountants and tax and business advisers. We're a partner-led and people-focused firm, committed to our clients and honouring our heritage.

4.2 Since 1855, we've evolved in size and scope, but our unwavering dedication to exceptional client service remains the same.

4.3 As a proud member of Nexia, a worldwide network of trusted member firms, we've got access to local insight on a global scale.

4.4 In the UK, Saffery LLP is the 15th largest accountancy firm by fee income, with 90+ partners and 1,200+ staff across nine offices. Overseas, Saffery is represented in Cayman, Guernsey, Geneva, Zurich, Dublin and Dubai.