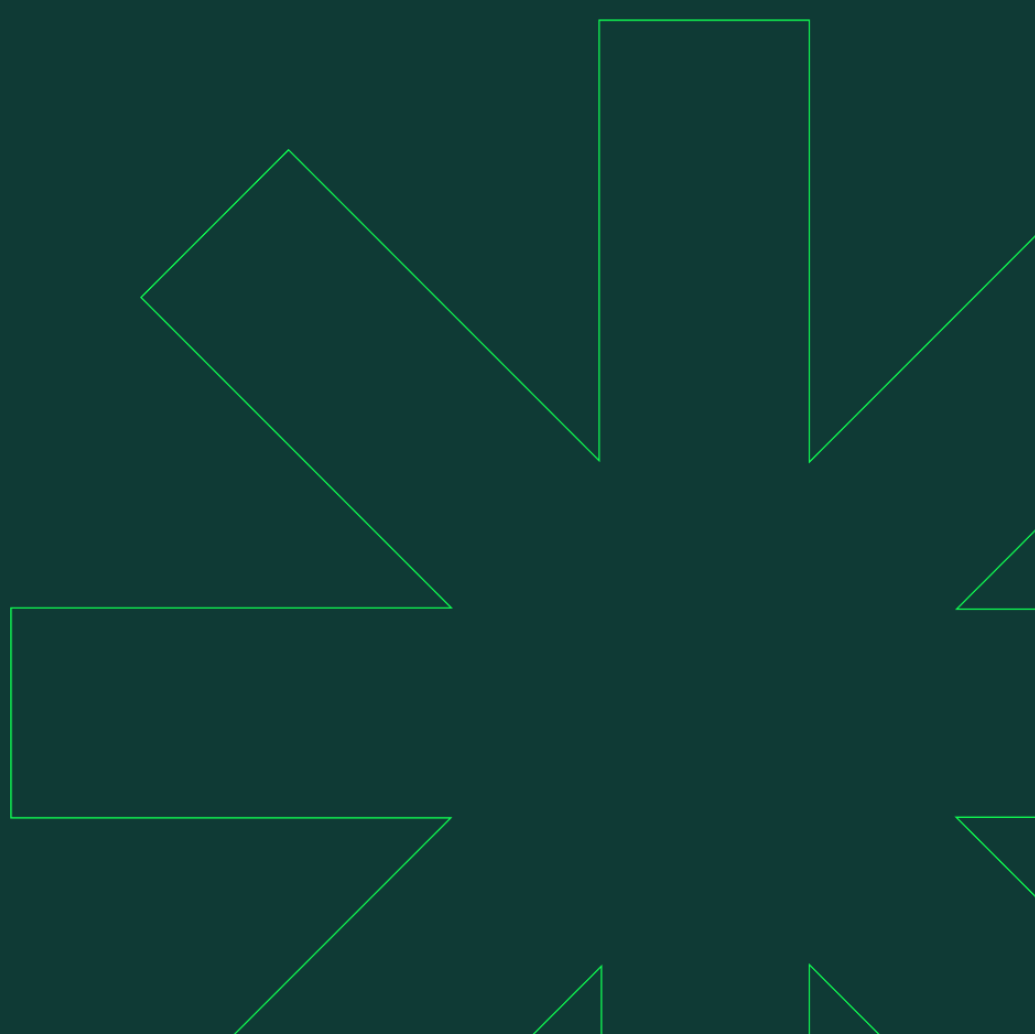


Keeping Options Open

The Case for EMI Reform

October 2025

STARTUP
C*ALITION



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About Startup Coalition

Startup Coalition, formerly Coadec, is the policy voice of UK tech startups and scaleups. Since 2010, we have worked to engage on behalf of tech startups in public policy debates in the UK across a range of critical priority issues including access to finance, immigration and skills, and technology regulation.

We fight for a policy environment that enables early-stage British tech companies to grow, scale and compete globally. We have over 4,000 startups and investors in our network and have been instrumental in building proactive coalitions of businesses and investors on issues integral to the health of the UK's startup ecosystem. We represent the startup community on the Government's Digital Economy Council, and the UK on the board of the international organisation Allied for Startups.

Acknowledgements

We are grateful to all of our survey respondents, as well as the other startup founders, employees, and experts who have supported this report. We are also grateful to Beauhurst for providing us with data.

Glossary of Terms

Capital Gains Tax (CGT): Tax on the increase in value of shares between the exercise price and sale price. EMI options typically convert Income Tax into CGT liability, which is lower.

Cliff: The initial period before any options vest (e.g. 12 months in a 4-year vesting plan).

Exercise / Option Exercise: When the holder chooses to buy the shares under their option agreement.

Exercise Price / Strike Price: The pre-agreed price at which shares can be bought when the option is exercised.

Exercise Window: The time frame in which an employee can exercise their options after vesting or leaving.

Exit Event: An event where founders and early investors can sell their interest in a company for cash. An exit can be an initial public offering (IPO) or an acquisition by another company.

Grant Date: The date on which the company awards the share option to the employee.

HMRC Valuation: For EMI, companies agree a share value with HMRC to set the exercise price fairly and lock in tax treatment.

Income Tax / NICs: Without EMI, exercising options often creates an Income Tax and National Insurance liability. EMI schemes can eliminate/reduce this.

Initial Public Offering (IPO): the first time that a private company sells shares of its stock to the public on a stock exchange.

Leaver Provisions: Rules governing what happens to vested/unvested options when an employee leaves. Typically, someone is classed as a 'good leaver' if they leave the company for reasons beyond their control (e.g. illness, redundancy); a 'bad leaver' is someone who leaves for reasons within their control (e.g. resigning, poor performance).

Liquidity Event: A transaction where shareholders can sell shares (e.g. acquisition, IPO).

Share Option: The right (but not obligation) to buy shares in a company at a fixed price in the future.

Share Option Agreement: The legal contract between the company and the employee granting the options, setting out the key terms such as exercise price, vesting, and leaver provisions.

Tax-Advantaged (Approved) Scheme: EMI is an HMRC-approved scheme offering favourable tax treatment.

Valuation Uplift: The growth in company valuation that makes options valuable.

Vesting: The process by which the employee earns the right to exercise their options, usually over time or after milestones are met.

Introduction

Imagine you're building a startup in the UK, trying to attract world-class engineers or commercial talent. You're up against corporate giants – fast-scaling (and often American) competitors offering generous compensation packages and the promise of Silicon Valley-style riches.

Ping-pong tables and unlimited holiday won't cut it. What you really need to attract talent is stock options.

Stock options offer elegant simplicity: if your team collectively builds something extraordinary, everyone reaps the rewards. It's a powerful alignment of interests, where company success becomes personal success. And we know that the wealth generated often finds its way back into the ecosystem creating a flywheel of angel investment, new ventures, or scale-up expertise. That means what's good for the founders, staff and their companies is good for the ecosystem too.

For startups that can't compete on salary with global behemoths, equity compensation isn't a perk. It's essential. Tax-advantaged share option schemes are a smart way to level the playing field between scrappy challengers and cash-rich corporations. It's no surprise that the very best founders like Tom Leathes from Motorway and top VCs like Index Ventures have been so vocal about the role that options play in the ecosystem.

Governments around the world have recognised this. And in fact, the UK was one of the frontrunners. Back in 2000, when the UK introduced the Enterprise Management Incentive (EMI) scheme, it was world-leading. It was introduced as the Government recognised that the, 'main barrier to growth experienced by smaller high-risk start-up businesses was a lack of highly qualified and motivated key employees'.¹ In the intervening years it has become the backbone of the UK's startup ecosystem, helping British companies compete globally for top talent. For years, it was one of our biggest competitive advantages. Now though, when it comes to tax advantaged share option schemes, we're seeing competitor countries catching up with us, and even exceeding what we're offering for high-growth firms.

But while global competition for startups has changed, EMI hasn't. Startups competing in deeptech and AI need more capital to succeed than ever before, and companies that used to take eight years to reach 500 employees, now do it in five. And yet, EMI eligibility still uses outdated employee ceilings and asset caps that don't reflect how fast companies grow today or how much capital they need to do it.

When a startup raises a major funding round that pushes them over the £30 million asset cap, they lose eligibility to issue further EMI options at the precise moment they need it most, during rapid hiring to support their growth. A company that closes funding on Monday may find itself unable to offer competitive equity packages to candidates starting on Tuesday. This cliff-edge creates a perverse incentive structure where fundraising success is penalised through the loss of a key employee incentive tool. Meanwhile, HM Revenue & Customs (HMRC) has adopted a rigid interpretation of the rules, especially around board discretion in exit scenarios, which does not reflect the change in company exit options over the last 10 years. This creates confusion, legal risk, and makes it harder to reward the people who will likely go on and build the next British success story.

¹UK Parliament. Wednesday 19 July 2000. 'Enterprise Management Incentives Volume 354'

The UK remains a magnet for tech and founding talent, despite the intense global competition. However, if we don't reform EMI, we risk losing the very people most likely to scale British companies and grow our economy. In a world where top talent is mobile, and where the best people can work from anywhere, outdated policy risks becoming a major liability.

That's why, in advance of the 2025 Autumn Budget, we conducted research, engaging with founders, executives, and employees at British startups and scaleups to uncover how EMI is working today and what changes they would like to see to the scheme. Our survey combined quantitative questions to capture broad trends with open responses that gave founders space to share richer perspectives. To complement these insights, we analysed Beahurst growth data and sought case studies, pairing high-level patterns with lived experience. The result is a clear picture of how outdated EMI rules are affecting startups today, grounded in both hard numbers and founder voices.

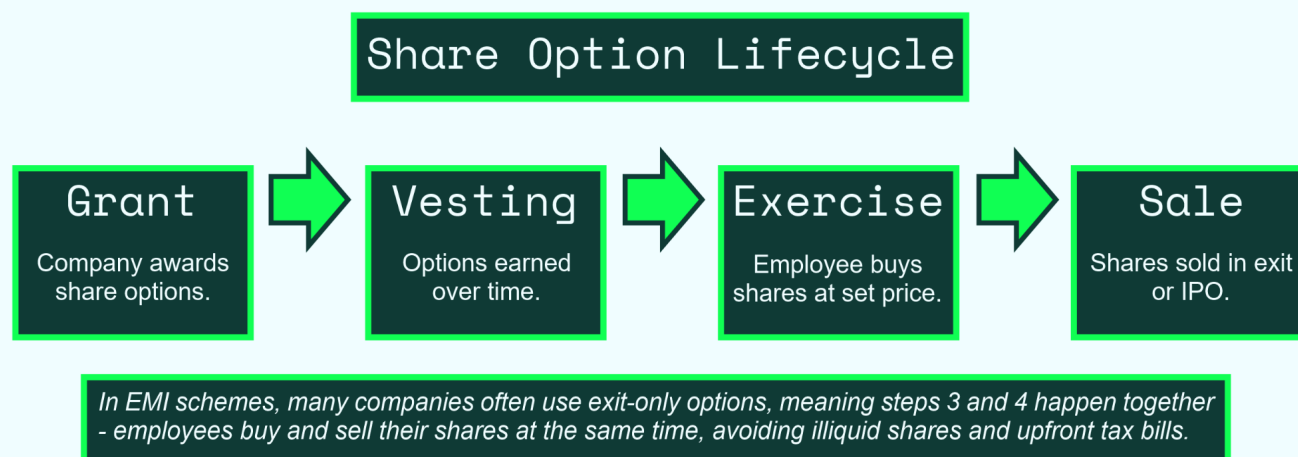
The Enterprise Management Incentive Scheme

How the Existing EMI Scheme Works

The Enterprise Management Incentive (EMI) is a government-approved share option scheme that allows qualifying UK companies to grant tax-advantaged options to employees. Under the scheme, employees can purchase shares at a fixed price (typically set at today's market value) and benefit from any future growth in the company's valuation.

The goal of the scheme is to support hiring and retention at startups while they grow. The scheme operates with specific requirements: companies must have gross assets of £30 million or less (referred to as an 'asset cap' in this report) at the time options are granted, and fewer than 250 full-time equivalent employees. These thresholds act as gatekeepers to the scheme, determining whether growing companies can continue to access its benefits.

In EMI schemes, contracts between a company and its employees – known as share option agreements – are formalised under HMRC-approved rules, meaning both founders and employees are legally bound by the agreed terms. Employees are granted a set number of share options, which typically vest over time or upon achieving specific milestones. Employees are allowed to exercise their options at a liquidity event, which means they are typically able to buy and sell shares at the same time.



The tax advantages are what make EMI genuinely attractive to both employers and employees. When options are granted and exercised at market value, there's no Income Tax or National Insurance contributions due. Capital Gains Tax (CGT) is only payable when shares are actually sold. This structure is critical to making stock options worthwhile. Without these tax advantages, employees would face huge costs before the options have any value.

As a result, all future appreciation in the company's value above the original strike price flows directly to the employee, creating a direct financial incentive tied to company performance. Options must be

exercised within 10 years of being granted, providing a clear timeframe for realising benefits. If the company succeeds, everyone benefits.

Employees can also qualify for the reduced 14% CGT rate (going up to 18% in April 2026) under Business Asset Disposal Relief (BADR), instead of the standard rate of 18% for basic rate taxpayers and 24% for higher or additional rate taxpayers. This framework has proven effective for thousands of UK companies and their employees. However, the scheme's rigid thresholds and structural limitations can create significant challenges as companies grow and evolve.

Evolution of the EMI Scheme

The scheme, introduced in the UK under the Finance Act 2000, was designed to help small, high-growth companies attract and retain talented employees by offering tax-advantaged share options. Initially, the scheme applied to companies with fewer than 250 employees and gross assets under £15 million. Employees receiving EMI options at market value were exempt from Income Tax and National Insurance contributions on exercise, with gains subject to Capital Gains Tax (CGT) instead. The individual limit for unexercised EMI options was set at £100,000 at launch.²

Over the years, the EMI scheme has undergone several key changes to enhance its attractiveness and simplify its administration. In 2008, the introduction of Entrepreneurs' Relief (later renamed Business Asset Disposal Relief, or BADR) allowed qualifying EMI shares to benefit from a reduced CGT rate of 10% on gains up to £10 million. In 2012, the individual limit for EMI options was increased to £250,000, and the overall company-wide limit was raised to £3 million.³ Starting from 6 April 2025, the BADR tax rate rose from 10% to 14%. It will go up again to 18% on 6 April 2026.

Today, the EMI scheme remains a central tool for startups and high-growth companies in the UK, offering significant tax advantages to both employers and employees. While EMI has created one of the most startup-friendly environments in the world and has undoubtedly contributed to the UK's leading position in Europe, there are ongoing discussions about further reforms to ensure the scheme continues to meet the evolving needs of the startup ecosystem. Especially given the changes to BADR, it is even more important that we evolve EMI to ensure it remains a critical tool for startups in attracting talent.

²Quality Company Formations. July 2025. 'An introduction to Enterprise Management Incentives (EMIs)'

³HMRC. August 2015. 'Employee Tax Advantaged Share Scheme User Manual'

Views on Share Options

Our survey results indicate that share options have become critical to startup talent strategies. When asked to rate the importance of share options on a scale of 1 (not at all important) to 5 (very important), the majority of respondents gave the highest rating (Figure 1). Share options are seen as a powerful tool for attracting top talent, with 82% of employers rating them as important (4 or 5 out of 5). Their value is even clearer for retention, where 85% of employers rated them important.

On a scale of 1 to 5, with 1 being not at all important and 5 being very important, how important are share options at your company's stage for:

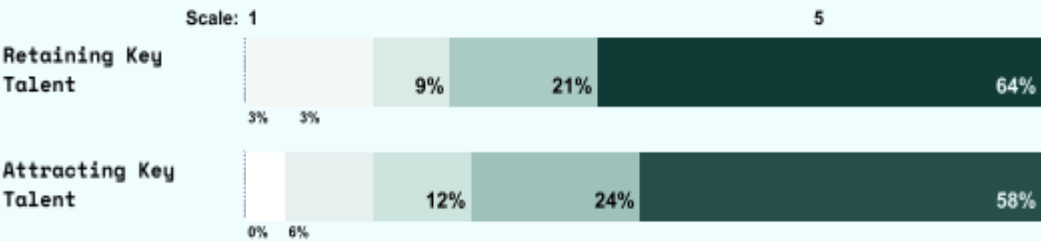


Figure 1. Importance of share options for retaining and attracting talent (n=66)
Source: Startup Coalition survey, 2025.

This perceived necessity is reinforced by evidence of what would happen in their absence. Our engagement with a small group of startup employees revealed the depth of this dependency. Employees told us their options package played a large role in their decision to join their current company. Some valued their share options as much more important than their job security and stability. Several employees stated that their morale would decline and they would be more likely to seek alternative employment if their share option terms became less favourable.

Employers share these concerns about employee response to deteriorating terms. An overwhelming 85% of employers agreed that staff motivation would suffer if share option benefits changed significantly (Figure 2). Additionally, 58% of respondents believed that some employees would likely leave if options became less attractive (Figure 3).

To what extent do you agree or disagree with the statement: "If EMI benefits changed significantly, staff motivation would be affected."

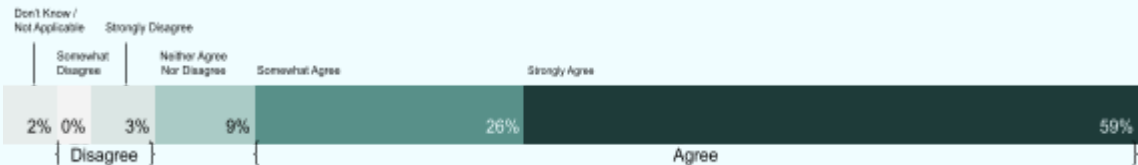


Figure 2. Perceived consequences of EMI benefit changes on employee motivation (n=66)
Source: Startup Coalition survey, 2025.

To what extent do you agree or disagree with the statement: "Some employees would likely leave if EMI were made less attractive."



Figure 3. Perceived consequences of EMI benefit changes on employee retention (n=66)
Source: Startup Coalition survey, 2025.

The combination of high importance ratings, employee testimony, and our engagement across the sector indicates that share options have moved beyond being viewed as a helpful supplement to becoming embedded as essential infrastructure within employers' talent strategies. Share options are not merely valued; they are foundational to how startups attract and retain the specific talent profile they require.

While share options have become essential to startup talent strategies, their effectiveness depends fundamentally on how they are structured and delivered. This is where the EMI scheme plays its critical role. The vast majority of respondents recognized significant benefits of the EMI scheme, as shown in Figure 4 below.

What do you see as the top benefits of an EMI scheme? (select up to 3)

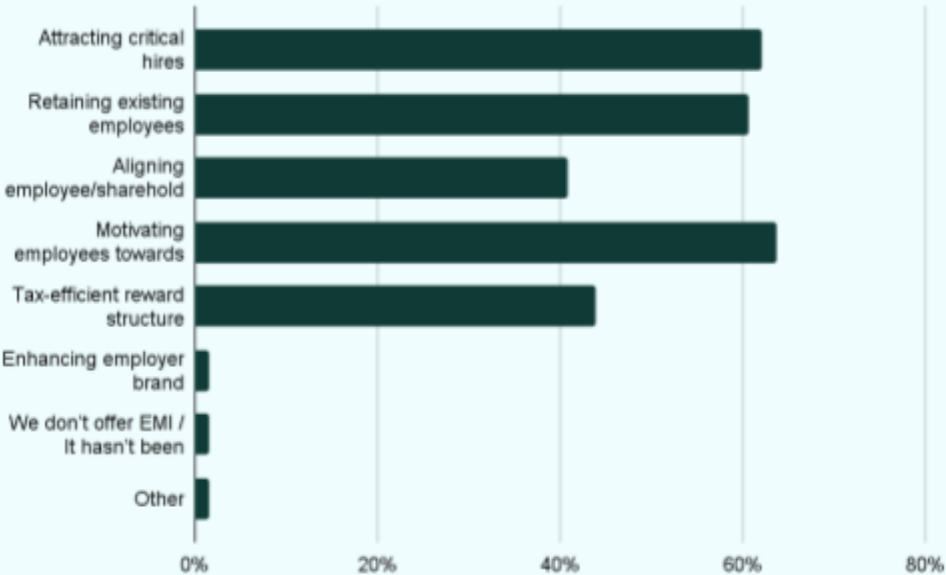


Figure 4. Most valued benefits of the EMI scheme among startup founders (n=86)
Source: Startup Coalition survey, 2025.

Responses receiving over 60% support consistently centered on three key areas: attracting talent, retaining talent, and motivating employees. And demonstrating near-universal recognition of EMI's effectiveness in delivering one of the core benefits that makes share options essential: 92% of employers think EMI options are a meaningful motivator for their employees; 82% agreed that EMI helps them attract talent they might otherwise struggle to hire.



Given the dependency on share options as infrastructure – and EMI as the mechanism making that infrastructure effective – any deterioration in EMI terms poses significant risks to both employers and employees. This can happen in a number of ways, with varying degrees of company control.



Macro environmental shifts present the most significant challenge: companies are staying private for far longer than the traditional 10-year path to IPO or acquisition, fundamentally altering liquidity timeframes. With the rise of secondary markets and extended private valuations, the EMI scheme's structural assumptions about exit timelines are increasingly misaligned with market realities. Recent data suggests the average time from startup founding to IPO now exceeds 10-12 years, and timelines may be even longer for companies focused on sustainable growth over aggressive scaling.

Company-specific circumstances can also trigger EMI deterioration: rapid growth may lead to disqualification from the scheme or leave workers unable to exercise shares within the required timeframes; slow growth or stagnation can leave options expiring or worth less than they cost to exercise. Finally, policy shifts can weaken the favourability of tax benefits, though these represent direct government decisions rather than market forces or company trajectories.

These changes can come with significantly reduced tax advantages, with options becoming subject to high costs that can significantly erode their value. This kind of deterioration in benefits that the data shows would have severe consequences.

With 85% of employers concerned about the impact on staff motivation and 58% believing employees would likely seek other employment if terms became less favourable, the stakes are substantial. When a company loses EMI qualification after establishing share agreements with employees, the resulting loss of favourable tax treatment creates precisely the scenario that both employers and employees fear most: a fundamental reduction in the attractiveness and value of the compensation package that has become essential to their talent strategy.

With the strong employee attachment to share options demonstrated in our survey, and the recognition that EMI is what makes those options work effectively, companies face significant pressure to maintain their EMI qualification. As the following section will illustrate, numerous factors can jeopardize this qualification, ranging from company-specific circumstances to systemic issues within the scheme itself – all of which can transform a valued employee benefit into a source of dissatisfaction and potential departure.

Key Challenges Identified

The Complexity Trap

Founders struggle to navigate EMI from the outset, with serious consequences when mistakes are made. The legislation is so complex that smaller companies – the ones EMI is specifically designed to help – cannot properly navigate it without significant legal and tax expertise they often lack.

Resource-constrained companies often implement EMI schemes hastily and incorrectly, setting up flawed arrangements just to get something in place. The real consequences only emerge years later during exit events when due diligence reveals mistakes, non-compliance issues, and improper structures. This can delay transactions, reduce valuations, create unexpected tax liabilities, and trigger disputes. Our survey found that over half of founders and executives said that 'making it easier to understand what happens to EMI shares when the company is sold or goes public' would improve EMI for their business.

"Candidly, the EMI process seems designed to keep consultants and advisors in businesses. It is painfully vague and bureaucratic, with unreasonably high stakes for things like missing filings. Both great reasons for a founder to just hire someone else to handle it — spawning a cottage industry that benefits specifically from founders not understanding EMI and employee stock tax treatment. Thus, there is very little reliable, clear, comprehensive advice online."

Quote from a Founder

This confusion cascades to employees, creating additional barriers to effective equity compensation. When founders lack clarity about EMI processes, they struggle to communicate clearly with current and prospective employees about their equity opportunities. Employees are then forced to seek information from external sources, which can be both time-consuming and intimidating. Several employees we engaged with lacked confidence in how or when they could sell their options, if at all. Similarly, some

"The ability to communicate clearly about employee stock, so (potential) employees may understand the value, is crucial. Consider, for contrast, the tragic case of the Baltics: the most favourable tax regime in the world for employee stock, but they don't understand it, so few use it, so very few benefit from it... Thus their ecosystem is denied a glorious virtuous cycle."

"This is a large part of drives the success of US tech. It allows founders and early employees to launch into a new venture, or become angel investors, or pay the GP commit on a new fund. The UK does it better than the rest of Europe, but it's still not enough, and so a lot of experience is just washed out of the industry after an exit (often to go and work in consulting)."

Quote from a Founder

couldn't confidently state that they knew what the process would be if they wanted to exercise or sell their options – or that they knew of secondary sales or early liquidity opportunities available to them.

When the process itself generates avoidable mistakes, everyone loses. The very scheme designed to help employers attract and retain talent becomes a source of broken trust and employee grievance. Employees who believed they held valuable EMI options can suddenly find themselves with unapproved options instead – facing dramatically higher tax bills and diminished equity value through no fault of their own. These failures don't just undermine individual arrangements; they erode confidence in equity compensation across the entire ecosystem.

Lack of Flexibility When Market Conditions Evolve

In EMI schemes, share options agreements are formalised under HMRC-approved rules, which means both founders and employees are locked into the agreed terms. On paper, this sounds like a good thing. Rigid agreements give employees certainty about their rights and tax treatment, and gives companies confidence that the scheme is legally robust and compliant. However, there are limited mechanisms for employers to adapt these agreements when market conditions evolve in ways that affect shareholders.

The most significant challenge arises from the fundamental shift in liquidity pathways over the past decade. Traditional EMI agreements were designed around a world where companies typically exited within 10 years through IPO or acquisition. Many contracts therefore only allow employees to exercise their options at these exit events. But as companies stay private for longer and new liquidity mechanisms emerge – most frequently secondary transactions where existing shareholders sell to new investors in private funding rounds – these rigid contracts create a troubling asymmetry: other shareholders can access liquidity through these new mechanisms, while employees remain locked out by agreements drafted before these options existed.

This isn't a story of failed businesses. Rather, the problem often emerges in success stories. From our own data, 16% of companies reported that their intended route to liquidity changed since designing their stock option scheme. Of those, 73% said they had significantly delayed or deprioritized their exit plans – often because continued private growth and access to capital made staying private more attractive than rushing to IPO. These companies are thriving, but their employees' equity compensation is trapped in outdated conceptual frameworks.

Without the ability to use Board discretion to provide employees access to the same liquidity events that benefit other shareholders, long-standing employees are penalised precisely for their loyalty and the company's success. When other shareholders can sell portions of their holdings, but employees cannot exercise their options to participate, the scheme fails its fundamental goal of aligning employee and shareholder interests.

The 'cliff-edge tax event' exemplifies this misalignment at its worst. When companies don't meet the specific exit conditions written into options contracts within the 10-year EMI window – not because they've failed, but because the liquidity landscape has evolved – employees can be forced to pay substantial taxes immediately despite having no ability to access liquidity.

Case Study: The Long-Term Cost of EMI Option Expiry

A senior employee at a UK fintech company was granted EMI stock options upon joining the firm over a decade ago. At the time, the scheme was aligned with HMRC's supportive stance and offered favourable tax treatment: a 10% capital gains tax rate on the first £10 million of shares under badr.

Ten years later, the employee remains a key contributor to the company, which has grown significantly but remains privately held. With the EMI options approaching their expiry date, the employee was forced to exercise them to avoid forfeiture.

This resulted in a huge tax cost for the employee before they were even able to sell them. The exercise was treated as an employment-related event, incurring income tax at 45%. Because the exercise price had to be paid upfront, the employee was forced to take out a significant personal loan. With no confirmed IPO or sale date in sight for the company, the shares remain illiquid and there is no clear timeline for when the shares will be able to be sold.

This scenario highlights a critical flaw in the current EMI framework: it was designed for a market reality that no longer exists. The goal of the scheme, to help startups attract and retain employees by aligning their interests with other shareholders, is undermined when rigid contractual requirements prevent employees from benefiting from the same liquidity events that other stakeholders access. The longest-serving, most loyal employees end up worse off than if they had never received options at all.

The 10-Year Limit

The 10-year expiration date on the EMI scheme disproportionately affects the longest-serving employees, who are often the earliest joiners who took the biggest risks for the lowest salaries. If no liquidity event occurs within the 10-year window, these employees are forced to either risk losing their shares or exercise prematurely, converting what should have been a capital gain into Income Tax liability.

It also doesn't reflect normal startup growth trajectories. Recent data suggests the average time from startup founding to IPO now exceeds 10-12 years, and timelines may be even longer for companies focused on sustainable growth over aggressive scaling.⁴ There are many examples of some of the UK's fastest growing companies that have taken 10+ years to exit: Revolut, which was founded in 2015, is expected to IPO in 2025 or 2026; Deliveroo, founded in 2013, is now in talks to be acquired 12 years later.

In our own survey, 70% of respondents told us that they strongly agree that 'The UK startup ecosystem would benefit if the EMI scheme's time to expiry was extended beyond the current 10 years,' with 81% in agreement overall (Figure 5).

⁴ [Index Ventures, 'Scaling Through Chaos'](#)

To what extent do you agree or disagree with the statement: "The UK startup ecosystem would benefit if the EMI scheme's time to expiry was extended beyond the current 10 years."



Figure 5. Employers' views on expanding the expiration for the EMI scheme beyond 10 years (n=66)
Source: Startup Coalition survey, 2025.

HMRC Rigidity

As highlighted in previous sections, the company and its advisers don't know everything at the outset. Agreements can often require adjustments down the line. Historically, companies have commonly used 'Board discretion' clauses in share option agreements as catch-alls. These enable the Board to create new opportunities for employees to sell their options when the environment shifts, and ensure the option grant behaves as intended when circumstances change or new information is learned.

However, HMRC has adopted an increasingly rigid interpretation of EMI legislation requiring agreements to specify a 'clear right of exercise from the outset,' meaning liquidity events must be specifically defined in each share option agreement – and it has been applied retroactively. Before this new HMRC guidance was issued, use of Board discretion was common practice and was advised by employee share scheme lawyers. Now, those same lawyers are dealing with consequences of the 'incorrect' advice they gave to companies.

"It seems highly unfair that those who created [our company's] value could be disadvantaged because of a change in market conditions and HMRC guidance.

The intention of our option plan was to reward employees when shareholders realised gains on an exit event and at the time an IPO/sale was default shorthand (including amongst advisers) for "exit", but we did not believe that would preclude us from other types of exits.

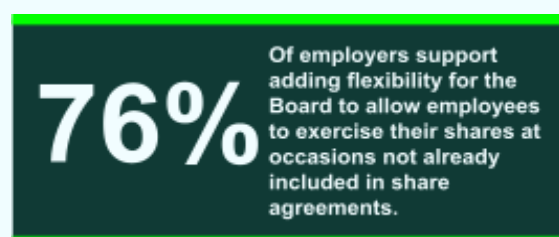
Enabling the exercise of [Board] discretion to permit the exercise of EMI options on a secondary transaction would enable us to reward those important value-creating employees as we originally intended."

Quote from an Executive

If, for example, a founder wrote their share options agreements under the assumption that they would be making an IPO relatively quickly, the employee may find themselves unable to exercise their options without that IPO occurring – unless they leave the company as a 'good leaver'. This traps the longest serving employees in a catch-22: their older contracts may lack the 'clear right of exercise' that newer employees enjoy, and their employer cannot use board discretion to help them exercise their options without risking EMI scheme disqualification. Highly skilled employees are incentivised to leave companies they've devoted years to building, to avoid the costs of losing their tax benefits. Ultimately this creates a major retention issue for companies – directly counter to the EMI scheme's objectives.

The government has taken some positive steps towards introducing more flexibility. HMRC has said Board discretion to allow good leaver treatment for someone who doesn't clearly fit within a specific good leaver category (e.g., redundancy/retirement/ill health) is acceptable. Legislation has also preserved tax advantages for employee share options selling on the Private Intermittent Securities and Capital Exchange System Sandbox (PISCES), a new regulated market for trading private company shares. However, there is more to be done in this regard. Without the ability to use Board discretion to provide additional opportunities for employees to sell their stocks, the longest-standing employees will pay the price if (and when) exit plans change.

There was also support for more secondary sales opportunities from the employees we engaged with. Many said that they would value the opportunity to sell some of their equity before a formal exit event.



Employees also told us that increasing flexibility around when and how options can be exercised would increase their perceived value of share options. For those granting share options, there was also broad support for more flexibility. When asked what would improve how EMI worked for their business, 76% said 'adding flexibility for the Board to allow employees to exercise their shares at occasions not already included in share agreements.'

Faster Growth Without a Higher Ceiling

The caps on EMI eligibility were set years ago and have never been updated – neither for inflation nor for the pace at which startups and scaleups now grow. Scaling can happen quickly, indeed, a Series B firm might expand from 50 to 300+ employees in a matter of months, and a single major investment or grant can push a company over the EMI limits.

Average UK Funding Rounds at Early and Growth Stages (2024-25)

Median UK round sizes in USD by industry

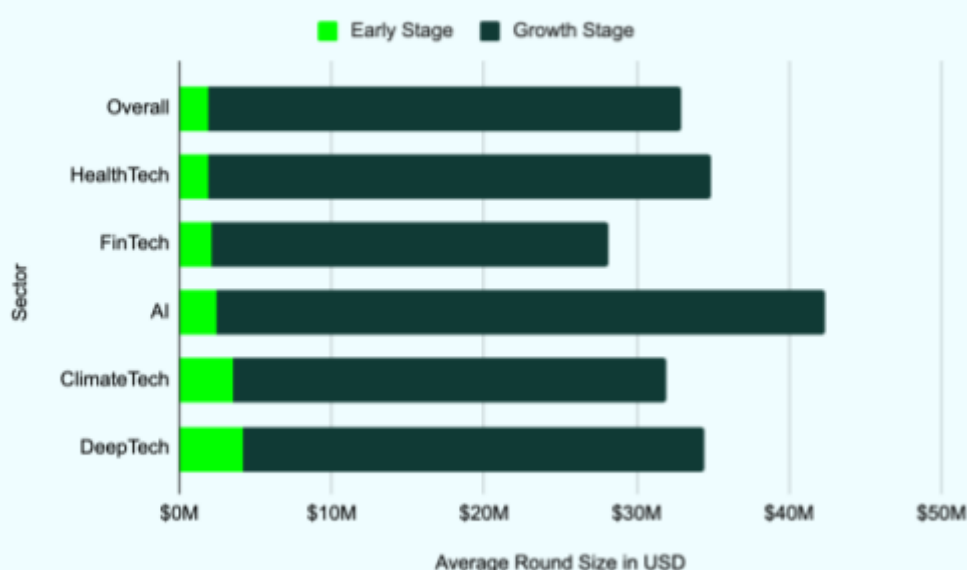


Figure 6: Average funding round sizes (in USD) for early-stage and growth-stage startups by sector. Source: The Tech Nation Report 2025

The data shows how dramatically growth patterns have shifted. In 2015–16, the British Business Bank reported that average growth-stage investments were around £7m.⁵ Today, TechNation puts the average at \$31m (~£23m). For AI firms, the figures are even higher: average growth-stage funding now reaches \$42.4m (~£31.5m), enough to breach EMI caps in a single round.⁶

This growth can happen almost overnight. University College London spinout Synthesia raised £9m in April 2021 and a further £36.6m by November of the same year. Wayve, the autonomous driving company, secured £10m in October 2021 and another £147m just three months later. The number of UK companies raising at least £30m in a single year has risen sharply – up 375% between 2014 and 2024, and an extraordinary 2,750% since 2010 (see Figure 7).

This acceleration creates a punishing paradox: the very milestones that signal startup success trigger immediate EMI disqualification. When a startup raises a major funding round that pushes them over the £30 million asset cap, they lose eligibility to issue further EMI options at the precise moment they need it

⁵ British Business Bank. 'Small Business Finance Markets 2015/16' p.57

⁶ 'The Tech Nation Report 2025 Unlocking the UK's Growth Potential'

most – during rapid hiring to support their growth. This cliff-edge creates a perverse incentive structure where fundraising success is penalised through the loss of a key employee incentive tool.

Number of UK based companies at seed or growth stage that raised over £30m in equity in a 1 year period

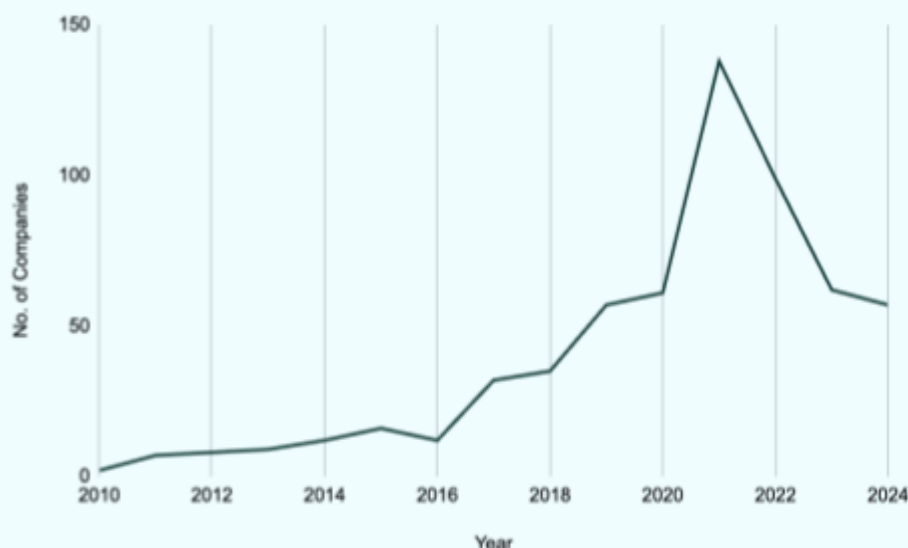


Figure 7: Rates of growth-stage companies raising £30m+ in a single year between 2010 and 2024. Source: Data from Beauhurst, collected on 2/10/25

They can't just graduate from EMI and move seamlessly onto a new scheme. While alternatives like the Company Share Option Plan (CSOP) exist, they are not always suitable or timely substitutes for EMI. This leaves many successful UK scaleups in a policy no-man's-land: too large for EMI but not yet at the scale where they can rely purely on cash compensation to attract top talent. These scale-ups are often competing directly with Big Tech for senior hires while simultaneously trying to maintain the entrepreneurial culture and equity participation that drove their early success.

Growing firms are facing legal uncertainty and employees with significantly reduced incentives precisely when the company is entering its most crucial growth phase. Paradoxically, these are the very companies EMI was designed to support, but the scheme now excludes them at the point they need talented employees most. The fastest growing British tech companies are increasingly forced to adopt much less employee-friendly approaches, damaging their ability to effectively reward talent and losing out on skilled workers to both bigger tech rivals (through higher salaries) and international competitors (through superior stock option schemes).

When asked what would improve how EMI worked for their business, 74% of respondents wanted firms that have raised over £30m to be able to continue to use the scheme, and 48% wanted firms that had surpassed 250 employees to be able to continue to use the scheme. Only 8% of respondents reported having more than 250 employees, which may explain why views on the headcount threshold were less pronounced than those on the funding cap – but both point to the same underlying issue: EMI is increasingly out of step with the growth trajectory of modern startups.

The economic and investment landscape has changed dramatically since EMI's limits were last reviewed. Modernising the thresholds wouldn't expand EMI beyond its intended audience – it would simply restore the scheme's original reach, ensuring it continues to serve high-potential British startups at today's scale of growth. However, for the fastest-growing firms, uprating alone may not be enough. It is worth exploring ways for companies that breach the EMI limits due to rapid expansion or exceptional fundraising events to be able to transition onto a model that allows existing EMI options to retain their tax-advantaged status for a defined period, while the company establishes a longer-term incentive structure.

Such a graduated model would align the UK's approach with other leading ecosystems, where incentive schemes scale with company maturity rather than abruptly cutting off. It would also signal that government policy recognises success, and that the UK intends to remain globally competitive on talent as its startups mature into scaleups.

Creating an EMI Scheme that Works

Addressing these challenges requires a comprehensive modernisation of the EMI framework, to reflect contemporary startup realities while maintaining the scheme's core policy objectives. Findings from our survey provide us with clear direction for how employers want to see the EMI scheme improved.

Flexibility in Growth Management: Companies need greater flexibility to manage their growth trajectory without losing access to EMI benefits. This includes both higher thresholds that reflect modern scaling patterns and transitional arrangements that don't penalise success.

Extended Time Horizons: The regulatory framework must acknowledge that successful companies often require more than a decade to reach liquidity events. Extending the option exercise window would better align the scheme with actual business development timelines.

Liquidity Pathway Diversity: Modern startups access liquidity through various mechanisms beyond traditional IPOs or acquisitions. The regulatory framework should accommodate secondary sales, management buyouts, and other emerging liquidity pathways that provide genuine value realisation opportunities for employees.

Regulatory Certainty: Companies and employees need confidence that their equity arrangements will receive the expected tax treatment. This requires clear guidance from HMRC and protection against retrospective policy changes that undermine existing contractual arrangements.

Which of the following changes would improve EMI for your business?
(Select all that apply)

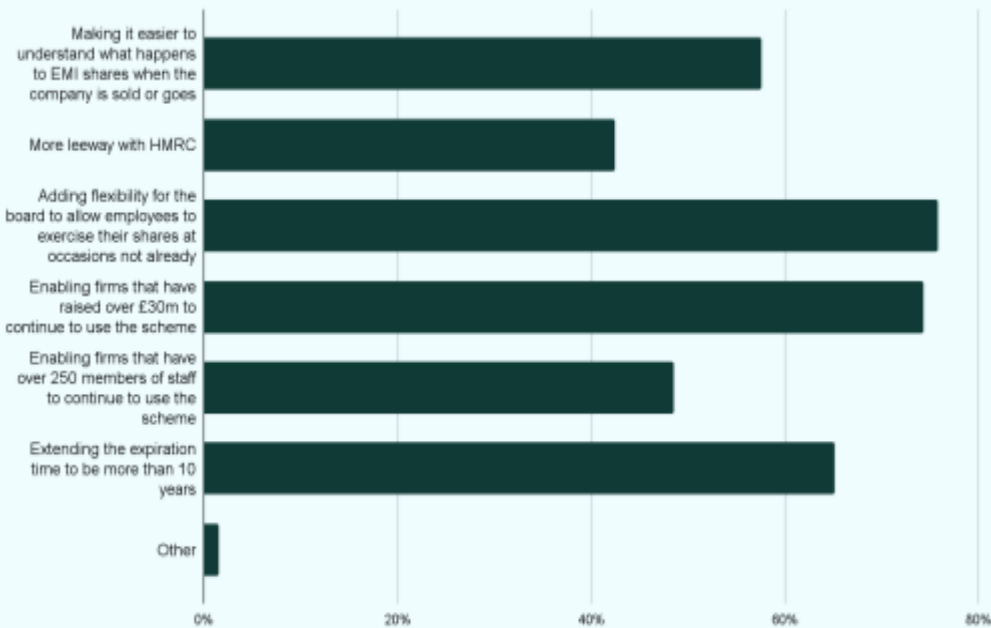


Figure 8. Employers' views on improving the EMI scheme (n=66)
Source: Startup Coalition survey, 2025.

Policy Recommendations

Based on the analysis above, we propose five key policy changes to modernise the EMI scheme and restore the UK's competitive advantage in attracting and retaining startup talent. To this end, we recommend that the government expand EMI caps for assets and employees; expand expiration dates for the EMI scheme; cut red tape around Board discretion; and create an EMI Growth scheme for scale-ups. **These recommendations should be applied to current EMI option grants, not just future ones.**

Recommendation 1: HMRC should review their website for ways to simplify the application and compliance process.

Audit HMRC materials to make applications and compliance easier to navigate. Clear, accessible guidance – drawing lessons from other HMRC initiatives like Tax Help for Hustles – would reduce administrative friction for both employers and employees.

Recommendation 2: The government should increase the current limits of EMI from a £30M asset cap to £150m and from 250 to 1000 employees.

Raise asset cap from £30M to £150M and the employee limit from 250 to 1,000 in line with recommendations from the UK Tech Competitiveness Study commissioned by the Government in 2021. This reflects the scale of modern startups, accommodates larger funding rounds, and prevents companies from being penalised for growth. Recommendation aligned with the UK Tech Competitiveness Study commissioned by the Government in 2021.

Recommendation 3: Extend the EMI exercise window to 15 years

Longer timelines align EMI with actual startup development cycles, rewarding early employees who took significant risk.

Recommendation 4: Allow Board discretion to extend exercise opportunities to employees when other shareholders access liquidity, without jeopardising EMI qualification.

Specifically, we recommend HMRC guidance explicitly permit Board discretion clauses that allow employees to exercise options when secondary transactions occur, other liquidity mechanisms emerge, or material changes to exit strategy occur.

Recommendation 5: Introduce a new 'EMI Growth' or 'EMI Plus' tier specifically designed for companies that have outgrown traditional EMI thresholds but still need equity incentive tools to compete for talent.

Design a tier for companies that exceed traditional EMI thresholds but still need equity incentives. Higher limits – e.g., £500M in assets and 2,500 employees – would maintain tax advantages while accommodating larger, scaling firms. This ensures companies can retain top talent and remain UK-based during rapid growth.