



Quoted Companies Alliance

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Friday 27 February 2026

Dear Treasury colleagues,

Tax Support for Entrepreneurs: Call for Evidence

The Quoted Companies Alliance (QCA) and its members welcome the opportunity to respond to the Tax Support for Entrepreneurs: Call for Evidence.

We strongly support efforts to strengthen the UK's growth markets and to ensure that small and mid-sized quoted companies have access to proportionate, effective, and well-functioning capital markets. These companies are regional jewels, embedded in local economies across the UK and 50% more productive than the national average according to a recent Grant Thornton study. The UK economy manifestly needs more of them; more must be done to fulfil their great potential.

We appreciate HMT's continued engagement with market participants and recognise the ambition to create a supportive environment for early-stage and scaling companies and the entrepreneurs that lead them. Calibrating the set of incentives that draw capital to these promising businesses is just as important as pressing down on the cost of doing business on the UK's capital markets and can be a key driver for boosting liquidity.

We welcome the focus on optimising EIS, EMI and VCT schemes, although we highlight a grave concern shared with others that reducing the rate of VCT relief will impact investment in growth companies contrary to the Government's clearly-stated growth ambitions.

More broadly, we urge HMT to widen its lens so that consideration of growth companies and scale-ups includes quoted companies as a matter of course. Too often "growth" is regarded as something that takes place off-market and companies head for IPO only when they have "grown".

Yet more than half of the companies whose shares trade in London have a market value of less than £100m. Some of their growth rates are explosive, and by coming to market early in their story a far wider range of investors – including, notably, retail investors - can access the upside. The City's smallcap community is a great point of difference for the UK - certainly not something that the US can emulate.

However, these companies, trading on AIM, Aquis or the smallcaps of the Main Market, often feel sidelined when it comes to policymaking. There is much, welcome effort put into nurturing tomorrow's quoted companies yet the best advert for IPOing is a set of business leaders that have successfully done it already and can report back they are going from strength to strength.

I am sad to relate that these growth stocks can sometimes feel like an afterthought. They are covered by the scope of the Mansion House Accord but few if any have felt the benefit - or from its predecessor, the Mansion House Compact. They suffer from funding gaps because of onerous FCA regulation – as seen in the watchdog’s recent consultation paper on enhancing fund liquidity risk management – yet the British Business Bank, which has a remit to plug such gaps, does not support them.

Most pointedly, the current arrangement for inheritance tax reliefs, rethought for some companies just before Christmas, steers money into private assets (with 100% relief) over public (where business property relief is reduced to 50%). Despite much welcome focus on UK capital market reform, the playing field is tilted away from going public and remaining public for many of the UK’s most exciting growth companies.

Both the QCA Tax and Share Schemes Expert Groups have examined the proposals and advised on this response from the viewpoint of small and mid-sized quoted companies. A list of Expert Group members can be found in Appendix A.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,



James Ashton
Chief Executive

The Quoted Companies Alliance champions the UK’s community of 1000+ small and mid-sized publicly traded businesses and the firms that advise them.

A company limited by guarantee registered in England
Registration Number: 4025281

1. General Comments

- 1.1. The Quoted Companies Alliance (QCA) represents the UK's community of small and mid-sized quoted companies and the firms that advise them. Our members span a wide range of sectors and stages of growth, including companies that have transitioned from early-stage venture backing to scaling businesses accessing public markets, particularly AIM.
- 1.2. From our perspective, the UK's tax-advantaged investment and share scheme framework remains fundamentally important as a tool to support entrepreneurship and growth. However, there is growing evidence that, taken together, the current framework is not fully delivering against its objectives, particularly in relation to supporting companies through the scale-up phase and sustaining a strong pipeline into the UK's public markets.
- 1.3. In this context, we are concerned that changes announced at the most recent Budget have weakened the effectiveness of the Venture Capital Trust (VCT) scheme at a time when the UK faces a well-documented shortage of scale-up capital. Although we appreciate increases in the limits associated with the relief, changes to the income tax treatment of VCT investments risk reducing the overall attractiveness of the scheme to investors and, critically, the total volume of capital available to growth companies.
- 1.4. While HM Treasury has framed these reforms as a rebalancing between VCT and EIS, recognising that the schemes attract different categories of investors, our members are concerned that this approach underestimates the degree to which the two schemes serve distinct but complementary roles. In practice, there is a real risk that capital withdrawn from VCTs does not automatically flow into EIS, leading instead to a net reduction in growth capital, particularly for companies beyond the very early stages.
- 1.5. This is especially problematic given that VCTs already tend to invest at a later stage and, in recent years, have become increasingly risk-averse. The Budget changes therefore risk compounding existing conservatism within the VCT market, further reducing the availability of patient, long-term capital for scaling companies, including those on or aspiring to join AIM.
- 1.6. More broadly, we are concerned that incremental changes to individual schemes, without addressing underlying structural barriers, such as complexity, high advisory costs, and growing regulatory-led risk aversion, are unlikely to resolve the scale-up funding gap. At the same time, recent changes to capital gains taxation and ongoing uncertainty around reliefs, such as the cutting of Business Property Relief in October 2024, risk sending a negative signal to entrepreneurs, potentially discouraging the long-term risk-taking and commitment required to build successful UK-based growth companies.

- 1.7. Therefore, to support a more effective government incentive framework for scaling companies, the Government should also consider reinstating a tax-free allowance for AIM-quoted shares within the Business Relief framework, aligned with the £2.5 million threshold applicable to certain asset-backed schemes. This would reduce distortions that currently incentivise capital away from growth equity, helping to stabilise long-term investment and support scaling companies.
- 1.8. Smaller quoted companies also confront the challenge around options, namely, a lack of liquidity, except in the case of an exit by the current shareholders allowing option holders to exercise and exit alongside them.
- 1.9. Against this backdrop, our response draws on feedback from QCA members, advisers and investors, and highlights where targeted reform could materially improve outcomes for founders, scaling companies, and the wider UK capital markets ecosystem.

Consultation questions

2. Venture Capital Trusts (VCT) and Enterprise Investment Scheme (EIS)

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

- 2.1. EIS and VCT attract different, but complementary, pools of capital.
- 2.2. EIS primarily incentivises high-net-worth individuals and experienced private investors who are prepared to invest, either directly or via an EIS fund structure, at an earlier stage and accept higher levels of risk. These investors are often motivated by the upfront income tax relief and loss relief available under the scheme, together with the possibility of a tax-free capital gain in the future upon disposal. In addition, such investors may bring significant additional value through sector expertise, networks they can use to the benefit of the investee companies, or other informal support.
- 2.3. VCTs tend to attract a broader retail investor base, often seeking income tax relief and tax-free dividends (often where individuals have fully utilised available ISA and pension allowances). As a result, VCT investment strategies have historically focused on companies at a slightly later stage of development, with more established revenues and a perceived lower risk profile, albeit in the context of what is a high-risk sector.
- 2.4. While the policy intent has been to recognise these differences, our members question whether the risk profile of VCT investments is materially lower in practice. There is concern that changes to VCT incentives risk reducing the overall pool of growth capital if the capital withdrawn from VCTs does not flow into EIS or alternative growth funding.

Q8 What has been the experience of founders in working with EIS investors and EIS funds? In what ways have the scheme supported businesses to scale?

- 2.5. Founders' experiences with EIS investors are generally positive. EIS has played an important role in supporting companies at an early stage, enabling them to reach key commercial and operational milestones and acting as a bridge to later-stage funding.
- 2.6. However, access to EIS is often accompanied by significant complexity. Companies frequently rely on specialist advisers to navigate eligibility and compliance, which can be expensive. As a result, EIS is more commonly used by companies that are already relatively sophisticated or have existing funding, rather than being embedded early in funding strategies.
- 2.7. In some cases, companies decide to seek alternative sources of funding rather than raise capital from EIS fund managers and investors. For instance, investors may back out where there is uncertainty as to whether future growth plans could fall outside EIS qualifying criteria, including independence requirements or excluded activities.
- 2.8. This raises questions about whether the scheme is as accessible as intended to first-time founders and very early-stage businesses.

Q9 Does the design of the VCT scheme, and investment decisions of VCTs using it, align with the original objectives of the scheme to support investment in the most high-risk, high-growth scaling companies?

- 2.9. There is growing concern that the VCT scheme is no longer fully aligned with its original objective of supporting the highest-risk, high-growth companies.
- 2.10. In recent years, VCTs have become increasingly risk-averse, favouring capital preservation and later-stage investments. While this is understandable from a fund management perspective, it has reduced the availability of genuinely patient risk capital for scaling companies.
- 2.11. This shift is particularly problematic for companies on, or aspiring to join, AIM, where access to follow-on growth capital is critical to sustaining momentum post-admission.

Q10 What are founders' experiences with the fees charged by VCTs/EIS funds to investee companies?

2.12. Founders consistently report that the advisory, structuring and compliance costs associated with EIS and VCT investment can be high, particularly relative to the size of the capital raised.

2.13. Many advisers view the schemes as complex and difficult to implement and therefore may steer companies away from them unless the expected raise is sufficiently large. This raises questions about value for money and whether the schemes deliver proportionate benefits for smaller growth companies. In some cases however, VCT and EIS fund managers bring significant wider expertise to the investee companies beyond just their investment monies.

Q11 For start-ups and scale-ups, how does early-stage VCT and EIS investment impact the ability to secure funding from other sources? How do the new scheme limits support that transition?

2.14. Early-stage EIS investment can be effective in enabling companies to secure follow-on funding, including institutional investment and, in some cases, access to public markets.

2.15. However, founders report that current scheme limits are often insufficient to address the scale-up funding gap, particularly in capital-intensive sectors. There are also unintended consequences where large VCT-backed funding rounds can lead to inflated valuations, which then create challenges for EMI valuations and employee incentives.

Q12 How could these schemes be enhanced in future to better support founders, scaling companies, and the broader investment pipeline for the UK's high-growth companies?

2.16. Enhancements could include:

- Simplifying eligibility rules to reduce reliance on expensive advisory input;
- Reassessing the trading activities test to ensure it aligns with current growth priorities, including fintech, where the company is developing to conduct an element of lending itself;
- Reviewing whether the age limits introduced in 2015 are effective, particularly as they may disproportionately disadvantage companies in regions with slower access to capital;
- If changes, such as to the age restrictions, would be too expensive or open to abuse to relax fully, we would encourage an exemption for growth companies whose shares are quoted on AIM or Aquis, thereby helping to reduce the scale-up gap.
- Reconsidering aspects of the independence test to allow growth companies to incentivise top-tier management to join and invest their own capital in a tax-privileged and well-understood regime;

- Ensuring VCT incentives support genuine risk capital rather than reinforcing conservatism.

3. Enterprise Management Incentive (EMI)

Q13 Considering the new scheme limits, how effective is the current EMI scheme for founders/scaling companies in accessing the talent they need to grow and develop?

3.1. EMI remains one of the most effective tools available to growth companies for attracting and retaining talent, and the increase in company-level limits is welcome.

3.2. However, several issues limit its effectiveness in practice. Increased scrutiny of valuations by HMRC, particularly following VCT-backed funding rounds, can result in inflated EMI valuations, reducing the incentive for employees. In addition, while company limits have increased, the individual limit has not, reducing EMI's usefulness for senior hires.

Q14 How could the EMI scheme, or the wider share scheme offer, be improved to better support founders and scaling companies?

3.3. Potential improvements include:

- Greater flexibility where companies lose EMI eligibility due to investment rounds or restructuring.
- Addressing the gap between EMI and CSOP, potentially through a hybrid scheme.
- Increasing the CSOP individual limit (e.g. to £90k - £100k).
- Considering extending tax-advantaged share schemes to non-executive directors and key advisers.
- Addressing barriers for university spin-outs or non-executive directors, where working time requirements can exclude academics or board members.
- Considering the relaxation of the EMI independence test, particularly the "no arrangements" requirement, which can cause disqualification for potential changes of control, before the event has occurred.
- Revisiting the EMI trading activities requirement and scaling back the list of excluded activities, as this would enable more companies to qualify.

3.4. More widely, informed by the responses to the Call for Evidence to non-discretionary tax-advantaged share schemes, implement changes so that the SAYE Plan and Share Incentive Plan reflect modern working practices and offer valuable tax reliefs¹.

4. Tax, risk-taking and the investment pipeline

¹ If you would like to discuss our suggestions for improving the EMI scheme and the wider share scheme offer in more depth with our QCA Tax and Share Schemes Expert Groups, please do not hesitate to contact us.

Q15 In what additional ways could the UK's tax system strengthen the investment pipeline and further encourage an entrepreneurial, risk-taking environment in the UK?

4.1. The Government could mandate financial institutions, such as the National Wealth Fund or the British Business Bank, to support quoted growth companies through offers of direct equity investment, at a level equal to a small percentage (e.g. up to 10%) of the total amount of taxes (VAT, PAYE, National Insurance and Corporation Tax) remitted to HMRC each tax year.

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

4.2. A key aspect of founders' successful progression is their ability to hire motivated and talented staff. In this regard, the cliff edge arising from the withdrawal of child support at salaries of £100,000 per annum and above, alongside the 62% marginal tax rate, penalises parents of young children and reduces the attractiveness of salaries around this income level. Due to inflation, this issue affects an increasing number of people each year. A temporary fix could be to raise the £100k threshold in line with inflation or to restructure taxes for higher earners on a cost-neutral basis, such as restoring the personal allowance but increasing the additional rate to begin at £100,000.

5. Reinvestment and Business Asset Disposal Relief (BADR)

Q18 Is tax an appropriate lever to incentivise reinvestment? If so, how can the UK tax system encourage stronger reinvestment activity, including through removing any existing barriers that might disincentivise this?

5.1. Tax can be an effective lever if designed carefully. Reliefs should encourage reinvestment into UK growth companies without adding unnecessary complexity or uncertainty.

5.2. However, as a lever to incentivise re-investment there is too narrow a set of potential re-investment options. Where an entrepreneur may be looking at the deferral of CGT that is not covered by BADR through re-investment, the options fall to either invest via EIS-qualifying shares or into new qualifying business assets.

5.3. The former requires an investor not connected with the company to make the investment, meaning it can be problematic to both employees and consultants who can only provide expertise if they then become a director (to meet the definition of a business angel). This may not always be suitable, especially if the directorship has to be taken after investment. The latter requires a level of investment (>5% of the shares which must be maintained) which can be a deterrent.

5.4. A broadening of the business angel definition and also re-assessment of the EIS criteria would be beneficial for entrepreneurs looking at re-investment opportunities.

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

5.3 Concern about changes to BADR in the 2024 budget led to a higher number of disposals taking place prior to the change being announced. Furthermore, we are still observing transactions looking to complete before the further changes in BADR come into force at the end of the current tax year. Accordingly, there is clear evidence that the availability of BADR does have an impact on decision-making.

Appendix A

The Quoted Companies Alliance Markets Share Scheme Expert Group can be found here: [Share Schemes Expert Group – The QCA](#)

The Quoted Companies Alliance Tax Expert Group can be found here: [Tax Expert Group – The QCA](#)