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CGT Founders' Relief

Technical consultation: RouseFinerva response

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Cover note

RouseFinerva is a finance partner to UK startups and growth-stage companies, providing fractional CFO, M&A advisory and tax services. Founded in 2017, Finerva merged with Rouse Partners in 2025 to form RouseFinerva, an ICAEW-regulated firm with over 100 years of history. We advise companies across technology, life sciences and consumer sectors, from seed funding through to exit.

We work every day with founders who start, fund and grow UK companies. Many of them are exactly the people this relief is meant to reward.

Our position: we welcome a dedicated CGT relief for founders. The government's stated objective, to reward individuals who have "invested their time, dedication and expertise to start and scale high growth, innovative UK companies" (paragraph 1.1), is the right one. But as drafted, Founders' Relief will not reach most of these founders. The eligibility criteria are set so high, and combined so tightly, that they pick out a narrow group of venture-backed, hyper-growth companies. Bootstrapped, profitable, research-intensive and professional services businesses, the backbone of the UK economy, are largely excluded, even when they are UK success stories by any ordinary measure.

We recognise that the relief must operate within fiscal constraints and be robust against avoidance. Our recommendations are designed as within-envelope adjustments that bring the qualifying conditions closer to the relief's stated scope, without changing its fundamental structure.

Our main concerns:

- **The £10m turnover floor is too high.** Many celebrated UK exits happened below it, including at least one billion-dollar acquisition.
- **The growth tests exceed any recognised international benchmark.** The proposed 25% compound annual growth rate is above the OECD's definition of a high-growth enterprise (20%) and far above the current EU statistical definition (10%).
- **The employee rules ignore how modern companies work.** Counting only full-time employees working at least 35 hours a week, and excluding contractors, leaves out legitimate business models. The consultation itself uses "full-time" and "full-time equivalent" inconsistently.
- **The trade-continuity rule penalises pivots.** Founders who move from services into products, or into regulated activity, risk losing the relief for doing exactly what high-growth companies do.
- **The R&D route cannot rescue research-intensive companies on its own.** Paired with the other conditions, it still misses deep tech and life sciences companies that sell before they reach £10m turnover or 15 employees.
- **The founder conditions are drawn too tightly.** A five-year holding period and a 25% founding stake exclude fast exits and larger founding teams.

We answer the seven consultation questions below, after case studies of UK founder exits, including one on which RouseFinerva was the lead adviser, that would not have qualified.

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Case studies: notable UK founder exits that would not have qualified

Each of these UK successful founder exits would fail the proposed qualifying conditions. They span AI, quantum computing, medical technology, engineering consultancy and food manufacturing, and range from bootstrapped to heavily venture-backed.

DeepMind (AI research, London)

Founded → exit: 2010 → 2014 (about 3 years)

Exit: Acquired by Google for a reported $400m to $650m

Size at exit: No meaningful third-party revenue before the sale

Why it fails: Fails both the five-year holding period and the £10m turnover floor.

Oxford Ionics (quantum computing, University of Oxford spinout)

Founded → exit: January 2019 → 2025 (about 6 years)

Exit: Acquired by IonQ for $1.075bn. The founders stayed on to lead the team in the UK.

Size at exit: 49 employees and no reported turnover in its last accounts before the sale

Why it fails: Headcount growth and R&D spend would probably pass two of the three growth and innovation tests. It still fails, because it is nowhere near the £10m turnover floor.

Innersight Labs (AI surgical planning software, King's College London spinout; a RouseFinerva client)

Founded → exit: 2015 → 2024 (about 9 years)

Exit: Acquired by KARL STORZ, the German surgical technology group. RouseFinerva was lead sale adviser.

Size at exit: 8 employees

Why it fails: Its CE-marked software turns CT and MRI scans into 3D models for planning complex cancer surgery. It was used at Guy's and St Thomas' to help clear the post-COVID surgery backlog, and won an NIHR i4i Challenge Award to fund a randomised controlled trial across five NHS trusts. It fails the 15-employee condition and the £10m turnover floor.

Hydrock (engineering design consultancy, Bristol)

Founded → exit: 1995 → 2024 (29 years)

Exit: Acquired by Stantec in April 2024; the founder, Dr Brian McConnell, retired on the sale

Size at exit: About 950 staff in 22 UK offices; reported turnover of £74m and pre-tax profit of £2.7m in the year to March 2023

Why it fails: Profitable and seven times the £10m floor, with no large R&D claims, so it needs both growth tests. Revenue grew from £30m to £84m over about six years (roughly 19% a year), and much of that came from acquiring several other consultancies. On organic growth alone, it would very likely fail.

Tyrrells (crisps, Herefordshire)

Founded → exit: 2002 → 2008 (6 years)

Exit: Majority sold to Langholm Capital for about £30m

Size at exit: Turnover of about £12m to £14m; about 100 staff

Why it fails: Clears the £10m floor, but cannot pass the turnover test, which needs at least £19.5m after three years of 25% growth. It would have needed both the headcount test and £1.5m of qualifying R&D, which is unlikely for a food manufacturer.

Three things stand out from these cases.

First, Oxford Ionics would likely pass the growth and innovation tests, yet a single condition (the £10m turnover floor) excludes a billion-dollar exit. A company that the government itself would recognise as an innovative UK success story is shut out by one line in the eligibility criteria.

Second, Hydrock and Tyrrells are profitable companies well above the turnover floor, with hundreds of employees between them. They are excluded because they grew steadily rather than explosively. Hydrock's fastest growth came from acquisitions, which suggests that buying other firms may be the most realistic way for a mid-market company to pass the turnover test. That would reward moving revenue between companies rather than creating it. Tyrrells later sold for about £300m.

Third, DeepMind and our client Innersight Labs show that the R&D route does not rescue research-intensive companies that sell before they have large revenues or large teams. Innersight Labs ran a randomised controlled trial across five NHS trusts. DeepMind was one of the most research-intensive companies the UK has produced. Neither would qualify.

Question 1: Will the individual conditions effectively identify founders?

Partly. On their own, the individual conditions are a reasonable way to identify founders. The 25% founding stake, the five-year holding period and the UK residency requirement are clear and administrable. The problem is how they combine with the company conditions and growth tests. Together, they reward one founder profile: someone who started with a large stake and then raised enough venture capital to drive very fast growth.

The conditions favour venture-backed founders over bootstrapped ones

The 25% stake is only tested when the trade begins, so later dilution by investors does no harm. But the £10m turnover floor and the 25% growth tests are hard to reach without substantial outside funding. A bootstrapped founder who keeps most of the equity and grows from profits usually fails the company conditions. Tyrrells in our case studies is an example. The same pattern is common across professional services: the founders of recruitment firms, accountancy practices and specialist consultancies typically grow from retained earnings rather than venture capital. The vast majority of UK businesses never raise external equity: 2,730 companies raised equity for the first time in 2025, out of millions of UK businesses.

The 25% threshold excludes larger founding teams

Four or more equal co-founders, or a founding team that gives early equity to its first hires, can fall below 25% each from day one. So can founders of university spinouts, where the university usually takes a significant founding stake. DSW Ventures has noted that the relief rules fail to create the right incentives for "almost every UK university spin-out." By comparison, Business Asset Disposal Relief uses a 5% "personal company" test. We suggest a lower individual threshold of 10%, or a combined founding team test limiting how many founders can benefit from the relief at the same time.

The five-year holding period is too long

DeepMind sold about three years after it was founded. In our experience, many founders—especially in research-intensive sectors—sell in years three to five. We recommend a three-year holding period, in line with the minimum holding period for EIS shares, a relief founders generally cannot use themselves. This would capture deep tech exits that bring significant capital and expertise into the UK without opening the relief to short-term speculative holdings.

The ownership and reorganisation rules are sensible

We support relief on all qualifying shares, not just the original holding, and allowing the 25% test to be met through a holding company. These provisions correctly recognise that company structures evolve between incorporation and exit.

Question 2: Will the company conditions focus the relief on UK trading companies that have reached sufficient scale and still carry on their original trade?

The conditions will focus the relief on scale, but the bar is set higher than the relief's stated objective requires. Three company conditions create particular concern.

The £10m turnover floor is too high

The floor rewards companies that are already successful in their own right. Many founders build and sell companies that are rightly seen as UK success stories before reaching it. Oxford Ionics sold for $1.075bn with no reported turnover and its founders still lead the UK team. Our client Innersight Labs ran a randomised controlled trial of its surgical planning software across five NHS trusts, then sold to KARL STORZ with eight employees. Neither set of founders would have qualified.

The government's stated aim is to incentivise founders to "start, scale and stay in the UK" (paragraph 1.4). A floor of £10m excludes companies at exactly the stage where the incentive would matter most: when a founder is deciding whether to sell a promising business or continue scaling it.

We recommend lowering the floor to £2m, with the growth tests carrying the job of identifying high-growth companies. Knowledge-intensive companies should have a separate route with no turnover floor (see Question 5).

The trade-continuity rule penalises pivots

The excluded-trades rule is clearly intended to keep the relief away from asset-backed, lower-risk activities where returns come mainly from holding assets rather than building a business. This follows the Enterprise Investment Scheme, whose excluded activities include dealing in land, financial activities and property development. HMRC's own guidance says the venture capital schemes were narrowed because generous reliefs had created tax-motivated, low-risk investment opportunities. We support that aim.

But the financial activities exclusion is drawn too widely. It would catch FinTech, InsurTech and payments companies that build technology and employ people in the UK. We recommend that it targets passive investment and asset-holding activities rather than regulated technology businesses.

But the requirement to continue the original trade "with no major change in the nature of the trade" catches founders who pivot. Pivots are a normal and often essential part of building a high-growth company. Three examples:

Services to software. A professional services firm, whether a digital agency, an HR consultancy or a specialist advisory firm, builds an internal tool to deliver client projects, then starts selling it to other firms as a white-labelled product. Within a few years, software licences account for most of its revenue. On a strict reading, the original trade (agency services) has changed in nature. Licence income is itself an excluded activity unless the company created the greater part of the software's value, which is hard to demonstrate when products are built on open-source and third-party components.

Retail to technology. Ocado began as the UK's first pure-play online grocer and became a technology company that licenses its platform to retailers worldwide. Under this rule, a founder of a company on the same path would risk losing the relief.

Software to regulated activities. Many fintechs start as software providers and move into regulated financial services. As Startup Coalition has noted, they could fall foul of the financial-activities exclusion.

We recommend testing whether the company carried on a qualifying trade throughout the five years before disposal, rather than whether it kept the same trade. HMRC already applies qualifying-trade tests under the venture capital schemes, so advisers and HMRC know how to administer them.

The full-time employee rule excludes common business models

Counting only employees working at least 35 hours a week, and excluding contractors and agency workers, leaves out many legitimate businesses: specialist consultancies, recruitment firms, accountancy practices, architecture studios, creative and digital agencies, and software companies that rely on part-time staff or long-term contractors. These are deliberate, sustainable ways of working, not attempts to avoid the rules.

We recommend counting full-time equivalent (FTE) employees, with part-time staff counted pro rata. The Enterprise Investment Scheme already uses FTE, so companies and HMRC are familiar with the approach. The government could also consider including contractors engaged continuously for more than 12 months.

Question 3: Are there practical difficulties or unintended consequences in applying the company conditions?

Yes. Three practical difficulties stand out in the current drafting.

"Full-time" and "full-time equivalent" are mixed. The company condition (paragraph 2.7) counts "qualifying full-time employees" working at least 35 hours a week. The headcount growth test (paragraph 3.2) measures growth in "qualifying full-time equivalent employees" but sets a base requirement of "at least 15 full-time employees." Founders would have to track two different counts over up to ten years, and HMRC would have to verify both. Using FTE consistently would resolve this (see Question 4).

"Substantial UK presence" is undefined. This must be met for five accounting periods before disposal. Founders need certainty about what it means well before they sell. The EIS already defines a UK permanent establishment for similar purposes; adapting that definition would give founders and their advisers a test they can apply with confidence.

The rules create an incentive to reclassify workers. Companies near the 15-employee threshold may move contractors onto payroll before a sale and back afterwards, adding compliance work without creating lasting jobs.

Question 4: Practical difficulties and unintended consequences of the three tests

The turnover and headcount tests are set well above any recognised definition of a high-growth company. Combined with the requirement to pass two of three, very few UK companies outside venture-backed technology will qualify.

The turnover test requires near-doubling from a £10m base

The test needs 25% compound annual growth over three consecutive accounting periods, starting from at least £10m. That means growing from £10m to at least £19.5m in three years:

Period	Minimum turnover
Base period	£10.0m
Year 1 (+25%)	£12.5m
Year 2 (+25%)	£15.6m
Year 3 (+25%)	£19.5m

Growth at this rate from an established base is rare. It usually slows as companies get larger, and pursuing strong continued turnover growth at scale often comes at the expense of profit and sustainability, and tends to only be possible when fuelled by significant cash injections.

The bar is far above the OECD definition of a high-growth company

	Eurostat-OECD high-growth enterprise	Founders' Relief turnover or headcount test
Annual growth	At least 20% a year over three years	At least 25% a year over three years
Minimum size at the start	10 employees	£10m turnover, or 15 full-time employees
Turnover floor	None	£10m in the base year and in the year before sale

Even at the OECD's lower bar, only 44,595 UK companies qualified as scaleups in 2025, representing 0.8% of the UK business population. The Founders' Relief tests will capture a small fraction of that group.

The tests reward speed of growth, not quality of growth

The turnover test ignores profitability. It looks only at revenue. A company can pass by buying revenue with heavy discounting or marketing spend. A profitable company growing at 15% a year (a strong result for an established business) cannot pass. A well-run law firm, recruitment business or specialist consultancy growing profitably at this rate for a decade, employing hundreds of people across the UK, would not qualify for a relief meant to reward the people who built it.

The headcount test encourages rapid hiring. Nothing checks that the jobs last beyond the disposal. A company could hire quickly to pass the threshold and then cut staff after the sale, without creating lasting employment.

Acquisitions may count as growth. The draft does not distinguish organic from acquired growth. Statistical bodies focus on organic growth because acquisitions move revenue and staff between companies rather than creating them. This is the clearest avoidance risk in the current design (see Question 7).

The tests favour a narrow set of sectors

The companies most likely to pass the turnover test are venture-backed B2B software, fintech, AI and commercialised life sciences businesses. In these sectors, software margins or global licensing let revenue grow faster than costs and headcount. This mirrors where UK equity investment goes: software companies took 49% of deals and 64% of the amount raised in H1 2025. AI deals alone accounted for 19.5% of all deals and 32% of all deal value in 2025.

In our experience, profitable UK mid-market companies in manufacturing, construction, logistics and professional services rarely double their turnover organically once past £10m without acquisitions. Professional services firms in particular, from accountancy and law practices to recruitment businesses and engineering consultancies, are constrained by the number of skilled people they can hire and the billable hours those people can deliver. Their growth is typically steady, profitable and regional rather than explosive.

The geographic effect reinforces the concern. London-based companies secured 2,944 deals totalling £14.9bn in 2025, representing 50% of UK deals and 62% of the UK's total investment. If the growth tests favour venture-backed companies, the relief will also disproportionately favour London, working against the government's stated commitment to spreading economic growth across the UK.

"Full-time" and "full-time equivalent" are used inconsistently

The company condition (paragraph 2.7) requires 15 "qualifying full-time employees" working at least 35 hours a week. The headcount growth test (paragraph 3.2) measures growth in "qualifying full-time equivalent employees," but its base requirement is "at least 15 full-time employees." Founders would need to track two different definitions over up to ten years. We recommend using FTE consistently throughout (see Questions 2 and 3).

Our recommendations for the growth tests

- Align the growth threshold with the OECD's 20% per annum, or allow growth to be measured over a longer window (for example, doubling over five years rather than growing at 25% a year for three).
- Lower the turnover floor to £2m in the base year, with no floor for knowledge-intensive companies (see Question 5).
- Consider gross profit or operating profit growth as an alternative to turnover growth. This would recognise the steady, profitable growth typical of professional services and other people-intensive businesses, where margins and profit are better indicators of success than top-line revenue.
- Count organic growth only, or cap the proportion of acquired turnover and headcount that can contribute to the tests.
- Use FTE consistently, and consider whether a proportion of the jobs created were retained after the disposal.

Question 5: Alternatives to the R&D test for identifying innovative companies

The R&D test is a fair way to identify innovative companies. The problem is that it cannot work on its own. A company must pass two of the three tests and also meet the £10m turnover floor and the 15-employee condition. Research-intensive companies in deep tech, medicine and biotechnology often sell before they reach these thresholds, so they fail regardless of their R&D spend.

Our case studies show this clearly:

- **Innersight Labs**, our client, won an NIHR i4i Challenge Award to run a randomised controlled trial of its surgical planning software across five NHS trusts, then sold to KARL STORZ. With eight employees, it fails the 15-employee condition and the £10m turnover floor.
- **DeepMind** was one of the most research-intensive companies the UK has produced. It fails both the floor and the five-year holding period.

For these companies, the founders' reward comes from selling the technology they have developed, not from years of growing revenue. The relief should recognise that path.

Using R&D tax relief claims as the sole innovation measure also creates risk for founders. HMRC has substantially increased its scrutiny of R&D claims. The number of claims fell 17% to 40,325 in 2024-25. If HMRC later challenges a company's R&D claim, the founder could lose the relief years after the sale, through no fault of their own (see Question 6).

Alternative criteria we recommend

- **Knowledge-intensive company (KIC) status under EIS.** HMRC already assesses this for companies that carry out a significant amount of research, development or innovation. It is established, objective and familiar to advisers.
- **Registered intellectual property** that the company created, such as granted patents (including those qualifying for Patent Box).
- **Competitive public innovation funding**, such as Innovate UK grants or Horizon Europe awards.
- **University spinout status** under a recognised technology transfer agreement.

A separate route for research-intensive companies

We recommend that knowledge-intensive companies, or companies meeting another recognised innovation criterion, be exempt from the turnover floor and the 15-employee condition. They should then need only one further test, which could include a minimum sale value as an alternative to turnover or headcount growth. This would bring companies like Oxford Ionics and Innersight Labs within scope, without opening the relief to companies that do not meet any test of scale or innovation.

Question 6: The statutory right to request information from the company

We support the proposed statutory right. It is simpler and less burdensome than certification by the company or HMRC. Most genuine founders are still involved in the business when it is sold, or have just sold it, so they will usually have the information or can get it easily. The right matters most for founders who left the business before the sale, and for information about periods up to ten years earlier.

We suggest:

- **A clear timetable that shares the burden.** The founder should make the request by 6 July after the end of the tax year of the disposal, similarly to ERS returns and EMI option notifications. The company should then provide the information within three months of the request. Even for a request made on 6 July, this leaves the founder about four months before the 31 January Self Assessment deadline. Founders should be able to make the request earlier, including during the sale, when due diligence has already gathered most of the information. A request made after 6 July should still be honoured, but within a reasonable time rather than a fixed period.
- **The right should bind the company after it has been sold.** Buyers often hold the records after a sale. Sale agreements could routinely include a duty to cooperate.
- **The information should be prescribed** in the standard claim form (paragraph 4.2). Then companies know exactly what to provide and founders know exactly what to ask for.
- **Founders who claim in good faith should be protected.** If HMRC later finds that a company's R&D claim or headcount figures were wrong, the founder may have had no way of knowing. We suggest that the relief is withdrawn only where the founder knew, or should reasonably have known, that a condition was not met. Otherwise, any recovery should be limited to a short period after the claim.

Question 7: Avoidance and administrative risks

The main risks arise from the growth tests, which reward reaching thresholds at a point in time:

Risk	How it could happen	Possible safeguard
Buying growth through acquisitions	Acquired turnover or staff counted towards the 25% growth tests	Count organic growth only, or cap acquired growth
Short-term hiring before a sale	Headcount increased to pass the test, then cut after completion	Use average FTE over each accounting period; consider a jobs-retention check
Reclassifying contractors	Contractors moved onto payroll to reach 15 employees	Use FTE and a consistent treatment of long-term contractors
Choosing favourable periods	Picking the best three consecutive years out of ten	Acceptable in principle, but require consistent accounting periods
Revenue that has been bought	Low-margin or circular revenue used to pass the turnover test	Offer a profit-based alternative; apply the planned anti-avoidance rule

We support targeted anti-avoidance rules aimed at artificial arrangements (paragraph 4.9). These should be drawn narrowly enough that they do not catch ordinary commercial reorganisations, such as adding a holding company before an investment round or a sale.

Summary of recommendations

1. Lower the £10m turnover floor to £2m.
2. Align the growth tests with the OECD's 20% per annum, or allow a longer measurement window (for example, doubling over five years).
3. Offer a profit-based alternative to the turnover test, and count organic growth only.
4. Use full-time equivalent employees consistently across all conditions.
5. Replace "same trade" with "qualifying trade throughout," so founders who pivot are not penalised.
6. Create a separate route for knowledge-intensive companies, with no turnover floor or minimum headcount.
7. Keep the statutory information right, with a three-month response period and protection for founders who claim in good faith.
8. Reduce the holding period to three years, in line with EIS.
9. Lower the founding stake to 10%.
10. Narrow the financial activities exclusion to passive investment and asset-holding activities.