

Capital Gains Tax on Entrepreneurs: Should the UK have a ‘Unicorn Relief’?

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Executive Summary

Background

In November 2025, the Government published a [Call for Evidence](#) on Tax Support for Entrepreneurs. Since then, many organisations have called for new or expanded Capital Gains Tax (CGT) reliefs for entrepreneurs.

The case for a lower CGT rate on entrepreneurs' gains rests mainly on the effort and innovation they contribute and on a desire to have them build their businesses in the UK. The only CGT relief currently available to founders, Business Asset Disposal Relief (BADR), has been criticised for being both poorly targeted and too small to make a difference to highly successful founders.

In this report we ask: **if the fundamental reforms to CGT that we have previously argued for were adopted, what (if any) additional tax relief should be available to entrepreneurs?** For the purposes of this report, we define entrepreneurs as both the founders and early employees of new businesses.

Fixing the fundamentals of CGT

In [Advani, Lonsdale and Summers \(2024\)](#) we recommended five reforms: equalising CGT rates with Income Tax rates; introducing an Investment Allowance; removing the uplift at death; rebasing on arrival with a deemed disposal on departure (ROA-DDD); and more generous loss relief. **Together, these reforms would be better for growth while raising revenue.** They would also remove the current incentive for entrepreneurs to emigrate before they sell in order to pay no CGT. We treat this package as the default setting for a neutral CGT system, and as the starting point for any new relief.

Why have CGT relief for entrepreneurs?

Starting from the Mirrlees position that similar activities should be taxed similarly, which is fundamental to the reforms described above, we set out six questions that any new CGT relief should answer in sequence.

1. Is there a concern, in principle?
2. Is there evidence of the concern, in practice?
3. Does this concern still exist after structural CGT reform?
4. Is tax the right tool to address the concern?
5. Is the design well targeted at the concern?
6. Are the benefits worth the new distortions?

We use these questions to assess the arguments most commonly made to justify additional CGT reliefs. We find that:

- **Risk-taking** is currently distorted by the asymmetric treatment of gains and losses, which the introduction of more generous loss relief in our reform package would address. Lower CGT rates are not an effective way to address any residual concerns about risk-taking, since these concerns relate to the risk of failure while lower CGT rates benefit only those who are successful.
- **Financing constraints** are better solved with non-tax tools, including changes to regulation. CGT relief paid on disposal does nothing to support entrepreneurs' ability to access capital, since the relief would only provide a benefit to them many years after the business is created.
- Large businesses may create **positive economic spillovers** from innovation or net job creation. The most important factors for attracting and retaining them are likely to be access to skilled labour, finance, low-cost inputs (such as energy) and consumers. Since these are hard to change quickly, there may be a case for additional CGT reliefs to encourage such businesses to be founded and retained in the UK.
- **Tax mobility** is reduced by ROA-DDD, but there would remain incentives for some entrepreneurs to leave the UK, for example founders who expect very large future gains. There is a case for attracting and retaining founders of superstar firms, and alongside wider reform, CGT reliefs may support this.
- There is no empirical evidence to support the existence of **sentiment and signalling effects**. The available evidence suggests entrepreneurs are largely unaware of CGT rates and reliefs. These effects cannot justify a relief on their own.

We conclude that **only positive spillovers and tax mobility could, in principle, justify a new CGT relief. However, even in these two cases, we find that the evidence is inconclusive.** Findings on whether top earners are more internationally mobile are limited, and no study looks at entrepreneurs with gains specifically. There is limited evidence available on positive spillovers.

Targeting CGT relief for entrepreneurs

BADR gives a reduced rate (currently 18%) on up to £1 million of lifetime gains to individuals holding at least 5% of a trading company in which they

are actively engaged. **This design is almost perfectly ill-suited to the two concerns identified above, and would not be fixed by increasing the cap.** The relief provides the most benefit to founders of the lowest-value businesses and almost nothing for founders of very high-value ones.

If the Government decides that these issues require a special CGT relief for entrepreneurs, the best-targeted option we could design is Unicorn Relief. This would provide a significantly reduced CGT rate on an uncapped amount of gains, narrowly targeted at entrepreneurs who successfully build very high-value businesses (broadly those achieving ‘unicorn’ status, defined below). This design is almost the exact opposite of BADR, which offers a capped relief to almost all business owners.

Only founders and the early employees who were instrumental in building the business would be eligible. To qualify, the business would need to be a trading business with an arm’s length value above a very high threshold at the time of disposal, and possibly a sufficient UK economic footprint. The threshold should be set at around ‘unicorn’ level (US\$1 billion or £750 million). We do not take a view on the specific rate.

Despite representing our best attempt, our suggested design nevertheless comes with significant trade-offs and risks:

- Unicorn Relief should not be implemented in isolation. Without structural reform to CGT, the case for a relief is much weaker and would be undermined by the continued option of paying no CGT by emigrating.
- There is no strong evidence base that the impacts of positive spillovers and tax mobility are large enough to justify giving up substantial static revenue.
- Unicorn Relief would create significant distortions, even with the best-targeted design possible. Most notably, any value threshold would affect the timing of exit, encouraging founders to delay a sale until the business reaches the threshold, even where a new owner could scale the business better. A taper, which we favour, would reduce this distortion.
- The distributional impact would be regressive as it would leave some of the wealthiest founders paying very low effective tax rates.
- It is difficult to model how much Unicorn Relief would cost. A basic static costing would rely on data that are not currently linked, and important behavioural adjustments needed to show how much tax changes cost in practice would be built on a limited evidence base.

Overall, we are not convinced that there is a compelling case for Unicorn Relief. However, unlike BADR, it does at least have some potentially plausible economic basis. Our weak support for Unicorn Relief is also predicated on two key conditions.

First, that the relief would operate in addition to the full package of CGT reforms that we proposed in Section 2. We do not think there is any case for implementing Unicorn Relief as a bolt-on to our current CGT system.

Second, that the total business value threshold is set very high, in the order of a genuine ‘unicorn’ valuation. Below this level of business value, we do not think it is plausible that positive spillovers for the UK economy or tax mobility of entrepreneurs are sufficient to justify a special relief.

CGT relief for serial entrepreneurs

We next consider the case for CGT reliefs aimed at serial entrepreneurs. These reliefs would defer CGT where founders reinvest their exit proceeds. It appears to be widely accepted that incentivising serial entrepreneurship is a good thing. However, we have not established a strong evidence base to justify this.

In our view, there is no compelling reason to introduce CGT reliefs for serial entrepreneurship that aim at encouraging re-investment and/or re-founding per se. **However, there might be a case for using reinvestment reliefs in a targeted way that is subsidiary to the objectives of Unicorn Relief.**

We have suggested two potential reinvestment reliefs aimed at supporting Unicorn Relief. Flywheel Relief would be available to entrepreneurs prior to obtaining Unicorn Relief, and Super-Angel Relief would be available afterwards. Both carry significant risks as well as potential benefits.

Conclusion

Since the Government published a Call for Evidence on Tax Support for Entrepreneurs in November 2025, there has been considerable debate about how new CGT reliefs might be used to incentivise entrepreneurial activity. Although a variety of proposals have been put forward and have made useful contributions to this debate, in our view the debate has overall suffered from a lack of clarity over the specific concerns that CGT relief for entrepreneurs is seeking to address.

Without a clear diagnosis, it is inevitable that reliefs will be poorly targeted, implying poor value for money as a tax expenditure, and the potential to worsen economic distortions, which would be actively harmful for productivity and growth.

In this report we have sought to provide a framework for evaluating the concerns that could potentially motivate a special CGT relief for entrepreneurs, and for targeting relief at the most plausible of these. If the Government decides it must have a special CGT relief for entrepreneurs, replacing BADR with Unicorn Relief would be much better targeted than the status quo, though it would still present drawbacks and risks.

1 Introduction

Founders and early employees of new businesses contribute their time, innovation, and sometimes their own capital, with the aim of creating a profitable venture. These individuals – who we refer to collectively in this report as ‘entrepreneurs’ – play a key role in driving UK productivity and growth. Their successful ventures also contribute to employment and tax revenue that help support public finances.

Entrepreneurs and their businesses also benefit from state support in various forms: some obvious, others less so. For example, they benefit from an educated workforce, physical infrastructure, legal protections and market regulation, as well as government programmes directly targeted at supporting early-stage ventures such as grant funding and subsidised access to finance.

The Government must therefore balance appropriate incentives for entrepreneurs with the need to ensure that they pay taxes that can sustain this ecosystem for their benefit and the benefit of future founders. This requires that any tax reliefs are closely tied to where the positive incentive effects are strongest, while minimising opportunities for inappropriate use and managing the overall fiscal cost.

In November 2025, the Government published a Call for Evidence on Tax Support for Entrepreneurs, inviting views on the impact, accessibility and effectiveness of existing schemes. Following this consultation, several stakeholders have published calls to expand existing or introduce new tax reliefs targeted at entrepreneurs.¹ As capital gains represent a large share of what successful entrepreneurs earn, these proposals have focused on Capital Gains Tax (CGT) reliefs.

The debate over tax and entrepreneurship has so far suffered from a tendency to conflate two largely distinct policy questions: (1) whether and how tax reliefs should be used to incentivise capital investment in entrepreneurial businesses; and (2) whether the founders of entrepreneurial businesses (and early employees granted shares in the business) should pay a lower tax rate on the gains they make from selling their stake in the business once successful.

¹ See for example the Startup Coalition’s proposal for a new ‘[Founder’s Relief](#)’; Tech Nation’s call for restoring [Entrepreneurs’ Relief](#); UK Private Capital’s proposal for a new ‘[Scale-up Reinvestment Relief](#)’; Tech Nation’s call for a new ‘[Repeat Entrepreneur Relief](#)’.

Separating these two policy questions is important, because the case for lower CGT rates on entrepreneurs – i.e. founders and early employees holding shares – does not stem mainly from the capital (if any) that they have put at risk. Instead, arguments typically focus on the effort and innovation that these entrepreneurs contribute, together with a desire to incentivise them to start and build their business in the UK rather than elsewhere.

The UK currently has several tax reliefs available to individuals who put their own capital at risk in early-stage businesses, including Venture Capital Trusts (VCTs), Enterprise Investment Scheme (EIS) and Seed Enterprise Investment Scheme (SEIS) – although these schemes specifically exclude founders and employees, even when they have invested their own capital.² The UK also has a tax relief – the Enterprise Management Incentive (EMI) – specifically targeted at early employees. However, the only relief currently available to founders is Business Asset Disposal Relief (BADR, previously called Entrepreneurs' Relief), which offers a reduced rate of CGT on gains from qualifying business assets, up to a lifetime limit of £1 million in gains.

BADR has been strongly criticised from two very different perspectives. From the perspective of founders, it has often been argued that the relief is insufficiently generous: for a highly successful founder, a reduced rate on the first £1 million in gains does little to lower their overall effective tax rate.³ Meanwhile, many tax commentators have argued that BADR is poorly targeted: it offers a lower tax rate on the retained profits of anyone who chooses to provide their services via a company structure, whether or not the business is 'entrepreneurial' in nature.⁴

This debate over the tax treatment of founders proceeds against a backdrop where the fundamental design of CGT is in dire need of reform. Along with many others,⁵ we have previously argued for a package of major changes to the CGT base, as well as an increase in the headline CGT rate to align it with Income Tax ([Advani, Lonsdale and Summers, 2024](#)). Taken together, these reforms would tend to increase the effective CGT rate on successful founders, compared with the status quo.

² Although founders/employees could be eligible for EIS deferral relief (TCGA 1992, Sch 5B).

³ Tech Nation's call for restoring [Entrepreneurs' Relief](#). Startup Coalition [Call for Evidence](#) response. For the most successful founders, this was true even when the lifetime limit was set at £10 million.

⁴ Adam et al. (2024). The Startup Coalition has also noted that BADR is poorly targeted and argues for a tighter definition of 'founder'.

⁵ E.g. Adam et al. (2024); Corlett (2024); Tax Reforms for Growth (2025).

In this report, we ask: if the fundamental reforms to CGT that we have argued for were adopted, what – if any – *additional* tax relief should be available to entrepreneurs?

In addressing this question, our focus is on the individuals who start and build businesses themselves together with key early-stage employees in those businesses. For the purposes of this report, we are not seeking to address the tax treatment of third-party investors or other employees of the business. However, our focus includes entrepreneurs irrespective of whether they put their own capital at risk. Locating this debate within the current suite of CGT reliefs, our focus is therefore on reform or replacement of BADR and EMI, rather than other reliefs such as VCTs, EIS or SEIS.⁶

The report proceeds with a brief recap of our previous proposals for reform of CGT (Section 2). We treat these proposals as the ‘default settings’ for a neutral CGT system, which the Government should aim for. Against this backdrop, in Section 3, we explore the case for departing from neutrality by offering a targeted relief for the founders and early employees of highly successful businesses. We then set out the key design features that such a relief would need to meet the potential justifications we identify (Section 4). Section 5 evaluates proposals for reinvestment reliefs for serial entrepreneurship, and Section 6 concludes.

⁶ Although note that the benefit currently granted under EMI schemes is largely eliminated under the structural reforms summarised in Section 2 (due to equalisation of rates of CGT and Income Tax). Unicorn Relief would replace (and enhance) the existing benefit of EMI, although under stricter eligibility criteria (see Section 4).

2 Fixing the fundamentals of CGT and its impacts on growth

In [Advani, Lonsdale and Summers \(2024\)](#) we recommended a package of major reforms to the CGT system.⁷ This package, which builds on the longstanding recommendations of the Mirrlees Review, contains five elements: equalising CGT rates with Income Tax rates, introducing an Investment Allowance for the risk-free rate of return, removing the CGT uplift at death, introducing a rebasing on arrival with a deemed disposal on departure (ROA-DDD) regime, and more generous treatment of losses.⁸

Together, these recommendations would remove many of the existing economic distortions and disincentives to capital investment resulting from CGT, which harm growth. We set out each recommendation in this section, followed by a short summary of how they would be better for growth and productivity. Given that our principled position on the fundamental reforms is largely unchanged, we have reproduced much of the summary we wrote in 2024 here.

The package would also raise revenue, although this does not imply that taxes must rise overall. The revenue raised could instead be used to cut other taxes or to reduce the deficit. Another option, as we consider in this report, would be to use some of the money raised to fund new targeted CGT reliefs for specific groups and/or activities, if there were deemed to be a strong enough case for these.⁹

2.1 Equalising CGT rates with Income Tax rates

Differential tax rates on income and gains cause distortions to real economic activity and create strong incentives for tax planning and avoidance. The preferential tax treatment of capital gains leads to both vertical and horizontal inequity in the tax system and has sparked a complex array of anti-avoidance rules to police the boundary between income and gains. Under a system where the tax rates on income and gains are equalised, the pressure on these rules would be significantly reduced, bringing major advantages in simplifying the tax system and making it easier to understand. We recommend equalising CGT rates with Income Tax rates.

⁷ Advani, Lonsdale and Summers (2024).

⁸ Mirrlees et al. (2011)

⁹ Given current OBR baseline projections for CGT, Advani, Hughson and Summers (2026) estimate it would raise £19.7 billion in 2030. Advani, Lonsdale and Summers (2024; ALS2024) previously estimated it would raise £14 billion in 2026. Changes to CGT rates since then would reduce the ALS2024 estimate to just under £10 billion on a like-for-like basis, but projected growth in baseline CGT substantially increases that headline estimate to almost £20 billion.

2.2 An Investment Allowance

The current CGT system subjects the entire nominal gain to tax. This raises clear concerns on both fairness and efficiency grounds. We propose (re)introducing an Investment Allowance that is deducted from the tax base when calculating taxable gains. Administratively, the allowance would operate in the same way as Nigel Lawson's 'Indexation Allowance', which applied to disposals by individuals from 1988 until 1998. Our central proposal is based on an allowance for the (risk-free) rate of return, in line with the recommendations of the IFS in the Mirrlees Review.

2.3 Removing the uplift at death

There is currently no CGT on assets held until death, as inheritors acquire assets with the base cost 'uplifted' to their market value at that date. This creates a significant incentive to indefinitely defer disposals of assets with substantial accrued gains. It similarly disincentivises additional investment in business assets shortly prior to death, since the increase in the base cost from that investment will be wiped out on death.¹⁰ If CGT rates are equalised with Income Tax rates it is therefore crucial that the existing death uplift is also removed.

Our favoured approach is to 'carry over' the original base cost of the asset to the inheritor, such that when eventually sold, the inheritor pays CGT on the full gain since the asset was acquired by the deceased. To address concerns over double taxation, we recommend giving the inheritor a deduction against CGT (on a subsequent disposal) in respect of the Inheritance Tax (IHT) already paid on the asset.

2.4 Rebasing on arrival and deemed disposal on departure

Currently, if individuals emigrate prior to disposing of assets, they can escape UK CGT on the gains they made whilst living in the UK. This results in lost revenue even if the emigration was not directly tax motivated, although in [Advani, Poux and Summers \(2026\)](#) we found that the destinations of individuals holding large business gains are disproportionately low-tax jurisdictions.¹¹ In [Advani, Gazmuri Barker and](#)

¹⁰ Instead, if the additional investment is made by the heirs after death, it would further increase the base cost *after* having received the uplift on death.

¹¹ Advani, Poux and Summers (2024).

[Summers \(2026\)](#) we recommend the introduction of rebasing on arrival with deemed disposal on departure ('ROA-DDD') for CGT.¹²

This policy would ensure that gains made by an individual whilst UK resident are taxed in the UK, even if they subsequently move abroad. It also removes from UK CGT any gains that individuals made before they arrived in the UK, which ensures that the resulting tax treatment is fair and symmetrical.

2.5 More generous treatment of losses

There are currently several restrictions on using capital losses to offset other gains or income. This results in an asymmetry whereby gains on successful investments are taxed in full but losses on unsuccessful investments are not given full relief, which discourages risk-taking and entrepreneurship. We think that reforms to the tax treatment of losses should be subject to consultation and further evidence gathering to ensure an appropriate balance between economic objectives and administrative feasibility. However, we recommend that some of the revenue generated from the other measures in our package should be set aside to fund a more generous loss regime.

2.6 Impacts of CGT reform on growth

Despite a common assumption that raising CGT rates must be 'bad for the economy', taken together our proposed package of reforms would actually be better for growth and productivity, while bringing in additional revenue for the Government. This relies crucially on the reforms to the tax base that we are proposing alongside an increase in rates.

Equalisation of CGT rates with Income Tax would reduce distortions to people's choices about how to work, by removing the incentive to repackage labour income as gains via company structures. Introducing an Investment Allowance for the (risk-free) rate of return would remove the disincentive to make investments that would have been unprofitable (after tax) under the current system. Improving the tax treatment of losses so that government takes its share of the downside as well as upside of risky investments would reduce disincentives to risk-taking.

The fact that gains held until death or emigration are currently exempted from CGT means that individuals have an incentive to hold on to assets longer than is economically efficient. The removal of uplift at death and introduction of ROA-DDD would remove these damaging 'lock-in' effects. It

¹² Advani, Gazmuri Barker and Summers (2026).

would also remove the current incentive for successful entrepreneurs to leave the UK to dispose of their businesses free of UK tax. By closing down these major 'leaks' in the tax base, some people would decide it was no longer worth holding on to assets just to save CGT, improving the allocation of capital in the economy. We set out more detail on these growth impacts in [Advani, Lonsdale and Summers \(2024\)](#).

3 Why have CGT relief for entrepreneurs?

This section considers whether there is a case for a CGT relief for entrepreneurs after the structural reforms we describe in Section 2. We start by setting out a six-step framework for deciding whether any new tax relief is justified, before applying this framework to the arguments made most often to justify a relief in this area.

3.1 Decision-making framework

A proposal for a new relief should be able to answer six key questions. The Government should consider each question sequentially and should not proceed to the next stage if there is insufficient justification to do so.

1. Is there a concern, in principle?
2. Is there evidence of the concern, in practice?
3. Does this concern still exist after structural CGT reform?
4. Is tax the right tool to address the concern?
5. Is the design well targeted at the concern?
6. Are the benefits worth the new distortions?

Except for question 3, these questions provide a framework for assessing any intervention the Government might be considering through the tax system. We apply these tests to our design for Unicorn Relief in Section 4.

3.1.1 Is there a concern, in principle?

The Government should take as its starting point the Mirrlees position that the similar treatment of similar activities is the default, with a high bar for departing from this position of neutrality. In the context of income and capital gains, neutrality means taxing “capital income and capital gains above the [investment] allowance at the same rate schedule as earned income (including employee and employer NICs), with reduced rates for dividends and capital gains on shares to reflect corporation tax already paid.”¹³ This is the theoretical basis of the reform package from Section 2.

Introducing a new CGT relief to support entrepreneurs would depart from that position of neutrality. This may be justified, but it must be targeted at a specific economic concern, identified before any design work takes place.

In the case of a new tax relief for entrepreneurs, there are five concerns that are usually argued to justify tax reliefs in this area: risk-taking, financing constraints, positive economic spillovers, tax mobility, and sentiment and coordination effects. We assess these arguments in detail in Section 3.2,

¹³ Mirrlees et al. (2011)

where we conclude that only two (tax mobility and positive economic spillovers) can justify government intervention through specific tax reliefs.

3.1.2 Is there evidence of the concern, in practice?

Describing a concern in principle does not mean that the Government should act to fix it immediately. The next step is to ask what evidence there is for the existence and scale of the potential concern, to calibrate the response.

The arguments that could justify CGT relief for entrepreneurs rest on empirical questions that the Government should assess before making any changes. If the evidence rejects the quantitative relevance of these issues, the Government should not intervene.

Where there is a lack of conclusive empirical evidence, however, this gap does not necessarily justify policy inertia. Where evidence is unavailable, the Government's role is to decide whether issues deserve a targeted policy response. If the Government decides these issues warrant a policy response, this report aims to help it identify the best-targeted design available, and to be clear about the problems that design would still have.

3.1.3 Does this concern still exist after structural CGT reform?

While the tests above apply to any government intervention through the tax system, in this specific case we need to consider the implications of the CGT reform package in Section 2, which is the relevant counterfactual. The Government should consider whether there remains a justification for intervention after this package has been introduced. In many cases we find the concerns identified could be resolved through our proposed CGT reform, and thus additional reliefs would not be required.

This is an important test because other proposals that have been suggested to address this issue are designed against the current CGT system, meaning their solutions are calibrated to a concern that may be better resolved with broader changes. As we set out in Section 2, our proposed package of reforms would improve growth and productivity, and this may resolve some or all concerns that any additional tax support for entrepreneurs aims to fix.

3.1.4 Is tax the right tool to address the concern?

Tax has structural limitations that other interventions do not. A tax relief can only change the behaviour of people who are subject to the tax in question. Where the people whose decisions the Government is trying to influence are outside the scope of the tax (for example, overseas investors) then they will be unaffected. Tax reliefs are also difficult to define and often generate

deadweight cost where taxpayers whose behaviour is unaffected receive a benefit, and where taxpayers whose behaviour is not intended to be affected do in fact respond.

Therefore, the Government must consider carefully whether tax is the right tool to meet any remaining case for support. There are several policy tools that can be used to support entrepreneurs, including through regulation and expenditure, and it is far from obvious that the tax system is the optimal policy lever. The wider policy context is also important for entrepreneurs. For example, one of the challenges the Government faces in relation to entrepreneurs is attracting and retaining international talent, which might be better supported by visa policy.¹⁴

Comparing every instrument that could support entrepreneurs is beyond the scope of this report. However, we can propose a test that the Government should consider where a residual concern exists: is a tax relief capable of influencing it, and is there a more direct instrument that could be used?

3.1.5 Is the design well targeted at the concern?

If the Government concludes that a tax intervention is the best solution to any residual concern that exists, then any relief should be drawn as narrowly as the objective of the policy allows. Tax reliefs often suffer from targeting issues; usually this results in problems of over-coverage, as they end up benefiting a much wider group of taxpayers than those intended.

Over-coverage reflects two distinct issues. First, there will be taxpayers that engage in the targeted activity but would have done so even in the absence of the relief (inframarginal taxpayers). Second, there will be taxpayers that will legally restructure their economic activity to meet the formal conditions to obtain the relief, but without substantially changing their economic activity.¹⁵

Although less frequent, tax reliefs can also be poorly targeted due to under-coverage: they only benefit a sub-set of the economic actors relevant for the policy aim. A clear example of this is personal tax reliefs for investors (for example, Income Tax deductions and CGT exemptions for investment in EIS, SEIS and VCT). Although intended to increase investment into small high-risk companies, they only benefit UK individual investors when corporate,

¹⁴ See [Startup Coalition \(2026\)](#).

¹⁵ This is a worse outcome than the deadweight from providing relief to inframarginal taxpayers, since it additionally creates an economic cost from distorting behaviour in a way that is not conducive to the policy goal.

institutional and foreign investors are likely to be a much more relevant source of capital for these small high-risk businesses. We return to this in Section 3.2.2.

3.1.6 Are the benefits worth the new distortions?

The final step of the framework is to assess whether the benefits of introducing the tax relief outweigh the economic distortions that any tax relief would create. Distortions are inherent to any targeted relief, because this requires creating boundaries in the tax code to differentiate between eligible and ineligible taxpayers and activities.

The size of this distortion would depend on the specific design of the relief, in particular its generosity and the eligibility criteria used for targeting purposes. We return to this issue when analysing the specific design of Unicorn Relief in Section 4.4.3.

3.2 What concerns is CGT relief for entrepreneurs trying to solve?

This section considers the five arguments most often used to justify CGT relief for entrepreneurs. These are risk-taking, financing constraints, positive spillovers, tax mobility, and sentiment and coordination. We assess each against the framework in Section 3.1, returning to questions relating to design (where relevant) in Section 4.

3.2.1 Risk-taking

It is commonly argued that CGT discourages risk-taking because it reduces the rewards for success. Entrepreneurs (may) risk their capital and taxing the gain when they are successful reduces the return to that investment. Higher CGT rates, it is argued, would exacerbate this disincentive by further reducing the after-tax reward.

This argument is only partly correct. Taxing the upside does reduce the incentive to invest. But giving a tax credit for losses reduces the downside risk, with the state sharing in any losses. If this treatment is symmetric, then this effectively acts as insurance, and therefore *increases* risk-taking.¹⁶

The current tax system treats gains and losses asymmetrically: while gains are immediately taxed on realisation, realised losses are relieved only when sufficient gains are subsequently realised. If losses exceed gains in a given

¹⁶ With full loss relief, higher tax rates can increase risk-taking (Domar and Musgrave, 1944; Stiglitz, 1969; Feldstein, 1969). This assumes entrepreneurs are risk averse. If they are risk-loving, then this would not be true, but risk-loving preferences are inconsistent with the standard argument made by entrepreneur groups that they need compensation for the risks that they take.

year, excess losses must be carried forward until sufficient gains are realised in subsequent years, as they generally cannot be carried back and they cannot be offset against income.

How problematic this is in practice depends on how constraining it is to have to wait for future gains against which to offset those losses. If the likelihood of having such gains in future is high, and these gains come relatively soon, the downside is relatively small. If there is a reasonable likelihood that someone with losses would never have sufficient taxable gains to get the tax reduction, then these constraints are more problematic. There is currently little direct empirical evidence on this question.

As we set out in Section 2.5, our package of reforms to the CGT system includes increasing the generosity of loss reliefs to reduce the current asymmetry as far as possible, subject to any anti-avoidance concerns. By reducing both upside and downside symmetrically, the tax system would therefore reduce the risk of investment, providing valuable insurance that directly supports risk-taking.¹⁷ Concerns about distortion to risk-taking caused by CGT should therefore focus primarily on designing rules that could lead to more immediate relief for taxpayers facing losses, while being administratively feasible and robust to potential tax avoidance.¹⁸

A second version of the risk-taking argument is that risk is a social good, and the state should actively encourage more of it. This version of the argument holds that symmetric treatment of losses is insufficient. Instead the tax system should give entrepreneurs an even larger share of the upside, while still cushioning the downside, so that they are motivated to take additional risks.

This argument is misguided. Suppose someone has two opportunities available to them, one paying (say) £100,000 with certainty, and the other a risky opportunity paying £1 million with 10% probability and otherwise nothing. The “expected value” of both options is the same. The individual should only take the risky option if it is expected to pay more. There is no reason to actively encourage the risky option, so the tax system should not provide a lower rate on the uncertain outcome merely because it is risky. If the claim is that the investment and risk are associated with some other benefits (e.g. positive economic spillovers), then that needs to be argued directly, and we discuss this in Section 3.2.3.

A third version of the argument holds not that risk is good per se, but that individuals are risk-averse and so take insufficient risk. The argument here

¹⁷ Adam et al. (2024).

¹⁸ This rationale can also be seen in the EIS/SEIS framework, where more general loss relief is available (allowing investors to offset capital losses against income).

is that people dislike risk, and so might for example take £80,000 with certainty over £1 million with 10% probability. Individually this may be rational, but collectively we might be worse off from insufficient risk-taking.

The problem being identified here is that entrepreneurs cannot fully insure themselves against risk. As discussed above, access to insurance supports risk taking, so incomplete insurance leads to social loss. Using the numerical example, if 10 people were choosing between £80,000 for sure or one of them getting £1 million, they would be better off agreeing beforehand that they would split the £1 million between them. The same logic motivates lottery syndicates, where pooling the winnings gives everyone a better chance of some success.

Private markets provide some insurance in the form of external investors (such as angel investors or venture capital): the entrepreneur gives up part of their expected returns in exchange for capital that can be used to pay themselves a salary before the start-up becomes profitable. However, the private market does not provide complete insurance because there is a trade-off between providing insurance and providing incentives: entrepreneurs who were able to completely remove both upside and downside risk would simultaneously lose the most direct incentive to work hard in the business.¹⁹ Unlike the lottery example, the chance of success depends on the entrepreneur's effort.

Incomplete insurance is likely to reduce risk-taking, although no direct evidence is available on the scale of this problem. This concern is not alleviated by the reforms described in Section 2. The tax system cannot provide complete insurance for the same reason that private markets cannot provide it: taking the full upside and downside risk would remove the motivation to work hard in the business.

Although entrepreneurs therefore face some uninsurable risk, this does not imply that a lower tax rate among those who are successful is a well-targeted policy. Lower rates operate by increasing the returns to success, whereas – if anything – cushioning the downside risk further would be a better targeted policy, since the value of support is higher if things go wrong than if things go well. Alternative direct ways to support risk-taking financially include upfront grants that directly reduce the entrepreneur's initial risk (as, for example, done via Innovate UK) and equity investment that reduces both upside and downside for businesses that are for some reason not yet able to receive sufficient outside investment (as for example done

¹⁹ Another reason for a lack of complete insurance is the difficulty for a private provider in assessing which potential entrepreneurs are likely to be successful or unsuccessful.

via the British Business Bank). Non-tax interventions are also highly important, including bankruptcy regulation and social insurance.²⁰

3.2.2 Financing constraints

In setting up a business, entrepreneurs may want to borrow to invest in capital, to pay for other staff, or just to fund their own living costs while they set up and grow their business. Lenders may charge high rates or be wary of taking on the risk of lending at all, where they feel uncertain about the prospects of the business succeeding. Asymmetry of information – where borrowers know more about their skills and the possible success of their business than lenders – creates a financial market friction that constrains entrepreneurs' ability to found and grow a business. This is particularly problematic when the entrepreneur does not have a finalised product or a business track-record at the time they want to borrow.

Quantitative evidence on the importance of financing constraints is mixed. Older research found a strong relationship between wealth and entrepreneurship, looking both at entry into entrepreneurship and the ability of businesses to grow (Evans and Jovanovic, 1989; Holtz-Eakin, Joulfaian and Rosen, 1994). However, Hurst and Lusardi (2004) found “no evidence that wealth matters more for businesses requiring higher initial capital.” They argue that the correlation between wealth and business formation must instead be driven by other underlying factors, such as ability and access to investment opportunities. A recent line of work has used rising housing wealth as a causal strategy to study impacts on company formation and growth, on the basis that housing wealth can be collateral for a new business. While there is some evidence that rising housing wealth improves entry into entrepreneurship (Schmalz, Sraer and Thesmar, 2017), the scale of the effect is small. Corradin and Popov (2015) find a “10% increase in home equity raises the share of individuals who transition into self-employment each year from 1% to 1.07%”, and Kerr, Kerr and Nanda (2022) find that only 3-6% of entrepreneurs were constrained from borrowing by a lack of home equity.

Structural reform of CGT would improve capital allocation to start-ups through two main channels. First, it would remove the lock-in effects arising from the uplift at death and the possibility of avoiding CGT on emigration. Therefore, individuals holding capital assets would not face the current distortion to their investment decisions that is created by the prospect of escaping the tax if they hold on to their assets until death or emigration. This

²⁰ Fan and White (2003); Armour and Cumming (2008); Hombert et al. (2020).

would free up both the assets and the capital invested in them, which could flow towards more economically efficient uses, such as investment in entrepreneurial activity. The second improvement to capital allocation would come from increasing the generosity of loss relief, which would remove the current bias against high-risk, high-growth businesses, which are typically those built by entrepreneurs, improving their ability to repay.

Even with the above changes to CGT there will still be constraints on entrepreneurs' access to finance. Private market participants may still find it too costly to assess the profitability of some loans given the borrowers' size and short history, constraining the ability to invest.

Using tax reliefs as an alternative way to offset these concerns is likely to be very inefficient. This is because tax reliefs for investors are poorly targeted at the concerns of access to capital: they do nothing to directly improve this capital access. In principle they can encourage individuals who have their own capital to use more of it in setting up a business, taking on more risk than they would otherwise prefer, but there will be substantial under-coverage, since it only supports those who have access to this capital. Additionally, it comes with high deadweight cost, since those who do have access to sufficient capital anyway now also benefit from the lower rate.

They may also stimulate some additional domestic arm's length investment, although there is nothing to target this additional investment at businesses that are otherwise constrained. They also only support arm's length investment by UK resident individuals, who are the least relevant source of investment in terms of scale. UK corporate investors will usually be exempt from tax on their gains under the substantial shareholding exemption, while institutional investors such as pension funds are tax exempt anyway. Foreign investors will also see no benefit from UK tax reliefs as they pay tax in their country of residence on their worldwide income and gains.

Beyond this fundamental under-coverage, tax reliefs for investors would also tend to come at high 'deadweight' cost and require revenue to be raised elsewhere in the tax system, which would itself affect growth.

Given these concerns, our view is that other policy tools would be more efficient in addressing the financial market failure that entrepreneurs may face. Regulation already significantly affects the allocation of capital in the UK. Rules governing pension funds shape the balance between different asset classes that they choose to invest in and influence how much capital flows to different parts of the economy. These regulations exist for legitimate reasons, but the balance they strike could be reconsidered. Restrictions on

investment risk to protect taxpayers from pension funds failing need to be balanced against the costs to taxpayers of insufficient private investment. If the Government were concerned about this, it could for example direct institutional investors to allocate some capital into UK start-ups or scale-ups.²¹

3.2.3 Positive economic spillovers

Entrepreneurial activity can have positive externalities through knowledge spillovers, productivity enhancement, agglomeration effects, technological innovation, and job creation.²² It can be beneficial fiscally through increased business activity and job creation, leading to increased tax revenues. It can have additional benefits to society, through the creation of lower costs and more product varieties for consumers, commercial knowledge to be built on by other businesses, and increases to self-esteem and skills for workers. Entrepreneurs and investors do not directly benefit from these spillovers (they are not 'internalised'). Like other positive externalities there can in principle be a case for government intervention that increases these activities to improve social welfare.

However, the mere presence of business activity does not imply spillovers. In a competitive market, businesses will compete to hire labour and sell output, meaning that the activity of any given business – were it not to be there – would ultimately be replaced by similar activity in another business. Moving the same economic activity from one firm to another does not justify support from government. Even where there are improvements in productivity, if the financial benefits from this accrue directly to the business and its owner, for example through patenting a new manufacturing process, there is no justification for lower tax.

The most compelling argument for spillovers comes from looking at large firms specifically. There is some evidence from large manufacturing plants that these businesses can raise local productivity and economic outcomes (Greenstone, Hornbeck and Moretti, 2010). There is also substantial academic evidence from 'plant closures' that when a large business shuts down in an area, there can be a long transition period where some workers remain unemployed and productivity declines (Jacobson, LaLonde and Sullivan, 1993; Moretti, 2021). This potentially provides an incentive to retain large businesses in place, to encourage them to grow to a scale where they

²¹ There are many ways in which this can be done, from strictly mandatory regulation to nudging approaches.

²² Bloom, Schankerman and Van Reenen (2013); Aghion et al. (2009); Gompers, Lerner and Scharfstein (2005); Haltiwanger, Jarmin and Miranda (2013).

are less likely to fully relocate. A common anecdotal example given for the need to retain businesses until they have scaled is the technology quarter around King's Cross, which was anchored by DeepMind having grown to a scale in London that made it harder to fully relocate from the UK even after its purchase by Google.

The reforms proposed in Section 2 are deliberately intended to create a 'neutral' tax system, providing no incentive to come, to stay, or to leave. If policymakers determine that the case for a non-neutral system is sufficiently strong, then our baseline reform will be insufficient.

Tax is unlikely to be the most important factor in encouraging the founding and retention of large businesses. More important factors include the presence of a skilled workforce, a large consumer market, access to scale-up capital, transport links, appropriate regulation, and low costs of inputs such as energy. Conditional on having set up in the UK, the barriers to remaining in the UK that are usually discussed anecdotally are more often around access to capital and speed of regulatory decision-making.

Given that some of the factors above are difficult to change with any speed, there may be some case for using the tax system to provide additional incentives for founders. Since the evidence on spillovers is clear that, where these exist, they come from large "superstar" businesses, the design of any relief should be sensitive to this.

Whether a targeted relief is justified then depends on how many entrepreneurs would respond to the relief (marginal founders), the scale of any external social benefit that is created by these founders, how many founders would receive the relief without changing their behaviour (inframarginal founders), and what unintended distortions to behaviour are created. If the group of inframarginal founders is large relative to the group of marginal founders, or the typical positive externalities from marginal founders are insufficiently high, or the unintended distortions are large, the better course may be not to have a relief at all. If the opposite is true, a targeted relief may be justified.

3.2.4 Tax mobility

One possible response to higher CGT rates is to move to another country that offers lower tax. At least in principle this problem may be larger for CGT than for Income Tax, because the UK only charges CGT on realisation. This means that the financial benefit of emigrating before realising can be a lower (usually zero) tax rate on many years of accrued gains ([Advani, Gazmuri Barker and Summers, 2026](#)).

If entrepreneurs who might found superstar firms are highly responsive to tax in their location decisions, then there could be a case for having targeted reliefs to both attract and retain them in the UK. There are two rationales for this. First, in line with the discussion in Section 3.2.3, these firms may have positive spillovers. In that case there is an economic benefit to having them locate in the UK, because of their impact on other businesses and workers.

Second, some markets are not competitive. Whether through valuable branding, intellectual property (such as patents), or ‘network externalities’ (e.g. a social network is only valuable if other people are on it), some businesses have market power that allows them to make unusually high profits. Such market power is not generally in the interests of consumers or other businesses. In such cases, ideally policy would be able to increase competition, lowering prices and directly benefiting consumers. However, increasing competition is not always possible. In this case, there is a benefit to the UK of attracting such high-value superstar businesses so that their activity takes place here, not because there are spillovers, but because the wages and profits are earned and taxed here.

There is little causal evidence showing the effect of CGT on entrepreneurs’ location decisions. Descriptive evidence for the UK shows that among leavers from the UK with substantial shareholdings in UK businesses, more than three-quarters go to destination countries where there would be no CGT on the gains they have built up ([Advani, Poux and Summers, 2024](#)). Individuals with the largest gains are most likely to go to such countries. This suggests that at least among those who are mobile, tax is a relevant feature in their decision-making once they have been successful.

The structural reforms we set out in Section 2.4 would reduce the tax incentives to emigrate for entrepreneurs, by ensuring the tax system is neutral to departure. The current system amplifies founders’ mobility because – unlike in most other high-income countries – they can avoid their CGT liability simply by emigrating before they sell, and DDD removes that incentive directly. For entrepreneurs based abroad looking for the best location to scale up their start-ups, the ROA removes any disincentive to come to the UK due to the prospect of facing UK CGT on gains accrued pre-arrival. The same improvement in incentives applies to entrepreneurs deciding where to found their next start-up, who are currently discouraged from coming to the UK if they hold assets with accrued gains, but would not be once a ROA is implemented.

Even after this structural reform, there may remain some case for a lower rate to attract entrepreneurs to the UK and reduce their departure. Many

features affect a country's attractiveness as a place to start a business. These include personal factors, such as ease of immigration (including the visa regime) and the cost of living while building the business, and business factors, such as the availability of a skilled workforce and customer base, appropriate transport links, the location of investors, and a suitable regulatory environment. While the business factors are arguably the most important, since they affect the chance of success in the first place, tax will also feature alongside these. To the extent that it is decisive, a lower rate for gains that an entrepreneur makes can bring some additional business to the UK, at the cost of providing this benefit to owners of many existing businesses that would always have been here.

Another case for a lower rate is potentially to further reduce emigration incentives. Where founders expect large future gains, under the reform described in Section 2 they may choose to leave the UK before the business grows in value, so that any future gain accrues while they are resident abroad and falls outside the UK CGT net (whether charged on actual disposal or under a DDD). This is likely to be unusual: it requires the founder to expect a very large future gain (e.g. large enough to compensate for accelerating the CGT charge on the current gain) and for their expectation to be unaffected by their departure from the UK (i.e. their business growth to be independent of their presence in the UK). Uncertainty over the future gains makes the calculation harder, because a founder who does not know how large the gain will be must estimate its expected value, and by leaving early they bring forward a charge on gains already accrued, in exchange for an uncertain future saving. The group for whom early emigration makes sense under these conditions is therefore likely to be small.

Taken together, there is potentially some case for additional relief even after the implementation of structural CGT reform. Again the design of any relief needs to be targeted towards founders of these large businesses, and to minimise behaviour changes that do not provide the intended outcomes.

3.2.5 Sentiment and coordination

Another argument that is sometimes given for introducing tax reliefs for entrepreneurs is that they can provide important signalling effects of the priorities for a government. This, in turn, can affect general sentiment (or “vibes”) about the business environment that could theoretically have positive effects on investment. The implication of this argument is that there is some benefit over and above the direct financial incentives caused by the tax change. This can happen either through (a) imperfect awareness or (b) coordination.

The imperfect awareness argument contends that entrepreneurs may be affected by government policy but only partly aware of what it is. Entrepreneurs might then act as if they were taxed at a higher rate than actually applies, reducing their rate of founding. In this context, a highly salient policy announcement could in principle be more noticeable (or have more ‘cut through’) than another, less salient announcement.

As we discuss in Section 4.2.3, this can be one reason to have a single relief that is slightly less well-targeted than a more complex combination of reliefs. However, to the extent that entrepreneurs are making decisions without exploring the tax implications, this may also imply that the CGT rate is generally not that salient, reducing the case for any relief. There is some evidence that most individuals using the forerunner to BADR either did not know anything about CGT, or knew it existed but “were either unsure of, or wrong about, the exact rate of the tax.”²³

The second argument, which concerns coordination, contends that entrepreneurs may respond to policy by starting businesses, and that the presence of so many start-ups simultaneously can change the environment in a way that allows some of them to succeed, where on their own any one of them would have failed. This is essentially a ‘multiple equilibria’ argument, where government policy is understood to shift business decisions collectively. This is distinct from a purely ‘Laffer curve’ argument which holds that lower rates encourage sufficient extra activity to pay for themselves; for coordination, it is specifically the interaction between the activity of different businesses that is important.

While it is possible that government policy can play such a coordination function, there is no empirical evidence supporting the role of personal tax policy in this regard. It is much more plausible, if tax were to have any effect, that a policy focused on a particular industry (such as the existing Audio-Visual Expenditure Credit) or region (similar to the various iterations of Enterprise Zones) would provide a more effective coordination device, although not without other costs that need to be accounted for. The risk in this case, however, is that to produce a large enough effect to ‘kick-start’ an activity, a relief usually needs to be very generous, which creates the risk of abuse from taxpayers not genuinely involved in the desired economic activity.²⁴

²³ [IFF Research \(2015\)](#).

²⁴ The UK’s former Film Tax Relief also led to widespread abuse of the scheme. For a summary of how the scheme was abused, see *Eclipse Film Partners No. 35 LLP v HMRC* [2015] EWCA Civ 95.

Although these effects may be real, there is no empirical evidence confirming their relevance or estimating their importance. In the case of CGT, the existing empirical evidence suggests that neither the headline rate nor any reliefs are particularly salient. In addition, the signalling and sentiment effect of a tax policy is likely to result as much from how it is communicated and marketed as from the substantive policy details. These effects may also differ depending on how the broader media environment reports on the policies, and what other tax measures are adopted in the same time period.

Consequently, we do not consider these signalling and sentiment arguments to be strong enough to support the adoption of a tax relief in the absence of other justifications. This is not to entirely discard their importance, but to suggest that their existence should result in well-thought-out communication strategies to maximise the positive effects of policies that are deemed desirable based on other considerations, rather than as the primary motivation for policy design.

3.3 Conclusion

Of the five arguments set out above, only two potentially point to government intervention through CGT relief after the package of CGT reform described in Section 2 has been implemented. The argument that risk-taking needs to be encouraged is misconceived, because what distorts risk-taking is the asymmetric treatment of gains and losses rather than the rate, and the proposal for more generous loss relief should rebalance this issue. Financing constraints for start-up capital remain an issue, but the tax system is a poor instrument for solving that. Any relief that pays out only on a successful exit would be a particularly weak tool for this problem as it pays off many years after the capital was provided, and only for the founders who turned out not to need it. Existing evidence suggests entrepreneurs are relatively unaware of both headline CGT rates and CGT reliefs, so new reliefs should be designed based on other factors that justify their structure, and then communication strategies can separately be designed to improve awareness.

That leaves positive spillovers and tax mobility. Both can, in principle, justify a special tax relief for entrepreneurs to address them. But the empirical evidence is not conclusive in supporting the existence or measuring the relevance of these issues. In terms of international mobility of those at the top of the income distribution (i.e. where successful entrepreneurs would be), different studies have found different measures of mobility elasticity,

without reaching a consensus about whether they are more mobile than the rest of the population.²⁵ In addition, there is no study focusing exclusively on the tax mobility of entrepreneurs, which would be the ideal quantitative evidence to calibrate the policy response in this area.

When it comes to positive spillovers, although there are quantitative studies supporting their existence, there is no conclusive evidence about which activities produce them and how correlated these are with company valuation, and even less evidence about their response to tax incentives. When it comes to externalities of top earners (which the founders of successful businesses would be) there is even less consensus about them.²⁶

Based on the above, Section 4 presents a tax relief that could address the tax mobility and positive spillovers issues, but its desirability is conditional in two respects. First, it is conditional on the Government deciding these issues deserve a policy intervention (or empirical evidence confirming their relevance). Second, it is conditional on the benefits of tackling these issues using the tax system outweighing the distortions created by the relief.

²⁵ For a summary of different estimations of mobility elasticities, see Kleven et al. (2020). For UK evidence on high income and high wealth migration see Advani, Burgherr and Summers (2026) and Advani, Poux and Summers (2026).

²⁶ On the need for research to measure externalities of top earners, see Kleven (2025).

4 Targeting CGT relief for entrepreneurs

In this section we consider how to design a CGT relief for entrepreneurs that would (as far as possible) target the two main concerns we identified in the previous section: positive spillovers and tax mobility. We begin by assessing BADR against this benchmark. Next, we articulate a set of principles for how to improve targeting whilst balancing other practical considerations. We then introduce ‘Unicorn Relief’, which is our attempt to apply this framework for designing a more effective CGT relief for entrepreneurs. We explain the high-level design of Unicorn Relief and its potential merits. We conclude by acknowledging a series of drawbacks, concerns and risks with this approach that must also be taken into account.

4.1 Business Asset Disposal Relief: the worst possible targeting

Currently the main CGT relief available to founders is Business Asset Disposal Relief (BADR, previously called Entrepreneurs’ Relief). The relief is available only to individuals who have held a minimum 5% shareholding in a trading company in which they are actively engaged, for at least two years. This group would typically – although not always – include founders. Relief takes the form of a reduced CGT rate (currently 18%) on the gains from disposal of qualifying business assets, including shares in the business. Importantly, the relief is now capped at £1 million of lifetime gains, having been reduced from £10 million from March 2020.

When analysed within the framework developed in Section 3, it is hard to articulate any plausible concern to which BADR (at least in its current form) is the answer. Its primary rationing mechanism – via the lifetime cap – is almost perfectly ill-suited to addressing either of the two potential concerns we identified: positive spillovers and tax mobility. This is because the impact of BADR is largest for founders of the lowest-value businesses: those where the founder’s gain is less than £1 million. Above this level, the impact of BADR becomes progressively more diluted, until for successful founders of very high-value businesses its impact on the effective CGT rate is negligible.²⁷

²⁷ For example, on a gain of £100 million, BADR increases the net-of-tax return from 76% to 76.06%. Even on the most generous version of ‘Entrepreneurs’ Relief’ (10% CGT rate with £10 million lifetime limit), the net-of-tax return would only modestly be increased from 76% to 77.4%.

This is a critical design flaw because it is simply not plausible that the lowest-value businesses are the ones most likely to generate positive spillovers, or that founders of such businesses are likely to be most internationally mobile and responsive to CGT rates. This is not to deny that *some* small businesses might generate spillovers (for example, through innovative practices that are adopted by others), or that *some* founders whose businesses are moderately but not highly successful may be internationally mobile. But such cases are clearly not common enough to justify giving a reduced CGT rate to the founder of every small business.

The problem here is *not* that the lifetime cap is set too low and should be increased. It is fundamentally that the relief applies to the *first* £X million of lifetime gains (whether X is £1 million or £10 million, as previously) such that the relief is indiscriminately available to all business owners. In other words, whilst the qualifying criteria do serve to target the relief at business owners as distinct from other individuals disposing of assets, the design of BADR does nothing to target its availability *amongst* business owners. Increasing the lifetime cap would enhance the value of BADR to more successful founders but it would do nothing to correct the currently poor targeting.

The wide availability of BADR also has two serious negative consequences. First, and most obviously, it is extremely costly, both in terms of its overall cost and the implied cost per pound of spillover generated, or founder attracted or retained. The second negative consequence is that BADR generates a large distortion to how people choose to work, which is bad for productivity and growth. In particular, BADR incentivises the creation of personal service companies i.e. companies created primarily as a vehicle to provide the personal services of the founder. Many such individuals would be more productive working as an employee in a larger business but instead are induced to go solo as a result of the tax wedge created by BADR.

These two features of BADR (restrictive limit and wide availability) are clearly linked: *because* the relief is so poorly targeted, it needs to have a restrictive limit because otherwise it would become prohibitively expensive in terms of revenue forgone. The result is that BADR creates a large distortion in the economy whilst failing to effectively address the only plausible justifications for a relief in this area. This is the worst possible outcome.

4.2 Principles for improving targeting

In this section, we set out three considerations that guide the design of a tax relief that is targeted as precisely as possible at the concerns that justify its introduction, while remaining administratively feasible and reasonably simple for taxpayers to understand.

4.2.1 Ex-ante vs ex-post eligibility criteria

A key question is whether the targeting criteria should relate to conditions that apply on the ‘way in’ (ex ante) or the ‘way out’ (ex post).

In the context of entrepreneurship, ex-ante targeting would involve linking the relief to some characteristics and activities of the individual or business over the period before a disposal occurs. These conditions might relate to specific industries, geographic areas, business characteristics (e.g. UK employment or R&D activity), growth rates, successful funding rounds, etc.²⁸ By contrast, ex-post targeting would involve linking the relief to conditions that are only tested on or after the relevant disposal. These might relate to any combination of: the size of the gain, disposal, or total business value; or the characteristics or activities of the individual or business at the time of disposal, or indeed for a period afterwards.

Under ex-post targeting, some conditions might nevertheless be backwards-looking: for example, the two-year holding requirement for BADR, which applies at the time of disposal. However, the fundamental distinction is that with ex-post targeting the policy would not be attempting to select targets based on predictions or proxies of future outcomes but instead would be able to rely on hindsight. Under ex-post targeting, the incentive effect operates through taxpayers’ (subjective) perceptions of how likely they are to meet the conditions in future, but actual eligibility depends on whether the conditions are *in fact* subsequently met.

In the context of CGT relief for entrepreneurs, we overall prefer ex-post targeting, for two main reasons. First, contemporaneous or backwards-looking conditions (applied ex post) are much more straightforward to apply. For example, instead of devising complicated tests aimed at predicting whether a business is likely to be high-growth or highly successful in future, it is much easier to look back and ask whether it was.²⁹ Second, using ex-ante conditions that are independent of (other) tax

²⁸ An example is EIS, which provides relief only if the company receiving the investment meets certain gross asset and employee count conditions *at the time of the investment*.

²⁹ On the other hand, it should be acknowledged that ex-post targeting can often involve selecting on winners, which may not be desirable depending on the targeting objectives.

outcomes can open the regime to tax avoidance or evasion, as was the case with the UK's former Film Tax Relief.³⁰

4.2.2 Trade-offs between targeting and other factors

There will inevitably be some trade-offs between the need to closely target policy design to the precise concerns that motivate the relief and the need to ensure that the criteria are administratively feasible, reasonably simple to understand, and do not create excessive distortions.

Administrative feasibility requires that the eligibility conditions are easily measurable, which should lead to reasonable administration costs (for both taxpayers and HMRC). It also demands that the conditions are not easily manipulated by taxpayers, so that the tax relief does not create tax avoidance opportunities.

The aim of simplicity goes beyond the generic concern with avoiding an overly complicated tax system. To be effective at incentivising behaviours, individuals must be aware that the relief exists and how it would affect them, i.e. the relief must be salient to them when making decisions about how to act. The more complicated a relief is, the less likely it is to have the incentive effects intended.

Lastly, targeting criteria should not create excessive (undesired) distortions. For example, if a tax relief is aimed at supporting firms in certain industries, there is a risk that businesses in adjacent areas will change their business activity to obtain the tax relief. But if these firms are more productive in their original activities, then the relief is creating an undesirable distortion.

4.2.3 One relief or many?

One manifestation of the trade-offs just described is the question of whether, when there are multiple distinct concerns in issue, it is better to have multiple reliefs targeting each concern individually, or a single relief that does not target any of the concerns perfectly but is somewhat targeted at all of them.

In the present context, it would be very convenient if taxpayers with high tax mobility were exactly the same group as those creating businesses with large positive spillovers. But more realistically, these groups will differ to at least some extent. The question is whether they overlap sufficiently to target both issues with a single tax relief. If not, then the case for having two different reliefs would be stronger.

³⁰ For a summary of how the scheme was abused, see *Eclipse Film Partners No. 35 LLP v HMRC* [2015] EWCA Civ 95.

The decision on the number of reliefs will therefore involve some trade-off between the benefit of closer targeting and the increased complexity that results from a proliferation of reliefs. As above in relation to salience, having multiple narrow reliefs could dilute the signalling effect of the policy, which may weaken the desired behavioural effects compared with one, simpler and more general, relief.

4.3 Unicorn Relief

If the Government decided that the positive spillovers and tax mobility of (some) entrepreneurs were sufficient to justify the introduction of a special CGT relief for this group, its targeting ought to be almost the exact opposite of BADR. In this section, we discuss how such a relief – which we call ‘Unicorn Relief’ – might be designed. We first set out the key insights and dependencies behind its design (Section 4.3.1), then evaluate it against the targeting principles in Section 4.2 (Section 4.3.2), before describing its high-level design (Section 4.3.3).

In summary, Unicorn Relief would apply to the gains made by founders and other key early employees (‘qualifying individuals’) on exit from very high-value businesses, broadly those achieving ‘unicorn’ status. The relief would provide a significantly reduced CGT rate on an uncapped amount of gains. To qualify, gains would need to be made by a qualifying individual via an arm’s length sale of shares in a qualifying business. A qualifying business would consist broadly of a trading business with sufficient UK nexus that, at the time of the relevant disposal, had a total business value exceeding the required threshold.

4.3.1 Key insights and dependencies

Whereas the incentives from BADR are strongest for those who expect to build low- to moderate-value businesses, the incentives from Unicorn Relief would be strongest for those who expect to build the highest-value businesses. In this sense, Unicorn Relief would function almost like an exact inversion of BADR. This targeting is justified economically if it is the case that the positive spillovers of a business, and/or the tax mobility of its founders and early employees, are only sufficiently large (on average) to justify special CGT relief for businesses that grow to a very high value. The key insight underpinning Unicorn Relief is that this claim seems at least plausibly true, and that no other feasible targeting mechanism would target these factors as effectively.

In relation to positive spillovers, the total business value on exit broadly reflects the amount of private value captured by the business, and it is

certainly true that *some* high-value businesses will provide little to no positive spillovers, especially where their high valuation is attributable mainly to their effectiveness at capturing economic rents. As acknowledged above in relation to BADR, it is also true that some low-value businesses (or even 'business failures') will generate positive spillovers, and indeed their low market value might be precisely because they have been unable to internalise these wider returns.

Notwithstanding this, it seems plausible that on average, businesses that reach unicorn status are much more likely to be generating positive spillovers for the UK economy than businesses significantly below this level. This is largely due to the market scale in which such businesses operate: at unicorn level and above, it is much more likely that the business operates in an international market and is plausibly generating economic activity that would not otherwise take place in the UK and which would not be fully substituted by the activities of other businesses. This will not always be true, of course. We acknowledge that this claim is ultimately a question of empirical fact, on which there is currently not much quantitative evidence.

In relation to tax mobility, there is strong evidence that migrants are more internationally mobile (and that their migration decisions are more responsive to tax) than natives.³¹ The UK's Foreign Income and Gains (FIG) regime is unlikely to provide a significant attraction to migrant founders, because its duration (four years) is shorter than the typical time from founding to disposal of shares, and the regime does not apply to directly held shares in UK companies. This issue might motivate a CGT relief targeted specifically at migrant entrepreneurs, with a longer duration and application to UK shares.

However, a relief targeted exclusively at migrant entrepreneurs would not address concerns about the tax mobility of UK native entrepreneurs. Whilst there is evidence that baseline emigration rates and tax-induced emigration of UK natives are generally extremely low, even amongst high-income individuals,³² the position may be different for founders of very high-value businesses. Recent research by Dealroom finds that around half of all UK founders of unicorn companies reside outside the UK.³³ This is in sharp contrast to US evidence on interstate migration of 'ordinary' business owners, which finds that this group are significantly *less* mobile than other

³¹ Advani, Poux and Summers (2026).

³² Advani, Poux and Summers (2026).

³³ Dealroom, British Diaspora Index (accessible [here](#)), 15 September 2026.

top earners.³⁴ This again suggests an important distinction based on the total value of the business.

As discussed in Section 3.2.4, a key response to concerns about the tax mobility of UK native entrepreneurs is that deemed disposal on departure (DDD) – which we recommend – would significantly disincentivise emigration by already-successful founders and early employees. However, it would (compared with the status quo) increase incentives to emigrate for individuals with relatively low accrued gains but high expected future gains. Targeting CGT relief at the (potential) founders of unicorn companies might be warranted on this basis, especially if such businesses are more likely to operate in international markets such that they (and their founders) are less reliant on UK-specific connections and experience.

Finally, we highlight that Unicorn Relief would differ from BADR in one other key respect. Whereas the primary rationing mechanism for BADR (the lifetime limit) is based on an amount of gains, we suggest that Unicorn Relief should be based on the total business value at the time of disposal. Although the total business value on exit and the gain made by the founders and early employees are obviously correlated, recent evidence shows that the correlation is remarkably weak, due to varying levels of dilution resulting from external investment.³⁵

Our approach rests on the insight that the total business value on exit is likely to provide a closer proxy for positive spillovers and tax mobility than the amount of gain made by the individual entrepreneur. In capital-intensive industries the gain made by successful founders is often much lower relative to the total business value on exit than in other industries, due to the need for more external investment, and yet it seems unlikely that positive spillovers and tax mobility of founders are correspondingly lower. Moreover, from the perspective of potential founders, a threshold based on achieving unicorn status for the business is likely to be much more salient than an approximately equivalent (in expectation) level of personal gains.

The foregoing considerations explain why the primary targeting mechanism used in Unicorn Relief is the creation of a very high-value business. We think it is at least plausible that entrepreneurs who expect that their business could achieve unicorn status are significantly more tax mobile than those who expect their business to remain at a much lower value. We also think it is at least plausible that businesses that become

³⁴ Young and Lurie (2025).

³⁵ Azevedo et al. (2026).

unicorns are significantly more likely to be generating positive spillovers for the UK economy than businesses that remain at a much lower value. If these claims are true on average, even though not in every case, targeting CGT relief based on the creation of a unicorn *might* (at least in principle) be justified.

4.3.2 Evaluation against targeting principles

Having explained how the basic design of Unicorn Relief relates to the two concerns that we have identified, we now turn to evaluate it against the targeting principles that we identified in Section 4.2.

Unicorn Relief would rely on an ex-post approach to targeting, based on the creation of a business with a very high value at exit. As discussed above, this condition seems plausibly correlated with both the creation of positive spillovers and increased tax mobility of founders. It is administratively feasible to apply, since (as we explain further below) the valuation would have to be obtained from an arm's length sale of shares comprising the relevant disposal. Any manipulation of the company valuation to obtain Unicorn Relief would require collusion between these unconnected parties and would impose a financial cost on the investors/buyers.³⁶

The qualifying threshold for a very high-value business – whatever specific figure is chosen – would also be simple for (potential) founders to understand, which should increase its salience. This should, in turn, make Unicorn Relief more effective in influencing taxpayers' decisions to engage in entrepreneurial activity or to remain in (or come to) the UK. A related advantage is that a focus on the total business value at exit plausibly addresses – at least to some extent, albeit not perfectly – both the positive spillover and tax mobility concerns with a single tax relief. This is superior to having two distinct reliefs for each issue, which would dilute their salience and further complicate the tax system.

Lastly, a condition based on total business value at exit avoids many of the undesirable distortions generated by alternative targeting criteria. Trying to target positive spillovers or tax mobility directly (e.g. via conditions based on specific industries, technologies, etc) could lead to gaming and unproductive activities at the boundaries of any test. As we acknowledge in Section 4.4.3, the targeting mechanism for Unicorn Relief would still create some undesirable distortions, but they seem considerably more limited than those arising from alternative design choices.

³⁶ This is why Unicorn Relief would not be available on transactions that are not at arm's length (see Section 4.3.3 below).

4.3.3 High-level design

In this section we explain the high-level design features of Unicorn Relief that we suggest, attempting to balance the various trade-offs between targeting and other practical considerations identified in Section 4.2.2. In Appendix A, we provide some further design details on specific points, although we acknowledge that even then the design is some way off a 'ready to implement' blueprint.

4.3.3.1 *Qualifying individuals*

The relief should be restricted to individuals who were instrumental in building the business i.e. the founders and key early employees. These individuals can be expected to significantly impact the business's performance and their tax mobility is more likely to have wider implications for the location of business activity. Obviously, the relief is only attractive for individuals who hold shares (or options to acquire shares) where there would be a CGT liability on eventual disposal, which will typically be limited to the founders and certain key early employees.

Founders should meet both a minimum shareholding requirement and an active engagement test, so that external investors are ineligible for the relief. The minimum shareholding requirement should be designed in a way that does not discriminate against founders who rely on external equity to grow their businesses, so that the relief is neutral to the entrepreneurs' funding decisions. This means that founders who are diluted (without selling their shares) below the qualifying threshold by external capital before the disposal should remain eligible (see Appendix A on how to implement this).

For employees, eligibility should be conditional on shares being acquired at an early stage (or acquired later by exercising options granted at an early stage) and targeted at employees in key positions (or with key skills). This would target the relief to employees that have been instrumental in growing the business. A practical way of implementing these conditions would be to use the existing Enterprise Management Incentive (EMI) regime (or a modified version of it, as suggested in Appendix A).

4.3.3.2 *The total business value threshold*

For a disposal by a qualifying individual to be eligible for relief, the most important condition is the total business value at the time of the disposal. This focus on the value of the business rather than the size of the individual's gain is for several reasons. First, as we explained in Section 4.3.1, (expected) total business value is likely to be a closer proxy for positive spillovers and tax mobility than an entrepreneur's (expected) individual gain. Second, by

anchoring the relief on the total business value, not the individual gain, a qualifying individual could make multiple disposals in tranches rather than being compelled (in order to achieve a gains threshold) to dispose of all of their shares at once.

For example, if a founder only owns (say) 3% of the company at the time of exit, the disposal value and the gains might not be very large in absolute terms, but if the total business value at that time meets the required threshold, then they would be eligible for Unicorn Relief. This is important to avoid distorting economic decisions between different industries, funding decisions (e.g. external capital vs internal reinvestment, equity vs debt financing, etc) or between founders with different levels of initial wealth (e.g. some founders will have less capital of their own to invest, requiring them to dilute more than wealthier founders).

The total business value would be determined by the share price agreed for the relevant disposal, provided that the size of the disposal represented a material investment in the company and the disposal was an arm's length transaction. For example, a company's own share buy-backs, or other 'internal' transactions, such as sales to connected parties, would not qualify for relief. These restrictions on qualifying disposals would be needed to minimise risks of avoidance, as the possibility of manipulating the share price (and hence the total business value for applying Unicorn Relief) is reduced when an external investor pays a price based on the same valuation.

4.3.3.3 The level and design of the threshold

The total business value threshold should be set at around 'unicorn' level i.e. US\$1 billion or £750 million. Of course, there is no magic to the exact figure (although it is highly salient), so the threshold could be somewhat higher or lower than this. However, we emphasise that it must be in this order of magnitude, and not significantly lower. This follows from our reasoning in Section 4.3.1: below this level of business value, we do not think it is plausible that positive spillovers for the UK economy or tax mobility of (potential) entrepreneurs are sufficient to justify a special relief.

To illustrate this point, consider a typical mature business with a total business value of £100 million. Examples could include a sizeable regional housebuilder, a chain of care homes concentrated in southern England, a construction contractor operating across the Midlands, a regional motor-dealership group, a food manufacturer supplying supermarkets nationally, or an industrial company exporting specialist equipment. In each case, this

would be a very substantial and successful company with several hundred employees.

Nevertheless, it is not plausible that the founders of companies like these are, on average, so tax mobile as to warrant a special CGT relief. A *typical* mature business with a total business value of £100 million is operating in a regional market, or at national scale at most. Of course, not all £100 million businesses are like this: the industrial export specialist (above) is an example of a business of this size operating in an international market. But on average, businesses with a mature value of £100 million are ones where the founders benefit extensively from UK (or even sub-national) connections and experience, and it is not plausible to think they would start or build the company anywhere else.³⁷

For similar reasons, it is also not plausible that the *typical* mature business with a total business value of £100 million provides significant positive spillovers to the UK economy. As we emphasised in Section 3.2.3, this is not to deny that such companies conduct valuable economic activity and employ many people. But this is not enough to constitute positive spillovers: it needs to be the case that the economic activity is genuinely additional to the UK economy i.e. that it would not have been substituted (directly or indirectly) by any other business. A typical business operating mostly at regional or national scale is highly unlikely to meet this test unless it is also doing specific activities – such as R&D – which are known to lead to positive spillovers.

Consequently, we think that a threshold for Unicorn Relief that went as low as £100 million would be poorly targeted at positive spillovers and tax mobility. On the other hand, we obviously do not claim that there is a ‘switch’ at exactly unicorn level – or indeed any specific level of total business value – where positive spillovers and tax mobility suddenly kick in. Our position is that at somewhere around unicorn level, it starts to become plausible that positive spillovers and tax mobility are large enough factors to justify a lower CGT rate for potential entrepreneurs who expect to (and subsequently do) build a business of this value.

Having chosen the level at which the total business value threshold should be set, there is also the question of whether it should be implemented as a ‘cliff-edge’ (or ‘notch’) or via a system of tapered relief over a wider range of values. With a cliff-edge, if the total business value is even slightly less than

³⁷ This is entirely consistent with the observation that, once the business has become successful and they are thinking of exiting, it may be very appealing to move abroad prior to disposing of shares.

the threshold at the time of the relevant disposal, the individual would get no relief; if it is slightly above, they would get the relief in full. In general, unless specifically required for reasons of administrative efficiency (for example, avoiding disproportionate filing costs), notches in the tax schedule should be avoided. In this instance, as we explain further in Section 4.4.3, a notch would be likely to increase distortions in the timing of exit by entrepreneurs whose businesses were close to the threshold. We therefore prefer a taper, although we emphasise that this does *not* mean that the total business value range for relief should be set lower, overall.

4.3.3.4 Other qualifying conditions

Another important condition for a qualifying business should be that it is a trading business. This follows from the justification for the relief in terms of positive spillovers, such as knowledge spillovers, productivity enhancement, technological innovation, and net additional employment, all of which are very unlikely for a company that is not trading. It might additionally be necessary to exclude certain trades from qualifying, as already occurs under EMI (e.g. finance, farming, property development, legal, etc). However, if adopting this list of excluded trades, it should be reviewed to ensure it is consistent with the objectives of Unicorn Relief, in relation to the likelihood of positive spillovers and tax mobility (conditional on total business value).

There is also potentially a case for imposing some pre-disposal UK nexus criteria for the business to make the disposal eligible for Unicorn Relief. This also follows from the aims of the relief: if aiming to create positive spillovers arising from entrepreneurial activity, the design should ensure that these spillovers benefit the UK economy. This justifies conditioning the relief on the disposal of UK companies with a sufficient economic presence. This would entail a pre-disposal ‘economic footprint’ test, which could be implemented as a threshold (e.g. 75%) of its total global operating expenditure or payroll being incurred within the UK for a continuous period before the disposal.³⁸ The ‘economic footprint’ test, however, should be designed in a way that minimises the constraints it imposes on the growth of the business, as a growth-friendly environment is likely to be a priority for founders. This means that the design should achieve a balance between

³⁸ Although it would be optimal to ensure positive spillovers also remain in the UK *after* disposal, it is arguably both infeasible and undesirable to impose an ex-post ‘economic footprint test’. This is because after the founder’s exit, these issues would be outside of their control. Similarly, restrictions on buyers with respect to the future location of the business would reduce the value of the companies, to the detriment of the UK’s attractiveness as a place to start a new business.

ensuring positive spillovers of targeted businesses benefit the UK, while not overly restricting economic decisions.

Finally, one additional relevant condition for disposals is that only *actual* disposals would qualify (i.e. deemed disposals would be ineligible). This is particularly relevant in a context where (as per our structural CGT reforms) leaving the UK would trigger a deemed disposal on departure charge (see Section 2.4). Disallowing deemed disposals is required because granting Unicorn Relief to taxpayers leaving the UK would go directly against one of the aims of the relief (i.e. addressing tax mobility risk of successful founders). Instead, for unicorn founders deciding whether to leave the UK, the relief would make staying significantly more attractive. If they leave the UK, they would pay CGT on their accrued gains at the main rate (via DDD); if they stay until exit, they will pay CGT at the reduced rate.

4.3.3.5 *Rate and extent of relief*

The relief would take effect via a reduced CGT rate on the entire gain by qualifying individuals on their qualifying disposals. We suggest that the reduced rate should be set significantly lower than the main rate of CGT that would otherwise apply to the gain, and the extent of relief should be uncapped. Together these features ensure that the relief would provide a significant reduction in the effective average CGT rate paid on all qualifying disposals by qualifying individuals.

We do not express any view on what the precise Unicorn Relief rate should be. However, it is important to emphasise that the uncapped extent of relief would mean that it could result in a significantly lower effective average tax rate for qualifying individuals than BADR, even if the rate was set higher than the old BADR rate of 10%. For example, if the relief was set at a rate of 15%, a qualifying individual with gains of over £20 million would be better off with it than they would have been under BADR even when the lifetime limit was set at £10 million in gains (and the main CGT rate was 20%).

We do, however, recommend specifically that the relief should be uncapped. This ensures that the reduction in the effective average CGT rate resulting from the relief does not diminish for the largest gains. Capping the relief would undermine its economic rationale to target entrepreneurs who (have the potential to) start and build the UK's most valuable companies, because unless the cap was set at an *extremely* high level, the impact of the relief on their effective average CGT rate would be minimal. We acknowledge that allowing an uncapped relief would have a distributional impact that may be unpalatable to some: we consider this issue further in Section 4.4.4.

4.4 Drawbacks and risks

Unicorn Relief represents our attempt to design a CGT relief for entrepreneurs that most effectively targets concerns about positive spillovers and tax mobility whilst also appropriately balancing other considerations such as administrative feasibility and simplicity. However, despite these best efforts, several drawbacks and risks remain, which must be taken into account before deciding whether to proceed with such a relief. We discuss five such issues: implementing Unicorn Relief in isolation (Section 4.4.1), the lack of convincing evidence (Section 4.4.2), the distortions it would create (Section 4.4.3), its distributional impact (Section 4.4.4) and the difficulty of costing it (Section 4.4.5).

4.4.1 Implementing Unicorn Relief in isolation

First, Unicorn Relief is predicated on the assumption that it would operate in *addition* to the full package of CGT reforms that we proposed in Section 2. In particular, it seeks to address some specific concerns that might validly remain *even after* implementing these other reforms. For qualifying individuals, Unicorn Relief would serve to offset the significant increase in effective CGT rates that would otherwise result from equalisation with Income Tax rates, on the assumption that most founders and early employees would not receive a significant direct benefit from the Investment Allowance.

We do not think there is any case for implementing Unicorn Relief as a bolt-on to our current (unreformed) CGT system. Most obviously, the case for carving out a special lower rate of CGT for entrepreneurs is much weaker when the main CGT rate remains significantly lower than Income Tax rates and is not particularly high internationally. Additionally, without ROA-DDD, additional reliefs such as Unicorn Relief would at best be a partial solution to concerns about tax mobility and at worst would be actively undermined by the continued incentive for entrepreneurs to pay a zero effective CGT rate by leaving the UK ([Advani, Poux and Summers, 2024](#)).

There is therefore a risk that Unicorn Relief is implemented in isolation, without the necessary other changes to our current CGT system. For the avoidance of doubt, we would *not* support this approach. Even as a strict replacement for BADR – which as we have said is one of the most poorly targeted CGT reliefs imaginable – we do not think that it would be justified to implement the relief without structural reform of the CGT base. It would clearly be preferable, for example, to scrap BADR and implement an Investment Allowance.

4.4.2 Lack of convincing empirical evidence

As we highlighted in Section 3.3, there is currently a lack of convincing empirical evidence for the two main concerns that Unicorn Relief seeks to address. In particular, there is very little evidence to quantify the existence and extent of positive spillovers from entrepreneurial businesses after compensation via existing policies such as R&D tax credits. The quantitative literature on tax-induced migration does not currently support strong claims regarding the hypermobility of entrepreneurs. This is not to conclusively deny these concerns – which is why we still consider them – but it means that the Government would be forgoing significant static revenue without a strong evidence base for the behavioural benefits.

Our analysis of Unicorn Relief is therefore predicated on the Government having decided – rightly or wrongly – that these concerns require a targeted tax response, not on any strong endorsement that the concerns are valid. This conditional approach has two implications for the policy-making process. First, it makes optimal design of the relief more difficult, because even if these concerns are confirmed by subsequent empirical studies, there are multiple ways in which they can materialise, each of which may require slightly different designs.³⁹ Second, introducing a relief in the absence of convincing empirical evidence on its justifications should impose a duty to evaluate the tax relief in the future, as soon as such evidence can be generated. This would ensure that reliefs do not remain unevidenced for longer than minimally necessary.

4.4.3 Distortions created by Unicorn Relief

Even if the potential benefits of Unicorn Relief were well-evidenced, it would still be necessary to balance these against the downsides resulting from any new economic distortions that the relief may create. Since the relief depends on application of a total business value threshold, then wherever this threshold is set (i.e. whether £100 million or £1 billion) the existence of the relief is likely to create some distortions for businesses close to the threshold.

Some of these distortions might be desirable. For example, if businesses just below the threshold grew faster as a result of the founders' extra effort then this would be a good thing, provided that the increase in valuation was due to real and persistent changes in business performance. Similarly, if the relief included an 'economic footprint' test (see Section 4.3.3.4) then it may result

³⁹ For example, if empirical evidence were to show that foreign entrepreneurs are tax-mobile while native entrepreneurs are not, this would justify a tax relief available only to *foreign entrepreneurs*.

in increased onshoring of employees or production in the UK. Whilst generally a good thing for the UK, at some extreme (e.g. a requirement for 100% of employees to be based in the UK) such a criterion could result in negative distortions to productivity.

However, the most likely distortion resulting from Unicorn Relief – which is likely to be negative – concerns the timing of exit by founders and early employees who stand to benefit from the relief. For individuals who might otherwise consider it optimal to exit the business earlier (at a lower total business valuation), Unicorn Relief would create a strong incentive to hold on until the business reached the threshold. This could result in a misallocation of talent, if entrepreneurs remained in their current business when they would have been better off (pre-tax) by redeploying themselves elsewhere. It could also harm the business itself, if for example the original founders were incentivised not to sell out when a new owner would have been better placed to scale up the business.

There are design choices that could mitigate some of these concerns. As we note in Section 4.3.3.3, designing Unicorn Relief with a taper (our preferred approach) would reduce the magnitude of distortions close to the threshold, although at the cost of some additional complexity and potentially reduced salience. As we discuss in Section 5, implementing reinvestment reliefs that allowed entrepreneurs to reach the Unicorn Relief threshold in multiple steps (by reinvesting the proceeds from earlier ventures) would also somewhat reduce the stakes from exiting a business at a valuation below the Unicorn Relief threshold, if intending to try again with a subsequent venture.

4.4.4 Distributional impact

The distributional impact of Unicorn Relief would be significantly regressive. Its design would specifically target founders and early employees of the most successful start-ups, many of whom would make extremely large gains on exit and – as a result of the relief – would pay very low effective rates of tax. Whilst this targeting may be economically efficient if concerns about positive spillovers and tax mobility are well-founded, its distributional implications would clearly be unpalatable to some. Depending on the exact tax rate chosen, it could very likely warrant a reprise of the old adage that some extremely wealthy individuals pay lower effective tax rates than their cleaners.⁴⁰

⁴⁰ FT, [“SVG chairman breaks taboo”](#), 3 June 2007.

We do not take any view on whether these distributional effects would be justifiable overall. Unlike many other instances of vertical and horizontal inequity that we have criticised previously (Advani, Hughson and Summers, [2023](#), [2026](#)), the inequity resulting from Unicorn Relief could at least plausibly be justified on grounds of economic efficiency. Nevertheless, the extent of the disparity in effective tax rates that would inevitably result from the relief – albeit for a small number of people – would be striking and call for justification. Against this backdrop, it would be especially problematic if the economic concerns motivating the relief were not clearly and convincingly articulated.

4.4.5 Difficulties in costing the relief

Finally, a major barrier to the development and evaluation of Unicorn Relief is that it is very hard to say how much it would cost. There are some significant difficulties in producing either a static or behavioural estimate of the revenue effects of the relief, and these are of sufficient severity that we have not (yet) attempted to do so. It is also obviously the case that the cost of the relief would depend on exactly where the key parameters – in particular the tax rate and total business value threshold – were set.

A key difficulty with producing even a static costing of Unicorn Relief stems from the application of the total business value threshold. Data are currently collected on the amount and type of taxable gains that each individual receives, but in order to apply the qualifying criteria it would be necessary to link the individual to the business in which they sold shares in order to measure the total business value at that time. This is potentially feasible but not yet possible with the data available to us. If the relief was implemented in addition to the package of reforms we proposed in Section 2, there would also be complications in ensuring that the cost of the relief was appropriately assessed against the new tax base as the relevant baseline.

To obtain a post-behavioural costing, it would additionally be necessary to choose an appropriate elasticity to account for the behavioural responses to Unicorn Relief. We do not think it is plausible that the relief could result in a ‘Laffer’ effect whereby these responses were big enough to fully offset the static cost.⁴¹ However, the behavioural impact would clearly reduce the static cost to some extent. Unfortunately, there are currently very few credible studies of CGT elasticities generally, and none for such a specific and unusual group. Perhaps the best available approach would be to look to

⁴¹ For this to be true, the migration effects would need to be larger than in any previous (credible) study and/or the positive spillovers would need to result in large fiscal effects via employment, wages or profits in *other* UK firms.

international studies of migration by innovators and very high-wealth individuals in other tax contexts, although the read-across would be inexact.

4.5 Conclusion

Our suggested design for Unicorn Relief aims to target two concerns that might potentially justify a special CGT relief targeted at entrepreneurs: positive spillovers and tax mobility. In targeting these concerns, we have also attempted to develop a design that satisfies – as best as possible – the additional considerations we identified in Section 4.2. Despite representing our best attempt, our suggested design nevertheless comes with significant trade-offs and risks. Overall, we are not convinced that there is a compelling case for Unicorn Relief, but – unlike BADR, and other alternatives – it does at least have some potentially plausible economic basis.

This weak support for Unicorn Relief is also predicated on two key conditions. First, that the relief would operate in *addition* to the full package of CGT reforms that we proposed in Section 2. We do not think there is any case for implementing Unicorn Relief as a bolt-on to our current (unreformed) CGT system. Second, that the total business value threshold is set very high, in the order of a genuine ‘unicorn’ valuation. Below this level of business value, we do not think it is plausible that positive spillovers for the UK economy or tax mobility of (potential) entrepreneurs are sufficient to justify a special relief.

5 CGT relief for serial entrepreneurs

Since the Government's Call for Evidence on [Tax Support for Entrepreneurs](#), there have been several proposals for new tax reliefs aimed at encouraging serial entrepreneurship.⁴² These proposals consist of a deferral and/or reduction in CGT liability if gains from a successful business venture are reinvested into another qualifying investment, such as an early-stage business or venture capital fund. Proponents have argued that a new relief of this kind would help improve access to capital for early-stage businesses and create a culture of 'serial entrepreneurship' amongst successful founders.

In this section, we consider the case for a CGT relief targeted at serial entrepreneurship *in addition* to Unicorn Relief. Unicorn Relief would be available to both first-time and repeat founders, but – on its own – would not provide any specific incentive for serial entrepreneurship or reinvestment. It would be available to entrepreneurs who achieved a total business value exceeding the relevant threshold, but (without more) they would need to hit this threshold in 'one shot', as those falling short would receive no relief on exit even if they went on to found again. We analyse options for a specific relief for serial entrepreneurs against this policy baseline.

In Section 5.1, we begin by distinguishing and evaluating the main concerns that might motivate a CGT relief for serial entrepreneurship. In Section 5.2, we identify some key risks associated with such reliefs, depending on their specific features. In Section 5.3, we suggest designs for two possible CGT reliefs for serial entrepreneurship that seek to target the concerns we have identified whilst minimising (as far as possible) the risks. Finally, in Section 5.4, we offer our conclusions on whether, all things considered, adopting these reliefs in addition to Unicorn Relief may be warranted.

5.1 Why have CGT relief for serial entrepreneurs?

As we highlighted in the Introduction, the debate over tax and entrepreneurship has tended to conflate two largely distinct policy questions: (1) whether and how tax reliefs should be used to incentivise capital investment in entrepreneurial businesses; and (2) whether the founders of entrepreneurial businesses (and early employees granted shares in the business) should pay a lower tax rate on the gains they make

⁴² See UK Private Capital's proposal for '[Scale-up Reinvestment Relief](#)', and Tech Nation's proposal for '[Repeat Entrepreneur Relief](#)'.

from selling their stake in the business once successful. Existing proposals about *serial* entrepreneurship also suffer from this tendency.

We think it is important to distinguish two different types of aim that a specific CGT relief for serial entrepreneurship might have, before evaluating the concerns underlying each. One aim might be to incentivise *re-investment* of capital by successful entrepreneurs, regardless of whether the entrepreneur themselves participates in the new venture(s). Another aim might be to incentivise *re-founding* by successful entrepreneurs, whereby they contribute their personal skills and experience – as well as their capital – to the new venture.

The proposals put forward by UK Private Capital (Scale-up Reinvestment Relief) and Tech Nation (Repeat Entrepreneur Relief) both appear aimed at incentivising re-investment, even where the entrepreneur does not participate in the new venture. However, broader statements about encouraging a culture of serial entrepreneurship seem to envisage that CGT reliefs should incentivise successful founders to remain active within the UK's entrepreneurial ecosystem, either as serial founders or at least as actively engaged angel investors. The designs of existing proposals are clearly not well-targeted at this.

Besides these aims of incentivising re-investment and/or re-founding as independent objectives, we also consider below a third possible motivation for having a specific CGT relief for serial entrepreneurship. This involves positioning the relief as a direct subsidiary to Unicorn Relief, or in other words, in a strictly supporting role. As such, the concerns that the relief for serial entrepreneurship would be seeking to address would be residual concerns with Unicorn Relief (under the design we suggested in Section 4), rather than a new set of economic objectives altogether.

5.1.1 Incentivising re-investment

One potential aim of CGT relief for serial entrepreneurship may be to incentivise *re-investment* of capital by successful entrepreneurs. Under this aim, the ultimate goal is to incentivise investment – by any means – into promising UK early-stage businesses. This follows from the concern we explored in Section 3.2.2: private markets may underinvest in early-stage businesses due to asymmetric information between entrepreneurs and investors, and in principle this concern could motivate some form of government intervention (although not necessarily via tax reliefs).

As we concluded in Section 3.2.2, it is not at all clear that tax reliefs are the most effective way to address concerns about underinvestment in early-

stage businesses. Other forms of government intervention are likely to be better targeted and offer better value for money.⁴³ However, *even if* tax reliefs were the best tool for generating additional investment, a further question needs to be answered: why focus on incentivising investment *by successful entrepreneurs*, in particular?

This is an important question to ask because entrepreneurs themselves – and even more so entrepreneurs who happen to be currently exiting a previous venture – represent a tiny proportion of the total pool of capital potentially available for investment into UK early-stage businesses. There would need to be specific reasons for thinking that targeting this group would offer a higher return to government (via additional investment for promising UK early-stage businesses) than CGT relief for a broader or different set of potential investors.

We can think of two possible arguments for why the return on CGT relief for reinvestment by serial entrepreneurs *might* be higher than for other potential investors.

First, successful entrepreneurs might be more predisposed to invest into early-stage businesses (compared with other types of investment) than other investors, due to their own past success and experience. However, this only tells us that successful entrepreneurs are likely to have a higher *baseline* rate of investment into early-stage businesses; it does not indicate that tax relief would *increase* their propensity to invest by more than for other types of investor. Indeed, the reverse seems quite likely: successful entrepreneurs may need less incentive to invest into early-stage businesses, because they are better able to overcome the asymmetric information that leads to systematic underinvestment by other types of investor.

Second, successful entrepreneurs might have skills and experience that make them better investors than the average venture capital investor. Consequently, even if tax relief does not add to the *rate* of investment by successful entrepreneurs by any more than for other investors, their investments may be more valuable because they are better targeted at the most promising businesses. This argument seems somewhat more persuasive than the first, but it still faces a counterpoint: if successful entrepreneurs are better at investing in early-stage businesses than other investors, this also implies that they can generate higher expected returns from these investments than from other asset types, which means that they should be willing to do this without a special tax subsidy.

⁴³ For example, reforms to the regulations and incentives for pension schemes.

Overall, we cannot see a compelling reason to introduce a specific CGT relief targeting reinvestment by serial entrepreneurs. The UK already has a series of investment reliefs (SEIS, EIS, VCTs) for investments into early-stage businesses. It also has specific reinvestment reliefs under SEIS and EIS, which permit deferral (or in the case of SEIS, even a partial exemption) of CGT on gains that are reinvested into a qualifying investment. These existing incentives are available to serial entrepreneurs (if investing at arm's length) just as for other UK resident investors. The case for extending further reinvestment incentives specifically targeted at serial entrepreneurs seems exceptionally weak, in this context.

5.1.2 Incentivising re-founding

A different potential aim of CGT relief for serial entrepreneurship may be to incentivise *re-founding* by successful entrepreneurs. Under this aim, the ultimate goal would not be (only) to incentivise successful entrepreneurs to invest their capital into promising UK early-stage businesses, but for them to redeploy their skills and experience in building these businesses themselves. Here, the aim much more closely reflects the concerns we identified as potential reasons to offer tax relief for entrepreneurship in Section 3, specifically concerns with positive spillovers and tax mobility – which could apply to repeat as well as first-time founders.

However, again, the important question to ask here is: why focus on incentivising *re-founding*, in particular? In other words, to the extent that having a specific CGT relief for entrepreneurs (meaning founders and key early employees) is justified, what is the case for providing *additional* support for repeat entrepreneurs, beyond that which is available to all entrepreneurs, whether first-time or repeat? As a policy that would by design favour incumbents over new challengers, it calls for some clear justification.

One argument – consistent with calls that the UK should seek to create a 'serial entrepreneurial culture' – is that serial entrepreneurs have acquired skills and experience that make them particularly well-suited to building another business successfully. In economic terms, they may be 'positively selected' for creating successful businesses, relative to the full population of first-time and repeat entrepreneurs. This is ultimately a question of empirical fact, on which there is currently a lack of quantitative evidence either way. However, it seems plausible that serial entrepreneurs are positively selected for success in subsequent business ventures, and we acknowledge that there are anecdotal examples of this.

However, on its own, the fact that serial entrepreneurs are more likely to be successful in future does not justify giving them a special CGT relief, unless it is also the case that they are more likely to create businesses with positive spillovers and/or have higher tax mobility than the general population of (potential) entrepreneurs. This follows from our discussion in Section 3, which explained the limited range of concerns that could validly justify (in principle) a departure from the neutral CGT regime outlined in Section 2. What reasons, if any, are there to think that serial entrepreneurs are special, in this respect?

First, if (as we provisionally accepted above) serial entrepreneurs are more likely to build successful businesses in future, and if (as we provisionally accepted in Section 4) higher-value businesses are, overall, more likely to generate positive spillovers, it *might* be the case that serial entrepreneurs are more likely to build businesses with positive spillovers. *If* both propositions hold, it would provide some support for targeting CGT relief at serial entrepreneurs that is not available to first-time entrepreneurs. However, we would emphasise that both claims are empirically unproven and both would need to be true in order to justify a special relief.

Second, it is possible to make arguments both ways regarding the tax mobility of serial entrepreneurs compared with (potential) first-time entrepreneurs. On one hand, if serial entrepreneurs have higher confidence in their future success and CGT is more salient to them (having faced it on their first exit), then they may be more tax sensitive in their location choice. On the other hand, serial entrepreneurs who already built at least one successful business in the UK are likely to be more tied to the UK and have more UK-specific connections and experience than first-time entrepreneurs, making it relatively more costly for them to start their next venture somewhere else. It is not obvious which effect is likely to dominate, and again there is no convincing empirical evidence either way.

Overall, once again, we cannot see a compelling reason to introduce a specific CGT relief targeting re-founding, distinct from founding in general. There may be a case for relaxing some of the current criteria that actively prevent entrepreneurs from benefiting from existing investment and reinvestment reliefs (SEIS and EIS) where they are involved in the business as a founder or employee, since these criteria currently *disadvantage* entrepreneurs relative to other investors. This would ensure that successful entrepreneurs are not disincentivised from contributing both their capital *and* their skills and experience to new business ventures, without providing them with a special new relief for doing so.

5.1.3 Subsidiary to Unicorn Relief

Having rejected the case for CGT relief targeted at serial entrepreneurship per se, whether for the purpose of incentivising re-investment or re-founding, we now turn to a different kind of argument that would tie it specifically to Unicorn Relief (as we outlined in Section 4.3). Rather than viewing CGT relief for serial entrepreneurship as addressing a new or different set of economic objectives from Unicorn Relief, this approach would instead see the relief as directly subsidiary to it. In other words, the (only) justification for the relief would be if (and to the extent that) it helped Unicorn Relief to work better, in its own terms. It follows that the design should then be strictly targeted at this aim and nothing more.

There are three potential ways in which a highly targeted CGT relief (or reliefs) for serial entrepreneurship *might* help Unicorn Relief to better achieve its objectives. We sketch these reasons briefly here and then return to them in more detail – along with design implications – in Section 5.3.

First, a CGT relief for serial entrepreneurship could help increase the expected value of Unicorn Relief for potential entrepreneurs, by allowing them to ‘ladder up’ to the relevant total business value threshold via a series of ventures instead of having to achieve it in one shot (we call this ‘Flywheel Relief’). Increasing the expected value of Unicorn Relief in this way might be preferable to the alternatives of lowering the total business value threshold and/or further reducing the tax rate. In other words, if the Government decides it wishes to make Unicorn Relief more attractive, this provides another – potentially preferable – way to do it.

Second, a CGT relief for serial entrepreneurship might help mitigate distortions to the timing of exits that could otherwise result from the business value threshold for qualifying for Unicorn Relief. As discussed in Section 4.4.3, a downside of Unicorn Relief is that wherever the relevant threshold is set, it will distort the choices of some entrepreneurs about when to exit the business, by incentivising them to hold on for longer than would otherwise be optimal. By allowing entrepreneurs to ‘ladder up’ to the relevant threshold across a series of ventures, this would at least reduce the pressure to pass the threshold at the first attempt. This point should not be overstated, however, since it would reduce the distortion only for those who intended to start a new venture after exit.

Finally, a CGT relief for serial entrepreneurship could help increase the expected value of Unicorn Relief further by allowing those who had already benefited from the relief to obtain an even lower tax rate by reinvesting their gains into new qualifying investments (we call this ‘Super-Angel Relief’). This

would increase the expected value of Unicorn Relief along a different dimension to the first point, above. Rather than making Unicorn Relief easier to achieve (conditional on a given total business value threshold), it would further enhance the payoff from Unicorn Relief, by unlocking an additional tax benefit for those who qualified.

5.2 The risks of reinvestment reliefs

Before considering design options for a CGT relief for serial entrepreneurship that is subsidiary to Unicorn Relief, in this section we highlight three key risks associated with reinvestment reliefs. Each of these risks can be (partially) mitigated through design choices. However, without these in place, reinvestment reliefs are likely to exacerbate existing flaws in the CGT system and create new distortions that could be actively bad for investment and growth.

5.2.1 Tax deferral, *not* exemption

CGT relief for reinvestment can be designed as either a pure deferral, or as a (partial) exemption. Both variants are evident in the UK's current CGT system. EIS Deferral Relief allows individuals to defer CGT on a current disposal by reinvesting the gain (up to an unlimited amount) into a qualifying EIS investment. The deferred gain from the original disposal then comes into charge at the prevailing CGT rate when the EIS investment is sold. By contrast, SEIS Reinvestment Relief allows individuals to exempt up to 50% of the gain (up to £100,000) on a current disposal by reinvesting the gain into a qualifying SEIS investment.

The choice is therefore between a reinvestment relief that defers when tax is due on the original gain, versus one that permanently reduces the effective CGT rate on the original gain. In both cases, at least under each of the reinvestment reliefs currently available for CGT, the relevant condition is simply making a qualifying reinvestment, irrespective of how this investment performs.

The problem with this approach, especially for reinvestment reliefs that offer (partial) exemption of the original gain, is that it perversely incentivises individuals to invest in the lowest-risk investment(s) that will satisfy the relevant qualifying criteria, in order to 'bank' relief on the original gain.⁴⁴ Indeed, (partial) exemption of the original gain can make it worthwhile for an individual to reinvest into assets that they expect to yield a (risk-adjusted)

⁴⁴ This problem also occurs as a result of the 'up front' Income Tax relief available for SEIS, EIS and VCTs.

zero or even somewhat negative return, since the post-tax return after the tax saving on their original gain will still be favourable.

For this reason, reinvestment reliefs that offer partial exemption of the original gain irrespective of the performance of the reinvestment should be avoided. Whilst presented as encouraging reinvestment, such reliefs in fact negatively distort reinvestment decisions. Some individuals who would have made investments in riskier but higher expected return investments (such as the earliest stage businesses) will instead choose lower-risk investments so long as these still enable them to qualify for a reduced CGT rate on their original gain. The qualifying criteria for reinvestment can never fully mitigate this distortion because even amongst investments that qualify, there always remains a choice over what to invest in, which is distorted.⁴⁵

Even a pure deferral creates this distortion to some extent, due to the benefit of deferring payment of tax at (implicitly) a zero interest rate. However, since the magnitude of this benefit is smaller, the distortion to reinvestment decisions is correspondingly less. The case for a deferral relief is then that it provides additional liquidity with which to make the (re)investment.

5.2.2 Increased pressure on 'leaks' in the CGT base

Even where the benefit of the relief is limited to a pure deferral rather than (partial) exemption from CGT on the original gain, reinvestment reliefs still impose a significant risk. This is because, by allowing deferral of CGT despite an actual disposal having taken place, reinvestment reliefs increase the scope for individuals to utilise any available 'leaks' in the CGT base by giving them more time and flexibility to do so. In other words, reinvestment reliefs risk exacerbating any existing weaknesses in the CGT system and thereby increasing the impact of existing channels of behavioural response that ultimately lead to a reduction in revenue.

Our current CGT regime includes two major 'leaks': individuals can escape CGT altogether by holding assets until death or emigration. Reinvestment reliefs, even if operating only as a pure deferral, risk exacerbating the revenue loss from these leaks. There are often real economic costs to holding an asset longer than would otherwise be optimal, which tend to limit the extent to which individuals are willing to delay disposals. Reinvestment reliefs remove some of these costs by allowing individuals to reoptimise without incurring an immediate CGT charge. Whilst this may reduce timing distortions from death and emigration, it simultaneously

⁴⁵ For example, it is well-known that VCTs vary significantly in their actual level of risk.

increases the revenue cost of these leaks in the CGT base by making them less costly to exploit.

It is possible to mitigate this problem through design choices. The first-best option, as we recommended in Section 2, would be to close the two major leaks in the CGT base altogether by removing uplift at death and imposing a deemed disposal on departure from the UK. Short of this fundamental reform of the CGT regime, it would be strongly advisable – though still distinctly second-best – at least to bring the deferred gain into charge in the event of either the death or emigration of the individual holding the deferred gain.⁴⁶ EIS Deferral Relief already includes such a provision, albeit only for emigration, not death.

5.2.3 Defer the payment, not the charge

Just as individuals have an incentive under the current CGT regime to hold on to assets until death or emigration, they may also have an incentive to defer (taxable) disposals in anticipation of a lower future CGT rate. This risk would not be addressed by any of the reforms we recommended in Section 2. Indeed, these reforms would tend to increase the incentive to defer disposals in anticipation of a lower future CGT rate, simply because if CGT rates were equalised with Income Tax rates, there would be more room to move them down than up in future.

The revenue cost of this ‘policy instability’ – whether under the current CGT regime or after our recommended package of reforms – risks being exacerbated by reinvestment reliefs. This is because, if the relief takes effect as a deferral of the *charge* to CGT (which is how all current reinvestment reliefs are designed), individuals can use the relief to make actual disposals whilst still preserving the option to wait for a future cut in the CGT rate.

The most appropriate design solution to this problem is to structure any reinvestment relief as a deferral of the *payment* of CGT, rather than a deferral of the *charge*. Under this approach, even where reinvestment relief applies, the CGT charge on the original disposal would arise immediately at the prevailing rate, and only the payment of tax would be deferred until the relevant subsequent event. In other words, what would be deferred is effectively the repayment of a loan from the Government in an amount equal to the tax due, rather than the tax liability itself.

This approach has two key advantages in the context of policy instability. First, it effectively ‘locks in’ the CGT rate prevailing at the time of each actual

⁴⁶ Irrespective of whether they were the one who made the original disposal, as where the investment comprising the deferred gain has subsequently been transferred to a spouse.

disposal, so that reinvestment relief cannot be used by taxpayers as part of a 'wait and see' strategy hoping for lower rates in the future. Second, it changes the dynamics and public finance implications if a subsequent government were to offer to 'wipe' the relevant liability altogether. In particular, it would appropriately characterise such a move as the unilateral release of existing tax debts, rather than merely a prospective change that prevented new tax liabilities from arising in the future.

5.3 Targeting reinvestment reliefs

In this section, we consider options for designing CGT relief(s) for serial entrepreneurship that are subsidiary to Unicorn Relief as motivated in Section 5.1.3 and informed by the risks identified in the preceding section. In summary, if they are to be justified at all, any new CGT reliefs for serial entrepreneurship should: (1) serve to support Unicorn Relief and no more; (2) not reduce the CGT payable on the original gain merely as a result of having made a reinvestment; (3) be accompanied by closure of existing leaks in the CGT base; and (4) be structured as a deferral of the payment of CGT, not the charge.

5.3.1 Flywheel Relief

The first option we consider is a CGT relief that would allow serial entrepreneurs to 'ladder up' to Unicorn Relief over multiple ventures, by reinvesting the gains from earlier ventures into subsequent ones, until a venture eventually achieved the required total business value threshold (i.e. 'unicorn status'). At this point, all of the (reinvested) gains on the earlier ventures would qualify for Unicorn Relief, along with the additional gain from the venture that directly achieved unicorn status. We refer to this relief as 'Flywheel Relief', reflecting that the relief would be targeted at those aspiring to build a unicorn business by increasing momentum across a series of attempts.

Eligibility for Flywheel Relief would depend on an individual meeting all of the criteria for Unicorn Relief *except* the total business value threshold. The relief would entitle them to defer payment of their CGT liability on the gains from that disposal to the extent that the gains were reinvested (within a certain timeframe) into a second qualifying business in which they are a qualifying individual. On the disposal of shares in the second business, payment of the original CGT liability would become due in full, along with CGT on the gain from the second disposal, *unless* either the gains were reinvested again, or the second business had met the total business value threshold for Unicorn Relief. In the latter case, the deferred payments of CGT

from earlier disposals would be reduced to the applicable Unicorn Relief rate.

It is important to emphasise that under this design, Flywheel Relief would only result in a reduced CGT rate if the individual eventually built a business that qualified for Unicorn Relief. Unlike for example SEIS Reinvestment Relief, merely making a reinvestment would not entitle the individual to a reduced CGT rate on their original gains. Only if the reinvestment achieved the total business value threshold for Unicorn Relief (directly or via subsequent reinvestments) would they become entitled to the reduced rate on their original gains. In this way, unlike other existing reinvestment reliefs that give (partial) exemption of original gains unconditionally if a qualifying reinvestment is made, Flywheel Relief would retain a strong incentive for entrepreneurs only to reinvest in businesses that they thought might actually be capable of achieving unicorn status.

If the individual eventually exited the entrepreneurial ecosystem without achieving an exit at unicorn status, then all of the deferred payments would become due in full i.e. at the main CGT rate that would have applied originally to those gains. Potentially, these deferred payments could end up being larger than the proceeds from the final exit, which would pose a risk of bankruptcy for the taxpayer and unrecovered tax debt for HMRC. However, one design option would be to automatically waive any deferred payments of CGT exceeding the proceeds from the final exit. This would serve to significantly cushion the downside risks of reinvestment compared with if the individual had instead paid CGT in full up front on the original gains, reinvested the net gain and then subsequently lost this amount.

For the purpose of determining eligible reinvestments, the criteria for qualifying individuals should match exactly those under Unicorn Relief, given the intention that Flywheel Relief should serve as a means for entrepreneurs to 'ladder up' to a venture that entitles them to Unicorn Relief. The criteria for qualifying businesses should also broadly reflect those of Unicorn Relief, but potentially with a *maximum* value threshold to ensure that it is not possible for entrepreneurs to 'skip' growing the business themselves by reinvesting into a venture that has already almost reached the total business value threshold for Unicorn Relief.⁴⁷

The potential benefits of Flywheel Relief, as foreshadowed in Section 5.1.3, are that: (1) it could increase the expected value of Unicorn Relief without

⁴⁷ This may be less essential for individuals qualifying as founders rather than key early employees, since for the former the suggested qualifying criteria for Unicorn Relief already require that they were an initial shareholder of the company.

reducing the total business value threshold or the Unicorn Relief tax rate; and (2) it may help to mitigate the distortions to timing of exit that Unicorn Relief would cause for businesses below the total business value threshold. Of these, the first seems more compelling, at least in circumstances where there is perceived to be a choice between setting a significantly lower total business value threshold for Unicorn Relief, or maintaining a higher threshold but using Flywheel Relief to allow entrepreneurs to attempt to 'ladder up' to this.

Flywheel Relief would also come with important risks. First, the option to defer payment of CGT on the original gain could still be attractive to individuals who have no real intention of their reinvestment achieving unicorn status, which is a potential source of distortion and forgone revenue. This downside could be avoided by charging interest (at an appropriate rate) on deferred payments if and when they became due in full. Second, as highlighted in Section 5.2, any reinvestment relief risks placing increased pressure on existing 'leaks' in the CGT base and increases exposure to policy instability. To mitigate this, we strongly recommend that Flywheel Relief should be implemented as a deferral of payment of CGT on the reinvested gain(s), not as a deferral of the charge.

5.3.2 Super-Angel Relief

The second option we consider is a CGT relief that would allow entrepreneurs who have qualified for Unicorn Relief to defer payment of CGT at the Unicorn Relief rate by reinvesting their gains into further qualifying investments. Potentially, the relief could also offer the Unicorn Relief rate (or an even further reduced CGT rate) on any gains made from these reinvestments. We refer to this relief as 'Super-Angel Relief', reflecting that it would only be available to entrepreneurs who had already built a 'unicorn' (i.e. business qualifying for Unicorn Relief) and who reinvested their gains in qualifying early-stage businesses.

For the purpose of determining eligible reinvestments, we suggest that the same criteria as for SEIS and EIS could apply, but with no cap on the amount of (re)investment eligible for relief. The rationale for a per investor cap on SEIS and EIS is unclear even for ordinary investors, but it seems especially inapt for (so-called) 'super-angels', given the potential scale of their reinvestments and the fact that they plausibly have relevant skills and experience that would make them better at selecting the most promising early-stage businesses. We also suggest that – unlike for SEIS and EIS in their current form – there should be no restriction on super-angels taking an

active role in the companies they have (re)invested in, as founder, employee or board member.

There would be a range of options for determining the generosity of Super-Angel Relief. At one end, the relief could provide only a deferral of the payment of CGT at the Unicorn Relief rate on the original gain (to the extent it was reinvested), with no relief on any gains made from the reinvestments. At the other end of the scale, the most generous version of the relief would allow a complete exemption from CGT on any gains from the reinvestment, as applies for qualifying disposals made under SEIS and EIS. An intermediate position could be to extend Unicorn Relief to gains made on qualifying reinvestments even if the individual did not meet the standard criteria to be a qualifying individual on disposal for Unicorn Relief purposes, for example because they were not a founder or key early employee in the company.

The main potential benefit of Super-Angel Relief, as foreshadowed in Section 5.1.3, is that it could increase the expected value of Unicorn Relief without reducing the total business value threshold or the Unicorn Relief tax rate. The reason why this might be a preferable way of increasing the expected value of Unicorn Relief is that (unlike reducing the total business value threshold or the Unicorn Relief tax rate) it would provide a secondary benefit in incentivising (re)investment into early-stage businesses by individuals with relevant skills and experience that may improve their ability (relative to other investors) to select the most promising early-stage businesses.

These potential benefits should, however, be weighed against the risks arising from targeting problems and economic distortions. Super-Angel Relief would be poorly targeted if unicorn founders turn out to be no better at selecting promising start-ups than other potential investors. It would also introduce investment distortions, as unicorn founders will be incentivised to invest in qualifying companies. This could be desirable, but it could also lead individuals to focus on investments in the earliest-stage businesses when they may have the capital available to make larger follow-on investments instead.

5.4 Conclusion

It seems to be widely accepted that incentivising serial entrepreneurship is a good thing, but there is currently a severe lack of clarity over why, exactly. First, is the aim to incentivise *re-investment* by successful entrepreneurs, or *re-founding*, or both? Second, why incentivise *re-investment*, or *re-*

founding, over and above first-time investment and first-time founding? The answers to these questions must inform the design of any reinvestment relief, otherwise there is no hope of it being appropriately targeted.

In our view, there is no compelling reason to introduce CGT reliefs for serial entrepreneurship that aim at encouraging re-investment and/or re-founding *per se*. However, there *might* be a case for using reinvestment relief(s) in a targeted way that is subsidiary to the objectives of Unicorn Relief. Any such relief should: (1) serve to support Unicorn Relief and no more; (2) not reduce the CGT payable on the original gain merely as a result of having made a reinvestment; (3) be accompanied by closure of existing leaks in the CGT base; and (4) be structured as a deferral of the payment of CGT, not the charge.

Following this framework, we have suggested two potential reinvestment reliefs aimed at supporting Unicorn Relief. Flywheel Relief would be available to entrepreneurs prior to obtaining Unicorn Relief, and Super-Angel Relief would be available afterwards. Both carry significant risks as well as potential benefits, and overall, we do not think that there is a pressing case for either. However, if the Government felt the need to offer a special CGT relief for serial entrepreneurship, or if it wished to further increase the attractiveness of Unicorn Relief without lowering the total business value threshold or further reducing the Unicorn Relief rate, we think that these would at least be viable options.

6 Conclusion

Since the Government published a Call for Evidence on Tax Support for Entrepreneurs in November 2025, there has been considerable debate about how new CGT reliefs might be used to incentivise entrepreneurial activity. Although a variety of proposals have been put forward and have made useful contributions to this debate, in our view the debate has overall suffered from a lack of clarity over the specific concerns that CGT relief for entrepreneurs is seeking to address. Without a clear diagnosis, it is inevitable that reliefs will be poorly targeted, implying poor value for money as a tax expenditure, and the potential to worsen economic distortions, which would be actively harmful for productivity and growth.

In this report we have sought to provide a framework for evaluating the concerns that could potentially motivate a special CGT relief for entrepreneurs (and/or serial entrepreneurs), and for targeting relief at the most plausible of these. We conclude that there are only two concerns that could (at least in principle) justify a special CGT relief for entrepreneurs: the positive spillovers for the UK economy from the creation of (some) highly successful businesses, and the tax mobility of their (potential) founders. Although there is a lack of convincing empirical evidence for these concerns, in the absence of conclusive evidence the Government may nevertheless decide it is important to address them using a tax relief.

If the Government decides that these issues require a special CGT relief for entrepreneurs, the best-targeted option we could design is Unicorn Relief. This would provide a significantly reduced CGT rate on an uncapped amount of gains, narrowly targeted at entrepreneurs who successfully build very high-value businesses (broadly those achieving ‘unicorn’ status). This design is almost the exact opposite of BADR, which offers a capped relief to almost all business owners. If the Government decides it must have a special CGT relief for entrepreneurs, replacing BADR with Unicorn Relief would be much better targeted than the status quo, though it would still present drawbacks and risks.

Overall, we are not convinced that there is a compelling case for Unicorn Relief. However, if it is to be taken forward, it should only be on two key conditions. First, that the relief operates in *addition* to the full package of CGT reforms proposed by [Advani, Lonsdale & Summers \(2024\)](#), which we recapped in Section 2. We do not think there is any case for implementing Unicorn Relief as a bolt-on to our current (unreformed) CGT system. Second, that the total business value threshold is set very high, in the order of a genuine ‘unicorn’ valuation. Below this level of business value, we do not

think it is plausible that positive spillovers for the UK economy or tax mobility of (potential) entrepreneurs are sufficient to justify a special relief.

We also analyse the case for having special CGT relief(s) for serial entrepreneurship. Again, despite widespread acceptance that incentivising serial entrepreneurship is a good thing, there is currently a severe lack of clarity over why, exactly. We conclude that there is no compelling reason to introduce CGT reliefs aimed at encouraging re-investment and/or re-founding per se. However, there *might* be a case for using reinvestment relief(s) in a targeted way that is subsidiary to the objectives of Unicorn Relief. We suggest two potential reliefs of this nature. Whilst we do not think that there is a pressing case for either, they would be viable options if the Government wished to further increase the attractiveness of Unicorn Relief without lowering the total business value threshold or further reducing the Unicorn Relief rate.

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Appendix A: Further design details for Unicorn Relief

The purpose of this appendix is to offer some further tentative suggestions on the design of Unicorn Relief, going beyond the outline included in the main report. We do not claim that these further details are comprehensive, either of the issues to be resolved or resolution of the issues covered. Instead, they are intended to surface additional complexities that we are aware of and provide a first attempt at specifying design solutions. In the event of any (apparent) inconsistency between details specified in this appendix and views expressed in the main report, the latter should be preferred as providing the relevant guiding principles.

A1 Qualifying individuals

Unicorn Relief would be available to founders (Section A1.1) and to key early employees (Section A1.2).

A1.1 Founders

To qualify for Unicorn Relief founders should meet a shareholding requirement and an active engagement test. There is also a case for imposing a post-disposal UK nexus condition. We explain each of these requirements below.

Shareholding requirement

For founders, any minimum shareholding threshold should be designed not to discriminate against founders who rely on external equity to grow their businesses, so that the relief is neutral to the entrepreneurs' funding decisions. This means that founders who are diluted below the qualifying threshold by external capital before the disposal should remain eligible.

One possibility is to have a (say) 10% 'historical shareholding test', requiring the individual to have held at least 10% of the shares for a continuous period of (say) 24 months from the company's creation,⁴⁸ and to still hold those shares at the time of the qualifying sale (even if they represent less than 10%).

⁴⁸ Or shorter, if held through the entire life of the company. This would allow founders of extremely rapidly growing businesses to be eligible for relief if they dispose of their business for more than the Unicorn Relief threshold within two years of founding it. Specific anti-avoidance rules may be required to ensure that the shareholding relates to a trading company that has not changed trade (or acquired a trade) throughout the relevant period of ownership (to prevent individuals owning investment companies from acquiring a start-up and then disposing of it by selling the shares in the investment company to claim Unicorn Relief).

Active engagement test

To target the relief at founders (and not investors) it should be conditional on the individual being employed as an officer of the company, and spending a substantial proportion of their working time on the company (the existing EMI definition could be used for this purpose).⁴⁹

Post-disposal UK nexus

Given Unicorn Relief's aims of encouraging activities that produce positive spillovers and addressing the mobility of successful entrepreneurs, there is a case for imposing a post-disposal UK nexus condition on individuals claiming Unicorn Relief. This could be based on remaining UK tax resident for a certain number of years after exit, taking the form of a claw-back of the relief if the founder ceases to be UK tax resident within that period.

There is, however, a trade-off involved here, as conditioning the relief on staying in the UK post-disposal would make Unicorn Relief less attractive to entrepreneurs deciding where to found their business in the first place. So although a post-disposal UK nexus criterion for the founder would address the tax mobility of UK founders, it would make Unicorn Relief less able to attract foreign entrepreneurs to the UK to found or scale up their businesses.

A1.2 Key employees

For employees, eligibility should be conditional on shares being acquired at an early stage (or acquired later by exercising options granted at an early stage) and targeted at employees in key positions (or with key skills). This would target the relief to employees that have been instrumental in growing the business. Similar to founders, there is a case for conditioning Unicorn Relief on some post-disposal UK nexus criteria.

Early-stage acquisition by key employee

A practical way of implementing the first two conditions is to use the existing Enterprise Management Incentive (EMI) regime (or a modified version of it):

- The EMI assets and employee limits (or modified versions of these) ensure the company is small when the employee is granted the options.⁵⁰

⁴⁹ As we mention in Section 3.2.2, tax reliefs for investors are an inefficient way of supporting entrepreneurs due to their targeting problems.

⁵⁰ Companies eligible for the EMI scheme need to have gross assets not exceeding £120 million and fewer than 500 employees. Before April 2026, these limits were £30 million and 250 employees.

- The cap on the total value of EMI options (or a modified version of it) ensures that only a small number of employees benefit. The founder's judgement about who should receive EMI options is probably a better guide to 'high skills' than any statutory condition.⁵¹

Some of the EMI conditions, however, do not seem necessary given the justification for Unicorn Relief. For example, there seems to be no good reason to also retain the cap on the value of options *per employee*.⁵² If a founder has one employee whom they judge fundamental to the success of the start-up, it would be sensible to allow all of the company's EMI options (up to the overall cap) to be granted to that individual.

The benefit of relying on the EMI framework is also a practical one: HMRC already values EMI options, so this would extend existing administration rather than create new machinery.

Post-disposal UK nexus criteria

The same reasons given for founders apply equally here, suggesting there is also a case for imposing a post-disposal UK nexus condition on key employees claiming Unicorn Relief.

A2 Qualifying disposal

As noted in Section 4.3.3, qualifying disposals would need to meet the following conditions: (i) a very high business value, (ii) an actual (not deemed) disposal, (iii) a trading company, and (iv) potentially a pre-disposal UK nexus. We provide more details on each of these conditions below.

A2.1 Very high-value businesses

This section covers which disposals would be eligible (Section A2.1.1) and whether the threshold should be a cliff-edge or a taper (Section A2.1.2).

A2.1.1 Eligible disposals

As the relief aims to encourage positive spillovers and address the high tax mobility of founders, Unicorn Relief uses as a proxy for these the exit of the entrepreneurs (founders and key early employees) under a transaction that values the business above a very high threshold (see Section 4.3.3.2). The

⁵¹ Companies have a limit of £6 million on the total value of shares (at the value on the day options are granted) which can be made available under EMI options. This limit was £3 million before April 2026.

⁵² Under the EMI scheme each employee can hold a maximum of £250,000 of shares under EMI options.

threshold value relates to the business as a whole, not to the value of a specific disposal or gain.

Although Unicorn Relief would ordinarily apply on the founders' exit, it would be available on other types of disposals, provided the conditions are met. The principle is that the company needs to be (at the time of the disposal) valued at arm's length (i.e. by external investors or buyers) at more than the Unicorn Relief threshold. For instance, if in a secondary transaction some eligible key employees dispose of their shares, Unicorn Relief should apply if the company's arm's length valuation at that point exceeds the Unicorn Relief threshold. The same would apply if the founder disposes of part of their shares on a secondary transaction; provided the company's valuation by external investors exceeds the threshold, the founder will receive Unicorn Relief on this partial disposal.⁵³ Unicorn Relief would also be available on merger transactions structured as a share-for-share exchange,⁵⁴ in which case the value of Unicorn Relief should be fixed at the time of the exchange.⁵⁵

Conversely, 'internal' transactions (e.g. company buying back shares of departing key employees or co-founders, etc) would not be eligible, as they would lack a valuation by an external party paying a price based on it. The concern here is that high-value internal valuations are both easier to manipulate and a weaker proxy for what we are trying to target (i.e. businesses with positive spillovers).

A2.1.2 A cliff-edge or a tapered design?

A key design choice with respect to the 'high-value' condition is whether this should be designed as a cliff-edge or a taper. The former would mean that the benefit of Unicorn Relief is fully available once a certain value is met, while a taper design would mean that the benefit of Unicorn Relief gradually increases from a certain value.

⁵³The founders/key employees may, however, not get Unicorn Relief on the disposal of the remaining shares if the company's value subsequently drops below the Unicorn Relief threshold. In addition, in cases of partial disposals by founders, they should ensure the disposal does not disqualify them from Unicorn Relief in a future exit due to failing the 'historical shareholding test' mentioned above.

⁵⁴ In this case the concern about artificially high valuations should also capture the valuation of the company that provides the shares that are exchanged for the shares in the start-up company. If this is a listed company the manipulation of valuation would not be an issue, but it could be otherwise (so the 'external valuation' principle should also apply to the private companies providing the shares for the exchange).

⁵⁵ If a founder sells their start-up to a listed company in exchange for shares, the CGT on that transaction would be postponed until the disposal of the listed shares (TCGA 1992, s 135). The value of Unicorn Relief, however, should be fixed to the gain realised on the disposal of the start-up and not to the future gain that may accrue on the listed shares.

There is a trade-off in the decision, between the simplicity of the relief and its distortions. A taper design would smooth the tax benefit over a band of business values, reducing the distortions to exit decisions that Unicorn Relief creates.

For example, under a cliff-edge design the full Unicorn Relief would be available for disposals of businesses valued at (say) £750 million, but no relief at all would be given if the value is £749 million. For founders of companies below (but close to) £750 million, this design would create a very strong incentive to postpone their exit until the business valuation reaches £750 million (although with no guarantee it would). This distortion is clearly undesirable as it may result in postponing (or indeed preventing) the acquisition of businesses by buyers that would be better able to scale them up. Similarly, the founder might postpone developing a new business venture, with the effect of reducing the dynamism of business creation.

To avoid this distortion a system of taper could be introduced to smooth the change in tax rates around the 'high-value' threshold. For example, with a £750 million threshold and a Unicorn Relief benefit of reducing the CGT rate from 45% to 15% (i.e. a 30pp reduction benefit), a tapered relief could reduce the applicable CGT rate by 1pp for each £1 million (or fraction) that the business valuation exceeds £750 million. This means that increasing the valuation from £749 million to £751 million would reduce the CGT rate from 45% to 44%. This is still an incentive for the founder to delay the exit in the hope of reducing the applicable tax rate, but much smaller than under a threshold designed as a cliff-edge.⁵⁶

On the balance between the simplicity of design and reducing the distortions of the relief, we think that Unicorn Relief should be designed with a taper given the risk of major economic distortions around such a large cliff-edge. But both the threshold and the taper should be structured in a way that protects the highly targeted design we have proposed for Unicorn Relief.

A2.2 Trading business

To qualify for Unicorn Relief the disposal should be of a trading business, for which the same trading conditions used in the context of EMI could be used.

⁵⁶ Even with this taper design, there could be an opportunity for buyers and sellers to agree on a higher price for the company and to split the difference in tax savings in a way that both parties end up better off (depending on what % of the business is being bought). To remove these tax-splitting avoidance opportunities requires having a very gradual tapering of the relief that would mean that the tax saving would never be more than the price increase required to achieve it.

The EMI framework also excludes certain trades (finance, farming, property development, legal, etc). These exclusions should be reviewed to ensure they align with the objectives of Unicorn Relief. If not, the list of exclusions could be narrowed or widened.

Departing from the EMI framework would, however, be required for businesses with some non-trading activities (e.g. property or investment activities). The EMI framework takes an all-or-nothing approach (companies are either eligible or not): a company is ineligible if 'excluded activities' (e.g. non-trading) form a *substantial* part of its trade. In the context of Unicorn Relief, this approach would create opportunities for value-manipulation. For example, a company valued at £10 million below the Unicorn Relief threshold could bring £10 million of investment activities into the company to artificially increase the business valuation. To prevent this, the valuation requirement should take into account only that part of a company's value that relates to eligible activities.

Lastly, unlike other reliefs in this area (VCT, EIS, SEIS), there is no need to condition Unicorn Relief on the size or age of the company.⁵⁷ As those reliefs are targeted at external investors rather than founders, they need criteria to ensure that the investment they attract is focused on small and early-stage companies. In the case of Unicorn Relief this is not required, because the relief is tied to the founder, whose involvement by definition runs from the very first day of the company. The key employees eligible for Unicorn Relief, on the other hand, are constrained by EMI-style size criteria to link them with employees joining the company at a relatively early stage, although these size-based criteria should be assessed to determine if they are appropriate for the aims of Unicorn Relief. If not, they should be adjusted.⁵⁸

A2.3 UK nexus criteria

Given that the founder loses control of the company after the disposal, it would be inappropriate to impose any post-disposal 'economic footprint' test as a condition for the founder to retain the benefit of Unicorn Relief. Such a test would also reduce the value of the company if constrained from growing its international operations post-disposal, making the relief less attractive for founders in the first place.

⁵⁷ For VCT/EIS eligibility, companies must be within seven years of their first commercial sale (with some exceptions). For SEIS the age limit is three years.

⁵⁸ For instance, since April 2026 companies can have gross assets for as much as £120 million while still being eligible for EMI. Depending on where the Unicorn Relief threshold is set, this EMI condition may be too generous for the purpose of Unicorn Relief.

Instead, to target the relief at creating positive spillovers in the UK there could be some pre-disposal UK nexus criteria. This would entail a pre-disposal 'economic footprint' test, which could require a minimum share (e.g. 75%) of the company's total global operating expenditure or payroll to be incurred in the UK for a continuous period before the disposal.⁵⁹ The design of this 'economic footprint' test should ensure that a large part of the positive spillovers of the entrepreneurial activity arise in the UK without unduly constraining the company's commercial decisions. One way this could be balanced is by allowing short-term breaches of the 'economic footprint' threshold without immediately disqualifying the company from Unicorn Relief.

⁵⁹ Although it would be optimal to ensure positive spillovers also remain in the UK *after* disposal, it is arguably both infeasible and undesirable to impose an ex-post 'economic footprint test'. This is because after the founder's exit, these matters would be outside their control. Similarly, imposing restrictions on buyers regarding the future location of the business would reduce the value of companies, to the detriment of the UK's attractiveness as a place to start a new business.