BVCA Budget Representation: Building a Better Economy

Introduction – the importance of private capital to the UK

Ahead of the Government's Budget on 26th November 2025, the British Private Equity and Venture Capital Association (BVCA) is pleased to share its recommendations.

With a membership of 600 firms, the BVCA represents UK-based private capital, as well as the wider network of professional advisers and investors. The industry as a whole is the largest private capital ecosystem in the world outside the USA, and as such provides the UK with substantial competitive advantage in Europe and elsewhere.

Private capital consists of private equity and venture capital which makes long-term investments to grow British businesses and build a better economy. Private credit and venture debt also provide active and engaged debt finance to businesses.

The private capital industry backs 13,000 UK businesses, nine in 10 of which are small or medium-sized enterprises. Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP.

In 2024, £29.4bn was invested by private capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (58%) of the businesses backed in 2024, located outside of the capital. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets.

UK-based private capital specialists have raised £190bn of funds, known as dry powder, expected to be invested over the next three to five years.

Enabling private capital to power UK growth – 3 key priorities

Tax framework: our submission focuses on calls for a pro-innovation and pro-growth tax framework that supports entrepreneurship, upholds the UK as a global destination to start and scale a business, maintains the attractiveness of the UK for private capital firms and those who work in them, and demonstrates the Government's commitment to attracting private capital investment into the UK.

International competitiveness: equally, a pro-innovation and pro-growth tax framework means maintaining the UK's international competitiveness. It is essential this Budget does not take forward an ill-defined tax on assets (described as a 'wealth tax' in many public commentaries) which cuts across the competitiveness message from the Government and undermines investor confidence further in light of recent reforms to national insurance, capital gains tax, and carried interest.

Capital to invest in high growth businesses: beyond this, we continue to support the government's agenda on creating 'mega funds' for DC pension schemes, and the pooling of LGPS schemes, as part of wider pension reform. In addition to offering pension savers additional diversification and the prospect of higher returns, this should unlock billions to invest in UK start up, scale up and other high growth businesses. At this Budget, we also recommend the implementation of NOVA and a series of policy measures and regulatory interventions that would serve as critical enablers to unlock this investment in the UK and strengthen the wider investment ecosystem.

British Private Equity & Venture Capital Association
3rd Floor, 48 Chancery Lane, London WC2A 1JF
+44 (0)20 7492 0400 | bvca@bvca.co.uk | www.bvca.co.uk

Key recommendations: A pro-innovation and pro-growth tax framework

The private capital industry is key to driving sustained economic growth and can play an important role in UK national renewal. To unlock this potential, the Government should pursue pragmatic tax reforms that not only maintain the UK's international competitiveness, but work actively to incentivise investment and reward founders, entrepreneurs, and their private equity or venture capital backers.

The private capital industry plays a vital role in funding the businesses that drive job creation, productivity, and long-term growth. While the UK is a great place to start a business, several measures must be taken to ensure it is also a great place to scale one. Without action, innovative companies in key growth sectors risk not being able to stay and scale in the UK. To address this challenge, the UK's tax environment must send a clear signal that the UK is open for business with measures that support entrepreneurship, wealth creation, and enterprise, while encouraging a virtuous circle of re-investment and innovation.

Furthermore, if the UK is to maintain its position as a global hub for private capital, it is critical that the tax rules affecting the industry are stable in the long-term. The UK is currently implementing a new tax framework for carried interest, and we have welcomed the Government's focus on international competitiveness as a central consideration in the development of these rules. However, higher national insurance contributions for employers have hit the profitability of many UK firms, and the abolition of the non-dom regime risks making it harder for international investors to come into and out of the UK to do business. We would urge the Government to avoid implementing any further tax measures in this Budget, including measures targeting partnership profits, that would undermine investor confidence and drive investment away from the UK.

In this Budget, the BVCA recommends the following targeted tax reforms which will promote investment and entrepreneurship across the UK's nations and regions, increase investor confidence, and signal the Government's commitment to make the UK the best place to start and scale a business.

Increase limits on accessing EIS, and VCT schemes

The EIS and VCT schemes are essential tools in unlocking private capital for early-stage, high-growth UK businesses - particularly in knowledge-intensive sectors such as life sciences, clean energy and deep tech. However, outdated rules around investment limits, company age and subsidiary ownership mean that these schemes have not kept pace with inflation or international standards, causing high-potential companies to fall outside of eligibility. Companies now routinely require £20–30 million in funding before reaching revenue, and the existing limits frequently prevent UK investors from following on their initial investment with more capital, forcing businesses to turn to overseas capital too early.

Regional fund managers have also highlighted that the 7–10-year age restriction on EIS and VCT disproportionately affects companies outside London and the South East, where longer scaling timelines are more common. Reforming the regime would therefore boost investment into fast growing companies across the UK, supporting regional economic growth.

Targeted reforms, including raising thresholds and eligibility, would ensure EIS and VCT remain fit for purpose, maximise their effectiveness, and support entrepreneurship in the nations and regions. These reforms would be focussed on enabling British investors to adequately back the UK's most innovative companies at critical growth stages – not by creating new advantages or distortions, but by modernising the schemes so they work as intended. These changes would directly support the Government's stated ambitions to grow the economy, boost regional opportunity, and make the UK the best place in the world to start and scale a business. By acting at the Budget, the Government can safeguard the UK's competitiveness in this context, helping more companies reach IPO or global scale, and strengthen the UK's position as a hub for investment – anchoring innovation, jobs and economic value in the UK.

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To ensure EIS and VCT remain fit for purpose, the BVCA recommends the following targeted reforms:

Increase investment limits, particularly for Knowledge-Intensive Companies (KICs)

- Raise investment limits to £10m annual and £24m lifetime; and for KICs to £25m annual and £30m lifetime; with automatic inflation indexation and an updated Gross Assets Test.

Improve HMRC delivery and scheme administration

- Introduce a statutory 60-day advance assurance timeframe, simplify eligibility rules, and allow joint venture structures in capital-intensive sectors.

Extend company age eligibility

- Extend company age limit to 14 years for standard firms and 20 years for KICs, with flexibility for acquisition-led growth and major strategic pivots.

Remove constraints on Enterprise Management Incentive (EMI) options

The EMI scheme has been extremely effective in allowing SMEs to compete with larger firms, by giving their employees a material interest in the company. However, the scheme is long overdue for reform: high growth companies are often unable to grant EMI options due to the constraints of the £30m gross assets and 250 employee limits. These limits have stayed the same since 2002 and 2008 respectively and should, in our view, be at least doubled.

The Government should also make EMI available to private capital-backed SMEs. This would boost precisely the type of business this scheme was designed to assist. There are also unnecessary costs around valuations, as well as complexity and uncertainty regarding the operation and tax status of EMI option plans. Updating the scheme to ensure it is fit for purpose should be a priority.

Increase the amount of support for Research and Development (R&D)

R&D tax relief provides critically important support for innovative companies in their earliest stages, often before they have begun to generate revenue. Increasing the funding for this relief, particularly for KICs, and addressing unnecessary delays in processing claims would align with Government priorities to support science and technology scale ups and regional growth.

Review tax rules for PE-backed SMEs

Private equity supported SMEs are classified under tax rules as part of a wider corporate entity alongside other businesses backed by the same private equity firm. This treatment does not reflect commercial reality, because small and medium sized businesses that are backed by the same private equity firm remain operationally independent, and are therefore genuine SMEs.

As a result of this anomaly, private capital supported SMEs experience a range of adverse tax treatments, including in relation to the timing, frequency and rate of payments of corporation tax. These SMEs are also often unable to access incentives that are designed to promote growth and investment, such as SME R&D tax credits, and the full amount of the annual investment allowance. HMRC provides no flexibility to address this misclassification. The BVCA urges Government to resolve this inconsistency so that these incentives can reach more of the companies they are intended to assist.

Critical enablers to unleash investment

The BVCA recommends the Government consider the following interventions which, if taken forward, would act as critical enablers to unleash investment in the UK.

NOVA as a new marketplace to facilitate UK pensions investment into venture capital and growth capital funds

The BVCA is supportive of the steps taken to reform pensions within the Pension Schemes Bill. We have also undertaken significant work to understand the barriers to pension funds investing into private capital, including the formation of the Pensions & Private Capital Expert Panel which made a number of recommendations aimed at industry, Government and regulators. However, we take the view that many of these reforms may take some time to take effect, and that bold action is required to increase investment in the short to medium term.

Despite the Mansion House commitments, the active deployment of capital from DC pensions to private capital funds has been slow. The BVCA has therefore explored how the UK could successfully implement NOVA, an initiative which draws on the French 'Tibi' scheme to boost the scale and pace of DC investment into UK private capital funds, specifically venture and growth capital funds. This was a recommendation of the BVCA-convened Pensions & Private Capital Expert Panel and is supported by several stakeholders across the pensions landscape. Given this was also a key recommendation from Labour's Start-Up, Scale-Up review, the BVCA is eager to work with Government on this.

With support from key stakeholders and industry leaders, including the City of London Corporation and the British Business Bank, and with government facilitation at its core, NOVA would help address the current gap and support investment leading up to 2030 and beyond. NOVA would give DC schemes access to investment opportunities via a trusted initiative and the chance to build relationships and expertise. The BVCA's full NOVA proposal can be found here.

Capital Markets Reform

A BVCA survey conducted in September 2025 showed that appetite is returning for Initial Public Offerings (IPOs) among BVCA members. One third of the firms surveyed revealed that they are considering an IPO in the next 12 months, and approximately 40% are considering the UK for a listing.

Stamp duty is a transaction cost that effectively means that investors pay more on UK shares than overseas equities. To unlock the full potential of the London Stock Exchange as the destination for ambitious companies to IPO, the BVCA recommends that the Government reviews stamp duty on UK equities to understand how changes in this cost would affect tax revenue, versus encouraging listings in the UK. In the short term, to support its intentions to boost retail investment and to encourage a pipeline of IPOs, the Government could suspend stamp duty on UK equity trading within ISAs, as part of the wider ISA reforms.

We note reports that the Government is considering a stamp duty holiday for new London Stock Exchange listings that would exempt investors from the 0.5% tax on buying the shares of newly-listed companies in the UK. The BVCA would support this as an initial measure however would emphasise that further reform is required.

Improving the wider investment environment

The Government has been clear about the need for more effective policymaking and regulation to enable growth and has already taken steps to this end—by speeding up approval processes, updating planning rules, and giving clearer direction to regulators. The BVCA continues to recommend the below measures which will improve the wider investment environment and improve private capital firms' ability to deploy capital in the UK.

Reform the National Security and Investment (NSI) Act Notifiable Acquisition Regulations (NARs)

The Government has set out ambitious goals for investment in eight growth-driving sectors identified in the Industrial Strategy. A critical barrier to this attracting investment into these sectors, and particularly the defence and technologies sectors, is the NSI Act NARs. In both their current form and in proposed reforms set out in the Cabinet Office's consultation, launched in July, the regime does not strike the right balance between protecting national security and encouraging investment.

Compared with some international peers, the regime is overly burdensome and costly, especially for venture capital firms. The number of transactions being caught and/or requiring notification is higher than the equivalent number in the US, Germany, France and Italy and continues to rise year on year. We therefore remain concerned that the regime will continue to cast a very wide net over investment activity compared to other geographies that are competing for global investment. If the UK is to maintain competitiveness and incentivise investment into the Industrial Strategy sectors, namely defence, it is essential to narrow the scope of the regime, streamline the notification process and reduce operational barriers. Efforts should therefore focus on decreasing the number of notifications to better support investment and growth in priority sectors.

We urge the Government to take forward the extensive reforms set out in our response to ensure the regime does not hamper investment and growth. In particular, narrowing the regime's scope and refining sector definitions will improve its effectiveness and strengthen the UK's competitiveness as a destination for investment.

BVCA continues to recommend that the Government take steps to address these issues, as outlined in our consultation response here.

Tackle infrastructure and planning issues

The Government recognises that infrastructure underpins all economic activity by connecting people, goods, services, and ideas, and that improvements in infrastructure will be essential to promoting UK economic growth.

Although over half of the 13,000 UK businesses invested in by the private capital industry are based outside London and the South East, investment in regional businesses could be even higher with improvements to infrastructure and planning decisions. It is critical the Government uses the UK Infrastructure Strategy to improve infrastructure and accelerate planning processes to boost investment potential in the regions.

The BVCA recommends that Government empower the newly announced National Infrastructure and Service Transformation Authority (NISTA) to build on the powers of the National Infrastructure Commission and deliver a clearer, more authoritative roadmap for major projects. Alongside this, reforming greenfield restrictions where appropriate would ensure limitations do not block the development of vital manufacturing and job-creating sites when brownfield land is unavailable. Finally, simplifying and expediting planning laws would make it significantly quicker and easier to build new facilities and the infrastructure that underpins investment and economic growth.

Reform the Alternative Investment Fund Managers Regulation framework

It is vital that the UK retains its place at the centre of the global financial ecosystem so that private capital continues to choose to invest in the UK and help UK businesses thrive. This requires regulation which

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takes a common-sense approach, is applied consistently, and equally balances incentivising growth with upholding world-class standards.

The current Alternative Investment Fund Regulation framework has created disproportionate and unnecessary complexity and costs, and there is a clear need to update it so that it better supports UK private capital and the associated investment in UK businesses and the wider economy. The BVCA is continuing discussions with HM Treasury officials and the FCA on the future regulation of alternative investment fund managers and welcomes this valuable opportunity to shape a regime that is simpler, more proportionate and internationally competitive.

We are encouraged by the constructive engagement we have had with officials post consultation. It is positive that our concerns regarding the proposed tiered regulatory requirements and thresholds have been heard and that policy appears to be moving in the right direction. We will continue to work closely with Government and regulators to help ensure the final regime supports growth, jobs and long-term investment across the UK.

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