

UK Government Seeking to Increase Investment Diversity in the UK

To help address tax avoidance, the Organisation for Economic Co-operation and Development's (OECD)/G20 Base Erosion and

By **Paul Webb**, 15th August 2023

Background

The UK Government is demonstrating a desire to increase the diversity of investment in the UK.

The objective will be to increase investment in funds directed towards women and ethnic minorities and to also increase the diversity of regions, where the venture capital investment is taking place.

What is Happening?

In July 2023, the UK House of Commons Treasury Committee [announced](#) the release of a report on venture capital, and recommendations to address issues with venture capital tax relief. Such types of relief include; the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS), and Venture Capital Trusts (VCTs).

What is Venture Capital?

Venture capital is a form of investment in early-stage companies, typically in return for an equity share of the business. This type of financing can be risky and a proportion of firms that receive venture capital will fail.

It is an important type of investment for innovative companies with high growth potential.

What Reliefs are Available in the UK?

The UK venture capital sector receives state support in the form of three tax reliefs (targeted reductions in tax liability). These are the Enterprise Investment Scheme (EIS), the Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs). The sector also receives support via British Business Bank (BBB) funding schemes.

The EIS and VCTs have statutory 'sunset clauses' that will cause them to expire in April 2025. The UK Government has signalled an intention to extend the schemes but has not said when it will do so or for how long. This current uncertainty is a potential risk to

investment in the UK.

An Opportunity

The renewal of the EIS and VCT schemes is an opportunity to improve them and to address current shortcomings. These chiefly comprise; diversity, regional inequality and scale-up capital.

Suggestions Regarding Increasing Diversity

Diversity in the sector is extremely poor, both in terms of the characteristics of the business founders that receive venture capital funding, and the people who make venture capital funding decisions.

Women and people from ethnic minorities are highly underrepresented in both groups.

There are three main suggestions:

- The provision of statistics relating to diversity in staffing and funding decisions should be a condition of receiving tacit taxpayer support in the form of the EIS and VCT tax reliefs.
- Venture capital firms to be required to comply with the industry standard Investing in Women Code or if not, needing to explain why.
- The UK Government and BBB to consult on the creation of venture capital funds targeted towards women and ethnic minority individuals.

Suggestion Regarding Regional Inequality

Take positive measures to expand the areas of the UK receiving investment by addressing the concentration of the current majority of, venture capital investment in the so-called 'Golden Triangle'; London, Oxford, and Cambridge.

Additional Information

If you would like to discuss this topic in more detail, please contact:

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