



# Consultation Response

## Tax Support for Entrepreneurs: Call for Evidence

February 2026



Photo:  
Aerial view  
of Glasgow

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## Introduction

The Law Society of Scotland is the professional body for over 13,000 Scottish solicitors.

We are a regulator that sets and enforces standards for the solicitor profession which helps people in need and supports business in Scotland, the UK and overseas. We support solicitors and drive change to ensure Scotland has a strong, successful and diverse legal profession. We represent our members and wider society when speaking out on human rights and the rule of law. We also seek to influence changes to legislation and the operation of our justice system as part of our work towards a fairer and more just society.

Our Tax Law sub-committee welcomes the opportunity to consider and respond to the UK Government's call for evidence: *Tax Support for Entrepreneurs: Call for Evidence*.<sup>1</sup> The sub-committee has the following comments to put forward for consideration.

## General Comments

Generally speaking, we consider that certainty surrounding the Government's tax policy is an essential factor in reassuring and encouraging entrepreneurship. This includes taxes, reliefs and incentives across the spectrum, including business related taxes such as national insurance contributions.

## Questions

4.A To gauge the success of VCT/EIS in meeting those objectives the government would be interested in views on the following questions:

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

We have no comments.

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?

We have no comments.

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<sup>1</sup> [Tax Support for Entrepreneurs: Call for Evidence - GOV.UK](https://www.gov.uk/government/consultations/tax-support-for-entrepreneurs-call-for-evidence)

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?

We have no comments.

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?

We have no comments.

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?

We have no comments.

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?

### **Simplification of EIS legislation**

We consider that a useful reform would be simplification of both the Enterprise Investment Scheme (EIS) legislation and the “paperwork” required from founders – there is complexity in the questions asked on the forms and the level of supporting documentation required. EIS is very technical in nature and so, despite being aimed at helping start-up businesses, it generally requires expert advice to successfully navigate it to avoid being inadvertently “tripped up” by the legislative conditions. For example, certain corporate transactions occurring during the three year holding period which may seem usual and innocuous to founders and which they would not expect to have any interaction with EIS can cause a claw back of relief. We consider that EIS, alongside the wider framework of tax reliefs, would benefit from simplification so as to make the tax system easier to operate for founders and scaling companies.

This complexity means that scaling up businesses require careful crafting of investment terms and a high degree of adviser involvement, which can be expensive. This can also cause the process to be protracted at a time when a business needs an injection of capital to grow and expand rapidly. Absence of this can result in cashflow challenges.

### **Focus on key principles**



We consider that an issue with EIS as currently designed is that certain legislative conditions are capable of being inadvertently breached and there is a lack of a mechanism to resolve these mistakes or discretion on HMRC's part to allow the EIS relief to continue, despite the mistake. Given this, we suggest that consideration should be given towards simplifying the ongoing three-year conditions into broader principles such that relief would only be withdrawn if these underlying principles were found to be breached and this not rectified.

#### **Ability to access expert guidance from HMRC**

We further suggest a dedicated EIS unit within HMRC which is able to be contacted (by both founders and advisors) to discuss issues as they arise and where the staff receive specific additional training and are permitted to discuss matters, give guidance that the taxpayer can rely upon and empowered to act with discretion regarding genuine mistakes which do not breach underlying principles.

4.B The government wants to ensure the EMI scheme continues to deliver against its objectives. As such evidence would be welcomed in response to the following questions:

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?

We have no comments.

14. How could it/the wider share scheme offer be improved to better support founders/scaling companies?

We consider that the recent changes made to Enterprise Management Incentives (EMI)<sup>2</sup> were helpful and feedback from our members indicates that client activity in this area is increasing.

To build on these improvements, we suggest a focus on removing burdensome administrative requirements, including the following changes:

- An ability for companies to contact HMRC and request a list of outstanding options previously notified to HMRC (which may require improved record keeping practises from HMRC) would be helpful. We note that this was previously possible. We consider this desirable as it would provide a means to view records of previously submitted material to HMRC on the portal. Due to high staff turnover in start-ups and a lack of awareness that taking screenshots is the only way to retain a record of this by the companies, the lack of a record poses difficulties for founders and scaling companies.

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<sup>2</sup> [Expanding the eligibility limits of the Enterprise Management Incentive scheme - GOV.UK](#)

- Simplifying (or in some cases eliminating) annual returns for schemes. We consider that the present annual returns system puts an unreasonable administrative burden on founders and their staff who are likely already acting in multiple roles. The current forms are complex and the scheme lacks flexibility. For example, imposing penalties for not filing nil returns where nothing has happened and the company may not even be aware that HMRC would view there as being a scheme in place.
- Making the online forms more user friendly. It is currently not possible to progress through the relevant forms for EMI without completing each page/ question. This creates issues as a person cannot complete and save the form and come back to it later once a piece of information has been located. It requires users to have all the information to hand at the start, and yet there is no ability to view a form as a whole beforehand to understand what information will be required.
- If it is considered vital that EMI options must continue to be notified, create an ability for the recipient (i.e. option-holder) to act as the notifier in place of the company. If a company fails to notify the grant of an option, it is the option-holder who loses out on the favourable tax treatment; accordingly, it seems reasonable that they should have an ability to notify the grant to HMRC if they are in any doubt as to the company doing this.

#### 4.C To understand these issues further, the government would be interested in views on the following questions:

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?

We refer to our answer to Q.16 and Q.20.

We note that the EIS scheme is currently limited to individuals whereas it may be partnerships or corporate investors who wish to invest; consideration could be given to tax incentives for this.

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

**Offer tax reliefs to the company (and/or founders), not only investors, and at an earlier stage**

The EIS scheme gives a tax incentive to investors. The EMI scheme gives a tax relief to employees (but not founders). While both EIS and EMI are designed to support the start-up company itself (by ensuring funds flow to it from investors and to increase its ability to recruit

and retain staff) it is notable that no direct tax relief is available to the start-up (or scale up) company itself. This is similar to founders– they are taking risks too but receive no tax relief.

We consider that one option open to the Government would be to offer tax relief to the company itself and/or to founders. For example, a founder could be given partial income tax relief provided the company was of a type that met EIS type of conditions. In another example, the company itself could be given relief from the requirement to pay employer national insurance contributions – this could be in full or part or for certain employees only.

We consider that the critical point on the introduction of any relief or incentive is that of timing. Such reliefs outlined in the examples above could be useful in supporting the company’s (and founder’s) cash flow needs at the time of start-up/ scale up activity. Where a founder is provided with Business Asset Disposal Relief (BADR) so they pay less Capital Gains Tax (CGT) at the time of a successful exit event, this comes too late to provide assistance when it is needed during the actual start or scale up phase, and is therefore perhaps less useful in stimulating the growth of start-ups and acts more like a “reward”.

In the event such reliefs were introduced, we consider it important that there is not a cliff edge to these reliefs and that there is appropriate tapering.

To give another example on potential policy actions, the Government could also conduct a review for how it signposts founders to its existing system of grants, relief and subsidies to ensure that the current system is being utilised appropriately. There already exists a number of grants, relief and subsidies for start-ups. We consider it important that this is better understood prior to undertaking any tax policy decisions.

Furthermore, prior to making any policy decisions on tax, we suggest that HMRC conduct research to understand what reliefs, incentives and mechanisms exist in other tax systems to support founders and start/scale up companies.

#### 4.D In order to better understand how the tax system can support reinvestment, the government is seeking views on the following questions:

##### 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?

We reiterate our comments made in the general comments section concerning stability and certainty. We consider these two factors essential in influencing entrepreneurs to reinvest.

We consider that there is a role for tax policy to play in encouraging re-investment. Reinvestment requires capital to be at risk and therein lies the challenge. We would however caution against a disproportionate application of taxes to effectively force individuals to reinvest rather than to leave investing (and realise their gains and pay tax on those) when they wish to



do so. We consider that any use of tax as a lever to encourage reinvestment must be carefully thought through.

Moreover, prior research shows that the beneficiaries of many of these complex reliefs are often male with an accountancy or finance background and the current system does not attract a diverse range of investors.<sup>34</sup>

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?

We have no comments.

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

We refer to our answer to Q.20.

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

#### **Names matter**

We highlight that the name of the scheme- BADR - can be confusing (for example, it sounds similar to business asset relief (also known as BPR) – an IHT relief) and consider that the naming convention of such a scheme should reflect more clearly whom it is targeting. In our experience, persons holding shares in a company do not often think of that as a “business asset”. The previous naming convention of “Entrepreneurs’ relief” was a preferable and better understood name in our experience, and is often the colloquial nomenclature used in reference to BADR.

#### **Timing matters**

We refer to our earlier answer at Q.14 regarding BADR coming too late, and other suggestions for more timely reliefs. BADR is now available on a relatively low level of gain on sale (first £1m) compared to its initial level and accordingly is unlikely to be a major factor considered in timing an exit. We also highlight that there will be some cases where its availability drives behaviour such as leaving cash in a company to be sold (to benefit from BADR rate on it) rather than paying it out as dividends pre-sale.

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<sup>3</sup> [Evaluation of Venture Capital Schemes - GOV.UK](#)

<sup>4</sup> [The venture capital market](#)



### **Comparative fairness?**

It is also notable that BADR is much less generous to founders than EIS is to investors, with the former receiving a CGT rate which is 6% less than the standard CGT rate (from 6/4/26 and assuming a higher rate taxpayer) but only on the first £1m of gain while the latter are entitled to a completely CGT free disposal (and not only on the first £1m).

We consider that the previous taper relief system for CGT (abolished in 2008) was a suitable foundation for Entrepreneurs' relief/BADR. This system operated effectively once the appropriate guardrails and provisions were put in place to ensure it was targeted correctly and rewarded longer term investment.



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