
BIA response to Tax Support for Entrepreneurs: Call for Evidence

About the BIA

The BioIndustry Association (BIA) is the voice of the innovative life sciences and biotech industry, enabling and connecting the UK ecosystem so that businesses can start, grow and deliver world-changing innovation.

We have over 600 members spanning human health and non-health biotech, including start-ups, scale-ups and established global companies. Our membership also encompasses the full UK ecosystem, including non-commercial research institutions and service providers.

Summary

The UK life sciences sector is critical to the government's growth mission, driving economic growth through new industries, high-value jobs and cutting-edge technologies. While early government decisions have provided important support and confidence, the attractiveness of the UK as a destination for life science investment and company growth remains fragile due to the broader commercial and macroeconomic environment and rising costs on businesses.

We welcome the Chancellor's 2025 Budget speech commitment to 'make Britain the best place in the world to start up, scale up, and stay'. A pro-innovation and pro-entrepreneurship tax system will be essential if this ambition and vision is to be realised.

While the current system has many positive elements, there are many areas that are inaccessible or limiting as a result of complexity or unnecessary barriers. Existing schemes need to be streamlined where possible and better targeted to ensure that the intentions behind the incentives are realised, and that the system takes into account the intricacies of our highest potential sectors, such as life sciences.

BIA calls for government to:

- Simplify and modernise EIS, VCT and EMI to remove technical traps and introduce consistent definitions.
- Target and strengthen capital incentives for high-potential Knowledge Intensive Companies through enhanced EIS/VCT relief and restoration of ERIS.
- Improve incentives to attract and retain talent by expanding EMI/CSOP limits and introducing an NI exemption for innovative companies.
- Develop incentives to anchor innovation and high-growth companies in the UK by incentivising reinvestment of gains into qualifying growth businesses.

Successful deployment of the policies proposals outlined in this response would lead to a markedly improved tax system that is working with the industries most equipped to deliver Government's missions, rather than against them. Such a system is essential to unlocking the true innovation and growth potential of the life sciences.

The unique characteristics of life sciences

The government's Life Sciences Sector Plan rightly recognised the need for specific support for each of the priority sectors outlined in the Industrial Strategy. This is essential, because the entrepreneurs in the UK's life sciences sector – despite its world-leading strength – face unique challenges, and the life sciences business model has particular characteristics, that must be considered by policy makers when designing or adjusting policy to ensure the changes accomplish the policy intention within the context of the life sciences. This is particularly true for start-ups and scale-ups, which are the source of much of the innovation in healthcare; emerging life science companies represent 65% of the global drug development pipeline with an additional 7% being developed by them in partnership with larger firms.¹

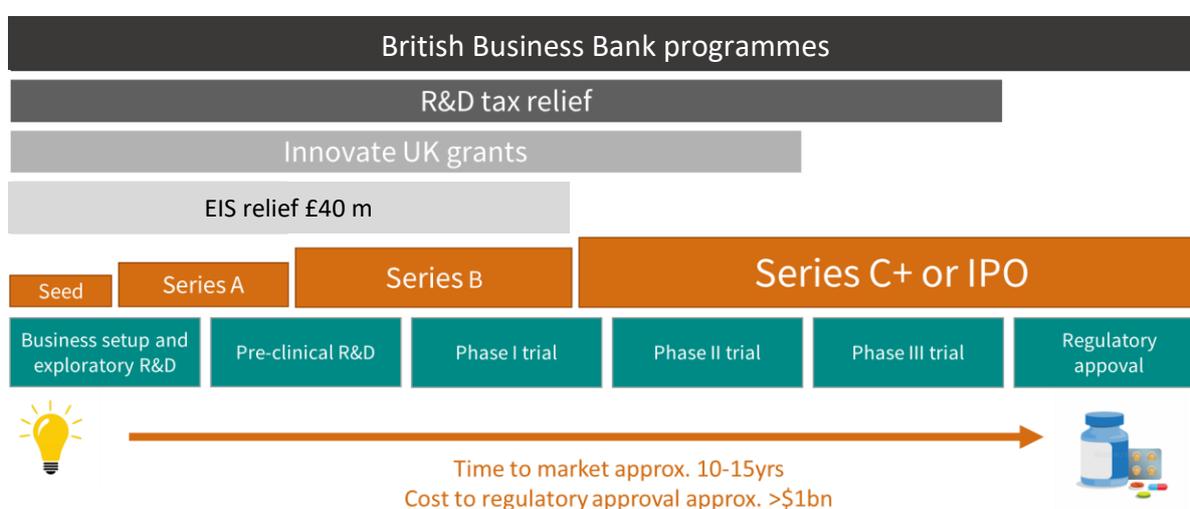
¹ [IQVIA: Emerging biopharma's contribution to innovation. \(2022\)](#)

Some of the key unique characteristics include:

- **R&D is a core part of business activity:** often it is the only activity a life sciences or biotech business undertakes in the first 10-15 years
- **High R&D intensity:** almost all money raised by companies is invested directly into R&D activities
- **Exponentially increasing R&D spending:** medicines must undergo clinical trials or other regulatory trials of increasing size and cost to prove them safe and effective
- **Business growth and R&D spend funded by successive venture capital rounds:** Multiple funding rounds, supported primarily by specialist investors, are needed to sustain the long-development timelines and high costs
- **Internationally mobile firms and capital:** it is a global sector supported by global investors; the UK is in competition to attract and retain both companies and investors
- **Employment of high-skilled, high-earning labour:** roles from R&D, to manufacturing, to sales are technical but accessible to a broad range of people, and spread across the country
- **Large involvement of local R&D supply networks:** networks provide crucial infrastructure that supports the testing and development of new products, and large and small companies collaborate in development programmes
- **Long timelines to commercialisation, revenue- and profit-making:** the complete development process for a new drug can take 10-15 years and require >\$1 billion in capital
- **High risk associated with R&D investments:** fewer than 14% of all drugs in clinical trials make it through regulatory approval

These characteristics require special consideration and tailored policies as part of the sector-specific approach outlined in the government’s Industrial Strategy. This spans access to finance, skills, regulation and much more, but crucially, maintaining and not disrupting the financing continuum (Figure 1.) is critical.

Figure 1. Simplified life sciences and biotech business stages (green), funding stages (orange) and main government fiscal support (greyscale)



Maintaining this continuum is crucial if the economic, environmental and societal benefits of the sector are to be captured – including high-value job creation across the country, the creation of new industries of the future, and the continuation of the UK’s standing as a research and innovation powerhouse. The tax landscape provides fundamental scaffolding for this continuum, and it’s essential that it is fit for purpose, and doesn’t unduly restrict the potential of our most innovative, high-potential companies.

Policy proposals:

Throughout this submission we outline a number of policy proposals that we believe would markedly improve the current system, incentivising entrepreneurs and business decisions that will actively bolster the UK economy. Though each of our recommendations addresses an important aspect or concern within the tax landscape, we have highlighted those that we feel should be prioritised.

Our full list of recommendations is as follows:

Overarching

- Improve the accessibility and clarity of the tax system by simplifying where possible and introducing consistency of definitions across all incentives

VCT/EIS

- Provide a greater rate of income tax relief for investors in knowledge intensive EIS- and VCT-qualifying companies compared with non-qualifying 'run of the mill' businesses
- Overhaul and simplify the EIS/VCT scheme to ensure it operates as intended
 - Introduce a targeted exemption from control tests where control arises from venture capital investment.
 - Simplify the financial health test (align to going concern for R&D reliefs)
 - Simplify connection rules to allow anybody (inc. directors or employees) to invest new capital provided that they do not have a stake of more than 25%
 - Remove the first commercial sale limitation
 - Extend the conversion period of Advance Subscription Agreement used in EIS investments
- Consider raising the EIS lifetime limit further for Knowledge Intensive Companies provided the recent raises show positive impact.

EMI/CSOP

- Increase the individual option limits under both EMI and CSOP, and remove the requirement for CSOP awards to count towards the EMI individual limit
- Overhaul and simplify the EMI scheme to ensure it operates as intended
 - Simplify the Annual Return for Employment Related Securities (ERS) or restrict the requirement to employers above defined thresholds
 - Relax HMRC's interpretation of board discretion within EMI schemes
 - Reform EMI independence and control rules by introducing an exemption for venture capital-controlled companies, enabling early-stage and biotech
- Expand EMI eligibility to non-executive staff

Attracting talent

- Introduce an NI exemption for Knowledge Intensive Companies
- Increase the individual option limits under both EMI and CSOP, and remove the requirement for CSOP awards to count towards the EMI individual limit
- Expand EMI eligibility to non-executive staff

Scale up

- Commit to restoring the ERIS credit rate to 33p/£
- Include UK capital expenditure within RDEC and ERIS
- Reform the PAYE/NI cap exception to apply specifically to UK centric companies
- Reform the Research Intensity (RI) definition within ERIS to ensure it is not denied through current anomalies
- Accelerate the impact of the Patent Box for loss making companies investing in R&D

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- Limit Patent Box benefits on exit where UK activity is reduced
 - Enhance the Patent Box rate

BADR

- Reset the BADR cap to the extent that proceeds are reinvested in qualifying shares.
- BADR lifetime limits should be increased from £1m to at least £5m
- Introduce a reduced CGT rate for investment into Knowledge Intensive Companies
- Allow deferral of CGT on deferred consideration
- Reform the 5% ownership threshold for BADR

Responses to questions

VCT and EIS

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

Feedback from our members suggests that the Enterprise Investment Scheme (EIS) is more generally used for investment into life science companies compared to Venture Capital Trusts (VCTs). A large part of the attraction of VCTs is the tax-free dividends they provide to investors. This has led to investments tending to flow towards companies that can pay dividends to the VCT immediately (or quickly after investment) – that is, companies that can start generating revenues and profits fairly quickly. This doesn't usually align with the drug development model, which typically entails long timelines to commercialisation, revenue- and profit-generation (the complete development process for a new drug can take 10-15 years and require >\$1 billion in capital).

EIS is more suited to the typical life science business model, and is primarily an incentive to generate investment from high-net-worth individuals (HNWs) or angel investors. These are essential for the earlier, seed funding stages of a company's life, but the company investment limits (£250,000 and £40 million for knowledge intensive companies within the SEIS and EIS respectively), make the schemes in isolation unsuitable for the larger sums required for later funding stages in life sciences.

Individuals – HNWs and angels – directly investing into companies may have limited expertise and not be in a position to provide valuable support to companies beyond the financial. For complex businesses like life sciences, it is important for them to get support from expert investors, even from the earliest stages. Professionally-managed EIS funds and VCTs are a valuable way in which this can be delivered.

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?

The tax-advantaged EIS has underpinned the increase in early-stage venture investment across a range of sectors over the past decade.

Previously, the £20m cap on the lifetime fundraising amount eligible for tax relief – in place for Knowledge Intensive Companies – meant that these schemes supported the earlier stages of VC financing in the life sciences sector. Yet the long and expensive R&D and regulatory process for medicines means the life sciences sector uniquely requires much greater sums of capital before reaching market and generating revenues than other sectors. As such, the £20m limit restricted the usefulness of EIS and VCT for life sciences compared to other less capital-intensive sectors, and has hindered the scaling of life science companies within the UK landscape.

However, the Chancellor’s recently announced changes to the lifetime eligibility thresholds (to £40 million) are extremely welcome, markedly increasing the schemes relevance and usefulness for the later stages of life science companies’ growth. Going forward, the schemes will be much better equipped to support the scaling of life science companies.

With regard to the experience of founders, in general our members report a positive experience when engaging with the schemes, but the complexity of the scheme is often cited as a key barrier to use. This complexity can incur additional costs, as a result of either small costly mistakes, or the

Case study: Arecor

Arecor is a speciality pharmaceutical company which leverages its innovative and proprietary formulation technology to develop superior product formats and treatments for a range of disease areas. This includes partnering with leading pharmaceutical and biotech companies to deliver superior reformulations of their products to meet critical unmet patient needs.

Following an Innovate UK Biomedical Catalyst grant of £1.5m in 2017, the company leveraged this to raise investment of £6m from new Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS) investors and existing shareholders – effectively leveraging £4 of private investment for every public £1.

Arecor meets the definition of a knowledge intensive company and in 2018, private funding of £6m was provided by EIS and VCT investors. Many investors have both EIS and VCT funds, so it is important to be able to attract EIS funding as VCT funding can follow EIS investment.

In 2021, Arecor listed on the London Stock Exchange. The combination of public and private investment – notably through the VCT and EIS schemes – was an integral part of Arecor’s success.

need to engaging with advisors to overcome said complexity. Increased cost is another major deterrent for early-stage companies – which, prior to the eligibility changes, were the primary users from a life science perspective. Simplifying the schemes, therefore, is an important step in increasing the uptake of the schemes across the life sciences.

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?

In general, VCTs are less relevant to life science companies than other schemes. As mentioned above, a large part of the attraction of VCTs is the tax free dividends they provide to investors. This has led to investments tending to flow towards companies that can pay dividends to the VCT immediately (or quickly after investment), which doesn't usually align with the drug development model of the life sciences.

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?

BIA understands that these fees are standard market practice for EIS/VCT funds. However, if funds do charge these fees they should make it entirely clear to the companies in question from the beginning of the process.

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?

Incoming venture capital investors can create tension with early EIS/SEIS investors due to competing interests – particularly with respect to preferred shared class. VC investors typically request preferred shares with a right of return, such that they get paid first in the event of a sale or liquidation event. However, EIS/VCT rules require shares without a preference, and this conflict can cause issues when structuring rounds.

Overcoming this potential conflict increases the complexity and subsequent legal/tax costs when professional guidance is sought. Our members have cited instances when poor legal advice has led to incorrect wording around this point, which has resulted in the loss of beneficial tax treatment.

The restriction against preference shares within EIS is in place to ensure that investors bear the full commercial risks of the company in question to qualify for tax relief. However, even without the restriction, EIS and VCT investors typically do bear genuine commercial risk, especially for Knowledge Intensive Companies. Consideration could therefore be given to whether this objective might be achieved through a more proportionate mechanism – for example, by withdrawing relief only on any amount returned early under liquidation preference provisions, rather than prohibiting preference treatment outright.

Time horizons for the different groups of investors can also vary. EIS/VCT investors must hold their shares for 3 or 5 years (as applicable) to keep their tax advantages. If a company is sold early, this tax break is lost. VC investors will generally hold for longer periods and often they invest at a later stage. So, if a lucrative deal arrives at an earlier this has the potential to create a conflict between the VCs and the EIS/VCT investors, with the former wanting to sell, and the latter reluctant as they'll lose their tax advantages. This conflict can have negative consequences for the company caught between shareholders' own interests.

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?

The schemes are a fundamental component of the tax landscape for life science companies. However, a number of barriers to access still exist in the scheme. We feel strongly that as many barriers as possible should be removed to broaden access to the scheme, reduce its complexity and increase its impact.

In addition, many of the current requirements of the scheme are artefacts that derive from previous EU requirements (e.g. the first commercial sale rule). The scheme should be assessed in its entirety to ensure that it's fit for purpose, and functional for UK businesses.

We believe the scheme could be markedly improved with a few key changes:

1. Provide a greater rate of income tax relief for investors in knowledge intensive EIS- and VCT-qualifying companies compared with non-qualifying ‘run of the mill’ businesses

This would recognise the additional funding challenges Knowledge Intensive Companies face and risk taken on by the investor, incentivise investment into these companies and boost engagement with these schemes. This greater rate of relief could be further limited to Knowledge Intensive Companies within the eight prioritised Industrial Strategy sectors, which would reduce the cost of this policy to the Exchequer.

2. Overhaul and simplify the EIS/VCT schemes to ensure they operate as intended

The EIS and VCT schemes are designed to channel capital into high-risk, early-stage companies by offering generous tax reliefs to investors. However, the scheme is technical and complex to navigate, which can lead to inadvertent errors that result in the withdrawal or denial of relief.

A review of the schemes should be undertaken with the express aim of simplifying the legislation to remove any unnecessary technical traps, and ensure that the tax outcomes more closely align with the scheme’s policy intention.

This should be part of a larger review to improve the clarity and accessibility of the tax system that currently contains complex and sometimes inconsistent definitions, such as those for control, connected persons, and the distinction between knowledge-intensive and research-intensive companies. These inconsistencies can create uncertainty for investors, founders, and employees, and may prevent companies from accessing the reliefs for which they are eligible. Simplifying and standardising these definitions would make the system more transparent, easier to navigate, and more predictable, ensuring that tax incentives effectively support innovation and growth.

The overhaul of the EIS/VCT regimes should include:

a. Introduce a targeted exemption from control tests where control arises from venture capital investment

The current control tests within the EIS and VCT regimes can result in companies losing eligibility where professional venture capital investors acquire rights that amount to control under tax definitions. This can be the case even where the company remains independently managed and growth-focused.

Introducing a targeted exemption where control arises from venture capital investment arrangements would ensure the schemes operate as intended, without penalising companies for adopting commercially standard VC structures.

b. Simplify the financial health test (align to going concern for R&D reliefs)

The current VCT/EIS financial health test is complex and uncertain for early-stage companies. Aligning it with the R&D ‘going concern’ test – i.e. whether a company is expected to be able to continue operating for the next 12 months – would improve clarity, reduce administrative burden, and maintain appropriate safeguards.

c. Simplify connection rules to allow anybody (inc. directors or employees) to invest new capital provided that they do not have a stake of more than 25%

The existing connection rules prevent directors, employees, and other closely involved in a business from investing via the EIS or VCT schemes. Simplifying the rules so that anyone can invest – provided they don’t have more than a 25% stake in the company – would remove unnecessary barriers and encourage additional funding, while preventing exploitation by shareholders.

d. Remove the first commercial sale limitation

The current rules restrict EIS and VCT relief to companies that are within a set period after their first commercial sale. Life science companies can generate some small pockets of early revenue long before they're generating real revenue or profit. This age limitation can therefore expire before life science companies are able to benefit from the schemes. Removing this limitation prevents this anomaly.

e. Extend the conversion period of Advance Subscription Agreement used in EIS investments

Currently, Advance Subscription Agreements (ASAs) must be converted into equity within 6 months to be eligible for EIS. In life science companies, finalising a funding round can regularly take longer than 6 months. Extending the conversion period would better reflect the funding timelines of the sector, especially during economic downturns when deals take longer but investment is even more essential, enabling the ASAs to support the round of investment.

3. Consider raising the EIS lifetime limit further for Knowledge Intensive Companies provided the recent raises show positive impact.

The long and expensive R&D and regulatory process for medicines means the life sciences sector uniquely requires much greater sums of capital before reaching market and generating revenues than other sectors.

The recent increase in the lifetime cap for Knowledge Intensive Companies to £40 million at Budget 2025 was very welcome, and will help drive capital into the sector. If positive impacts are seen from this adjustment, an even higher limit should be considered to more adequately support later and larger funding rounds in the life sciences.

EMI and CSOP

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?

The EMI employee share scheme is a powerful policy tool for supporting innovative, young and R&D-intensive companies. 68% of biotechs that responded to a previous BIA survey (unpublished) stated that they offer EMI options to all their full-time employees. It helps them compete in a global jobs market for the talent they need to innovate and grow their businesses by offering a more competitive remuneration package that helps them recruit and retain employees. This is particularly relevant in life science companies that are relatively high-risk undertakings where employees may not enjoy the same job security they would in more established businesses.

Recruitment

Approximately 75% of UK life science companies are SMEs, and these smaller companies must attract experienced and skilled employees from larger companies. However, SMEs cannot offer the job security, salaries or pension packages that larger companies can. The potential of substantial financial gain from company growth, accentuated by EMI tax relief, helps compensate for this. It is worth noting that larger companies also offer share options as part of remuneration packages, so EMI provides SMEs with a distinct additional benefit to offer. Our members report that senior-level staff most value the tax efficiency of the scheme, but employees at all levels find EMI share options attractive, with some members reporting that even university leavers ask about it in interviews. These schemes thus have the additional benefit of promoting entrepreneurial thinking among young people and those early in their careers, which will have long-term benefits for the dynamism of the UK economy.

Retention

Our members also reported that EMI share options strongly support retention, particularly for more senior staff where they may have larger stakes.

EMI options will not normally vest and be capable of exercise in a short time period, meaning staff must remain with the company for a period (usually multiple years). Recruitment and training are

significant costs for SMEs, and staff turnover is disruptive (more so than for larger companies), so this time allows that investment in people to be recouped.

Staff at all levels take into account the added benefits of EMI when comparing remuneration packages of their current employer and potential new employers and will generally forfeit their unexercised options on resignation in most companies, this therefore also helps with retention. Companies find that the promise of participation in future share option pools also aids retention, as loyal employees are able to avoid dilution through continued participation.

Case study: Prosonix

Founded in 2006, Prosonix was an Oxford-based biotech developing inhaled treatments for respiratory diseases using its particle engineering technology platform, including one for asthma. Nine years later, it was acquired for £100m by Circassia, another company working in respiratory medicine. All 22 employees of Prosonix were offered EMI share options as part of their remuneration package. As a result, many received a significant lump sum on completion of the deal.

One employee who worked as a Chemical Engineer said “when Prosonix was bought by Circassia I received a lump sum which was roughly twice my annual salary. I used that as a deposit to buy my first house which had significant impact to my life. After having a very positive experience of the EMI scheme I am attracted to the jobs that offer EMI share options, and they certainly influence my decision to stay with a company in the long-term.”

A Senior Product Development Manager had a similar view: “when offered a higher salary role with no EMI options, I made the math and decided staying was worth a gamble. It paid off. I was able to repay the whole mortgage on my house, buy a much nicer car and put enough money in the bank to not have to worry too much for the next few years.”

Scheme limits

The recent increase in limits is a welcome change, and reflects inflation and the rising cost of growing companies in the UK. However, life sciences companies are increasingly competing with large multi-national corporations that can offer bigger and better compensation packages. The £250k individual limit for unexercised EMI options has remained in place for quite some time,

unaltered for inflation, and can restrict a company's ability to provide meaningful equity incentives. Increasing this limit would give the company more flexibility to retain and motivate key talent.

What's more, the current drafting of the proposed legislation relating to the extension of the lifetime of an EMI option does not seem as beneficial as first thought. It seems that it is only possible to extend the lifetime of those options that are exercisable by reference to a single date. This seems to exclude the majority of EMI schemes which are event driven, or are exercisable after a certain period of time, rather than by reference to a single date.

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

The EMI regime remains a vital tool for early-stage businesses, but it has become increasingly misaligned with the realities of high-growth, IP-rich sectors such as life sciences. To ensure the scheme continues to incentivise innovation, we suggest the following changes:

1. Increase the individual limit over which options are held for both EMI and CSOP and remove the requirement for CSOP awards to count towards the EMI individual limit

Currently, the amount of share options an individual can receive under EMI and CSOP is capped, and CSOP awards count towards the EMI limit. The £250k individual limit for unexercised EMI options has remained unchanged for some time and can quickly become insufficient in companies competing internationally for senior scientific and commercial talent. This can restrict key employees from receiving meaningful equity incentives, particularly in high-growth or high-value companies. Increasing the limits and removing the overlap would allow businesses to reward and retain talent more effectively, without penalising employees for receiving both types of schemes.

2. Overhaul and simplify the EMI scheme to ensure it operates as intended

The EMI scheme is intended to allow qualifying share options to be taxed as capital rather than income, which is an important incentive for both the attraction and retention of talent. However, the scheme is technical and complex to navigate, which can lead to inadvertent errors that result in options losing favourable treatment and being taxed as income.

A review of the schemes should be undertaken with the express aim of simplifying the legislation to remove any unnecessary technical traps, and ensure that the tax outcomes more closely align with the scheme's policy intention.

This should be part of a larger review to improve the clarity and accessibility of the tax system that currently contains complex and sometimes inconsistent definitions, such as those for control, connected persons, and the distinction between knowledge-intensive and research-intensive companies. These inconsistencies can create uncertainty for investors, founders, and employees, and may prevent companies from accessing the reliefs for which they are eligible. Simplifying and standardising these definitions would make the system more transparent, easier to navigate, and more predictable, ensuring that tax incentives effectively support innovation and growth.

The overhaul of the EMI regime should include:

a. Simplify the Annual Return for Employee Related Securities where possible

The ERS annual return can be disproportionately complex, and a considerable burden for early-stage companies. Simplifying the process would decrease this burden and reduce the need for costly professional advice. Alternatively, requirements could be adjusted so that the return is only mandated from employers exceeding a certain threshold, e.g., employee head count, revenue based, value of ERS shares granted.

b. Relax HMRC's interpretation of board discretion within EMI schemes

HMRC currently takes a strict view on how boards can exercise discretion when granting EMI options, which can limit flexibility for companies when rewarding employees. Relaxing this interpretation would give companies more freedom to design and operate EMI schemes effectively, helping them attract and retain key talent.

c. Reform EMI independence and control rules by introducing an exemption for venture capital-controlled companies

Current rules can block early-stage, VC-backed companies – including life sciences – from offering EMI options because investors may hold a controlling stake, even though

the company is still small and high-risk. This can also prevent them from qualifying for other schemes like EIS or research-intensive relief. A venture capital exemption would remove these barriers, letting companies access the schemes.

3. Expand EMI eligibility to non-executive staff

EMI options should be made available to non-exec directors of Knowledge Intensive Companies, and the working time commitment should be removed to better reflect the fractional and portfolio-based working patterns of senior talent across the sector. Non-exec directors are an essential part of company success, and thus incentivising this talent is an important element of supporting companies to scale.

Supporting and incentivising founders and scaling companies

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?

For life science and biotech companies, the question is generally not whether to invest, but where? Life sciences is an international industry funded with international capital. Moreover, it's highly in demand, with advanced economies across the globe competing for investment that brings both economic benefits and national security and resilience benefits. A stable and predictable policy environment helps give confidence to businesses to invest, as does government support via initiatives such as R&D tax relief, high public R&D investment, a clear and stable regulatory framework, and strong intellectual property rights.

Attracting talent

Attracting the talent is crucial to the investment pipeline in the UK, and to the bolstering the entrepreneurial risk-taking environment in the UK. The right talent is essential to the survival, growth, and investment prospects of companies, which in turn can impact the inflow of investment into UK life science.

We believe the following policy suggestions will make UK companies a more enticing prospect for world-leading talent:

1. Introduce an NI exemption for Knowledge Intensive Companies

Knowledge Intensive Companies, particularly in the life sciences, face higher than usual employment costs due to their reliance on highly skilled workers. Employer National Insurance contributions represent a significant and recurring cost during long pre-revenue development cycles, when companies are often loss-making and dependent on external investment.

Introducing a targeted NI exemption for Knowledge Intensive Companies would lower the cost of employing highly skilled staff in the UK, supporting job creation and reducing pressure on early-stage businesses. This in turn would strengthen the UK's competitiveness as a location for life science businesses, and help anchor talent on UK shores. Careful targeting would ensure the relief supports genuine R&D-intensive companies while managing the fiscal impact.

EMI is a key incentive for attracting talent to the UK, and into our highest-potential sectors such as life sciences. Improving the schemes in the following way would likely have the biggest positive impact on the success of this scheme as an incentive:

2. [Repeated recommendation from question 14] Increase the individual limit over which options are held for both EMI and CSOP and remove the requirement for CSOP awards to count towards the EMI individual limit

Currently, the amount of share options an individual can receive under EMI and CSOP is capped, and CSOP awards count towards the EMI limit. The £250k individual limit for unexercised EMI options has remained unchanged for some time and can quickly become insufficient in companies competing internationally for senior scientific and commercial talent. This can restrict key employees from receiving meaningful equity incentives, particularly in high-growth or high-value companies. Increasing the limits and removing the overlap would allow businesses to reward and retain talent more effectively, without penalising employees for receiving both types of schemes.

3. [Repeated recommendation from question 14] Expand EMI eligibility to non-executive staff

EMI options should be made available to non-exec directors of knowledge intensive companies, and the working time commitment should be removed to better reflect the fractional and portfolio based working patterns of senior talent across the sector. Non-exec directors are an essential part of company success, and thus incentivising this talent is an important step in shoring up a company's pipeline.

R&D tax relief

R&D tax credits, introduced by the Labour government in 2000, have been critical to the growth and success of UK life sciences and biotech. BIA members regularly cite them as the most important support they receive from government. Crucially for pre-revenue companies, they reduce the cost of investing in R&D with cash payments, so that the level of investment required is more proportionate to the level of risk, thus incentivising private (often venture capital) investment into start-ups and scale-ups.

We very much welcome the Chancellor's recent commitment that the rates of relief will be maintained throughout Parliament. Government should now focus on ensuring that the scheme is running as smoothly and effectively as possible, and targeting it to have greatest impact.

Tackling fraud is a notable aspect of this, with significant inroads made by government to drastically reduce it. It is a considerable barrier to a fair, effective, and efficient scheme, with our members reporting measures taken in recent years to tackle fraud are having very real consequences for legitimate claims. Policy changes to reduce fraud in the recent past have inadvertently harmed the life sciences sector – despite the fact that the vast majority of fraud/non-compliance is happening in other sectors² – and made the UK less competitive for global investment. These were due, in large part, to the insufficient evidence base that restricted understanding of how R&D tax relief supports high-growth businesses.

A thorough review of the schemes using a better, more comprehensive evidence base and industry consultation – as outlined by the BIA³ – will allow government to tailor the R&D tax credit scheme to increase private investment and economic growth. It will also allow HMT and HMRC to

² [HMRC: HMRC's approach to Research and Development tax reliefs. \(2023\)](#)

³ [BIA: Improving the evidence base for R&D tax relief in the life sciences sector. \(2024\)](#)

determine the most effective way to tackle fraud without harming genuine claimants in sectors that deliver the greatest value for taxpayers.

Once the scheme is functioning to its fullest potential, the strength of the UK's offer in this area should be made known to the global investment community to attract them to UK shores. Moreover, as fraud has been cut and the scheme better targeted, the cost of the scheme to the Exchequer will go down, which will allow for the R&D-intensive SME rate to be returned to its original levels of 33p/£.

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

High-growth, R&D-intensive companies can face several abrupt tax cliff edges that can hinder founder incentives and growth. For example, Patent Box relief is only accessible once a company is profitable, meaning startups investing heavily in R&D cannot benefit during critical scaling periods. Similarly, some reliefs, including BADR and EMI, can be lost if venture capital investors acquire a controlling stake, even when the company remains operationally autonomous, which in turn creates unintended disincentives for founders.

Tax policy could better support founders by smoothing these transitions – through mechanisms such as the acceleration of Patent Box relief, reformation of EMI independence and control rules, reformation of the BADR 5% control rule, or other targeted incentives and rules for loss-making, Knowledge Intensive companies.

Many of government's decisions early in its tenure reflect the potency and scale of the opportunity in UK life science, and represent important steps that demonstrated faith in, and commitment to, the sector in challenging times. The designation of the life sciences as a priority sector for growth in the Industrial Strategy is emblematic of this approach, and underpins many of the actions that followed, such as the increase in funding to both the British Business Bank (BBB) and National Wealth Fund (NWF). In addition, the stabilisation of R&D tax reliefs and continuation of the Mansion House agenda are both critical for the ongoing health and resilience of the sector.

These early steps mean the UK has the opportunity to seize the unprecedented economic opportunity of a diverse and vibrant life sciences ecosystem, where our strengths in biology and AI

are converging to accelerate medical innovation, and advanced biomanufacturing is creating new high-value jobs and more sustainable industries and products.

However, despite these welcome steps and despite the strength and inherent potential of the sector, confidence in the UK as a feasible destination for life science investment is fragile and threatens to wane. Recent announcements of divestment by large pharmaceutical companies are concerning indicators of the health of the sector, and risk upsetting the core strength of the UK ecosystem. It is therefore imperative that the UK engenders an environment that works for small, medium, and large companies alike, in order to meet the Chancellor's objective during her 2025 Budget speech to 'make Britain the best place in the world to start up, scale up, and stay'.

Although the UK life sciences and biotech sector is a strong performer compared to European competitors (consistently accounting for approximately 30-40% of the continent's annual total⁴), compared to the US, the sector receives much lower levels of investment, even when accounting for GDP. The British Business Bank's Equity Tracker showed the US life sciences sector raises 59% more investment relative to GDP than the UK sector, and that this is the biggest sectoral funding gap seen in British venture capital.⁵ The BBB's data also showed that UK life sciences is the only R&D-intensive UK sector that has not increased its market share of global venture investment over the last ten years.

According to the British Business Bank, seed funding for UK life sciences is relatively strong, with levels comparable to the US.⁶ However, the funding gap emerges at early and late-stage VC rounds (Series B+ / £20m+), where most investment comes from foreign—primarily US—investors. Since 2015, this trend has extended to public markets, with many UK life science firms choosing to list on Nasdaq over the London Stock Exchange. As scaling businesses follow capital, the UK risks losing high-value R&D, manufacturing, and leadership roles overseas. In turn, financial returns and tax revenues flow abroad, limiting domestic wealth creation and reinvestment in future growth.

Addressing this lack of domestic scale-up capital is of course a priority to ensure that UK companies remain on UK shores. However, the tax system could play a role in mitigating this risk, and creating a business landscape that is harder to dismiss. That being said, existing UK tax incentives, including the Patent Box, tend to take effect too late to influence these decisions.

⁴ [BIA: Finance report 2025 \(2026\)](#)

⁵ [British Business Bank: Small business equity tracker \(2024\)](#)

⁶ [BIA: UK biotech financing 2024. \(2024\).](#)

Addressing this requires bold, targeted reforms that reshape incentives at key growth stages, encourage companies to retain UK-based jobs, manufacturing and IP, and are reinforced by improvements in drug pricing, market access and international investor messaging.

We suggest the following key policies:

1. Commit to restoring the ERIS credit rate to 33p/£

R&D tax credits have been critical to the growth and success of UK life sciences and biotech. BIA members regularly cite them as the most important support they receive from government. Multiple measures have been put in place to improve the effectiveness and efficiency of the schemes, and reduce fraud. They are not much better targeted at the R&D intensive sectors they are intended to support and that are critical to delivering the Government's Industrial Strategy.

These adjustments should result in a reduction of the cost of the scheme to the Exchequer, which should allow for the R&D-intensive SME rate to be returned to its original levels of 33p/£, before the Conservatives' cuts. Increasing the rate as outlined would provide broad benefits across the sector, most notably, it would lead to an increase in R&D investment, creating more jobs and anchoring companies more strongly in the UK.

2. Include UK capital expenditure within ERIS and RDEC

Capital expenditure is not current eligible for relief within the R&D tax relief scheme. As such, loss-making companies have no incentive for capital investment, as Capital Allowances do not provide cash credits. Significant capital expenditure can be a strong anchoring point for companies, making moving overseas a less attractive prospect.

Therefore, making capital expenditure eligible for relief would increase capital investment, leading to more high-growth, R&D-intensive businesses with stronger roots in UK soil. Anchoring capital investment in R&D will result in a far greater likelihood of subsequent scale up investment for commercial manufacture.

In order to promote substantive investment, eligibility could be limited to Structures and Buildings Allowance, special rate pool assets, and assets with a unitary value of more than £100k.

3. Reform the PAYE/NI cap exception in ERIS and RDEC to apply specifically to UK centric companies

The existing exception to the PAYE/NI cap (3x UK PAYE/NI) is intended to protect companies with low headcount that outsource significant R&D activity, a common feature of the biotech business model. However, it does not do enough to discourage companies from progressively relocating personnel and decision-making overseas. To address this, the exception could be re-designed so that it applies only where more than 50% of total salary costs across connected parties are subject to UK PAYE to ensure the maintenance of substantive UK employment, and to deter the gradual erosion of the UK footprint. This will also remedy a current structural failing of the cap.

This measure would incentivise companies and talent to remain based in the UK, while reducing cost to the Exchequer and enabling the ERIS relief rate to be restored to 33p/£.

4. Reform the Research Intensity (RI) definition to ensure it is not denied through current anomalies

The concept of research intensity is of great value and significance to the R&D incentive framework. We understand that its design was intended to be simple so that the data to determine eligibility should be readily available and not require any significant adjustment. However, our members have encountered issues within the definition often resulting in outcomes that are opposed to the policy intention.

As it stands, certain companies that should qualify as research intensive, and receive the enhanced rate of relief, are not being defined as such. For example, companies with significant VC investment can be deemed ineligible due to the control rules, or because of high non-trading costs (e.g. VC management fees) that appear to diminish the companies proportional R&D spend. The definition needs to be updated to avoid this.

In addition, the RI test should either be limited explicitly to trading companies (with this reflected in HMRC guidance) or adjusted so that loan relationships, derivatives and impairment charges are excluded from total relevant expenditure.

5. Accelerate the impact of the Patent Box for loss making companies investing in R&D

Currently, UK companies can only access Patent Box tax relief once a company is profitable. This means startups and loss-making companies often cannot benefit from these additional tax incentives during the critical period of scaling up. Patent Box losses should be calculated at the sub-stream level rather than at the entity level. This would allow profitable IP streams to benefit from the regime even where the company remains loss-making overall due to continued R&D investment. This proposal would let them access Patent Box benefits earlier, turning future tax savings into cash to support growth before profits arrive.

Loss-making SMEs should be permitted to monetise Patent Box deductions at the applicable RDEC rate (currently 16.2%) or ERIS rate (currently 26.97%). This would bring forward cash support to the point at which it is most impactful and align the regime more closely with the funding needs of scaling companies.

6. Limit Patent Box benefits on exit where UK activity is reduced

When a UK company is sold to an overseas owner, its UK operations often shrink, leaving mainly a 'shell' company holding the IP. Patent Box relief can continue even though most of the commercial activity has moved abroad. Patent Box benefits could be limited where there is a substantial reduction in UK activities following an exit, acquisition or restructuring. Ideally, this would be implemented through a clear, prescriptive test such as the RDEC PAYE/NI cap with the same exception proposed above.

The proposal would limit Patent Box benefits in these cases, tying them to continued UK employment or allowing full benefits only if the buyer is UK-based, ensuring the relief supports real UK jobs and activity. This proposal would save the Exchequer money, while incentivising businesses to remain the UK.

7. Enhance the Patent Box rate

The Patent Box incentivises UK companies to develop and commercialise intellectual property, supporting R&D-intensive sectors like life sciences. It is an important element of the tax landscape. Increasing the rate would further encourage investment in and commercialisation of high-value, IP-driven innovation to remain in the UK.

Supporting reinvestment

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?

There are many factors that can influence whether entrepreneurs invest in other start-ups or scale-ups after a successful business exit. First, and perhaps foremost, are the financial considerations. The success of the exit and the ease at which the process was finalised can markedly influence entrepreneurial decision making. Similarly, the prospects for future investment, and whether measures exist to incentivise reinvestment.

Tax is a particularly useful and appropriate lever for incentivising reinvestment. Entrepreneurs should be rewarded for serial investment, which represents commitment and belief in the UK landscape, and creates a virtuous circle to grow the economy.

Beyond the financial considerations, passion for the sector can play a significant role in reinvestment. Life sciences is a sector that engenders both passion and enthusiasm from investors, on account of its role in tackling some of the biggest problems currently facing society – from healthcare and beyond. Tax plays less of a direct role here, but this passion depends on a healthy and promising sector, which the tax landscape can support with targeted policies.

Finally, the UK as a whole plays a large role in incentivising reinvestment. It is a country where people want to live and raise/educate their children. Ensuring that this remains the case is a crucial component of incentivising reinvestment, and the tax landscape more broadly should endeavour to cultivate this favourable environment for the UK at large.

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?

Tax is an appropriate and effective measure to incentivise reinvestment, particularly for research and capital intensive sectors like the life science. Effective tax policy can mitigate the risks for investment, and reducing upfront tax costs or deferring liabilities upon an exit are strong incentives for entrepreneurs to reinject capital into the ecosystem. HMRC found that investors participating in EIS were more likely to invest in early-stage, risky companies than they otherwise would have been, and that the tax relief offered was a primary reason for this behaviour.⁷

The EIS/VCT regimes and BADR should be the primary mechanisms within the tax environment to support reinvestment. To this end, there should be as few barriers to entry for EIS/VCT investment as possible such that it becomes much more widely adopted, and the changes outlined above should address some of these.

With respect to BADR, the dramatic cuts to the reliefs have had marked impacts on founders' willingness and ability to reinvest. The cuts significantly reduce the amount of capital retained on an exit, which in turn directly limits an entrepreneurs ability to either reinvest or found other companies, reducing the overall capital recycled into the ecosystem.

To address some of these concerns, we suggest the following:

1. Reset the BADR cap to the extent that proceeds are reinvested in qualifying shares

Currently, founders can only benefit from the BADR lifetime allowance once. This means that after a successful exit, even if they reinvest their proceeds into a new UK startup, they cannot claim the reduced rate again. Allowing the BADR lifetime cap to be reinstated to the extent that gains are reinvested in qualifying shares would reward serial entrepreneurs and encourage them to build and scale multiple companies in the UK rather than cashing out or leaving the ecosystem.

⁷ [HMRC: Venture Capital Scheme \(EIS, VCT\) Evaluation \(2022\)](#)

2. **BADR lifetime limits should be increased from £1m to at least £5m**

Life sciences founders face long, high-risk development timelines before any exit, so the £1m BADR limit is quickly exceeded. Raising it to at least £5m – and ideally closer to £10m – would better reflect this reality and strengthen incentives to build and scale companies in the UK.

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?

1. **Introduce a reduced CGT rate for investment into Knowledge Intensive Companies**

Currently, Capital Gains Tax is applied at the standard rate on gains from investments in Knowledge Intensive Companies.

Introducing a reduced CGT rate on gains from qualifying Knowledge Intensive Companies would directly incentivise investment into innovation-led sectors, and support scaling companies across sectors with the highest growth potential. This approach more closely aligns tax incentives with government's growth mission, and would help to unlock the true innovation and growth potential of the life sciences.

2. **Allow deferral of CGT on deferred consideration**

Beyond BADR, currently, CGT may be due immediately after a company is sold, regardless of when the money from the sale is received by shareholders. Allowing founders and employees to defer tax payment until after the money is received would make exits fairer, and less financially risky, and avoid unnecessary complexity through the need to issue loan notes.

3. **Reform the 5% ownership threshold for BADR**

At present shareholders need to hold at least 5% of the company to get BADR. The capital-intensive nature of life sciences R&D means successive fundraising rounds are necessary, which rapidly dilute founding shareholders below 5%, creating a disparity between shareholders (i.e. founders) and employees who many still qualify for relief.

This threshold should be reformed such that shareholders who have held 5% or more of the company over a given qualifying period (e.g. 12 months) are able to retain eligibility for BADR even if they are subsequently diluted below 5%.

Doing so would positively impact employee retention, and reward early contribution

4. Improve the accessibility and clarity of the tax system by simplifying definitions and rules

The current tax system contains complex and sometimes inconsistent definitions, such as those for control, connected persons, and the distinction between knowledge-intensive and research-intensive companies. These inconsistencies can create uncertainty for investors, founders, and employees, and may prevent companies from accessing the reliefs for which they are eligible. Simplifying and standardising these definitions would make the system more transparent, easier to navigate, and more predictable, ensuring that tax incentives effectively support innovation and growth.

For any further information on the contents of this submission, please contact the BIA policy team at policy@bioindustry.org.