BIA submission to the tax treatment of carried interest call for evidence

Introduction

The BIA is the voice of the innovative life sciences and biotech industry, enabling and connecting the UK ecosystem so that businesses can start, grow and deliver world-changing innovation.

We have over 650 members including:

- Start-ups, biotechnology and innovative life science companies
- Pharmaceutical and technological companies
- Universities, research centres, tech transfer offices, incubators and accelerators
- A wide range of life science service providers: investors, lawyers, and IP consultants

We welcome this call for evidence and opportunity to inform the government's approach to the tax treatment of carried interest, which could have an impact on the continued growth and success of our members and wider life sciences and biotech sector. In our response we have sought to provide an industry-specific view of the UK financing environment, which should be considered as part of the government's policy decision.

The UK's strength in life sciences is not matched by a strong domestic venture capital ecosystem

The UK's R&D-intensive life sciences and biotech sector is universally recognised as world-leading, and it delivers great benefits to the economy, the health of the nation, and it is key to the Labour government's growth mission, clean energy and building an NHS fit for the future. From improving patients' lives through new treatments and digital healthcare, to the development of environmentally sustainable technologies – including fossil fuel substitutes, biodegradable bioplastics and the cleaning of polluted waters – our deep understanding of biology is helping to address humankind's greatest challenges and Labour's priorities. We therefore warmly welcome the Chancellor's identification of life sciences as a priority sector for the government's industrial strategy.

Due to the long R&D timelines, high risk and cutting-edge nature of life sciences and biotech, the sector is more dependent on venture capital than almost all others. Businesses must raise multiple, successive rounds of venture capital, with the total required to develop a single new medicine ranging from £1 billion. These characteristics mean the sector needs special consideration and tailored policies as part of an industrial strategy.

As the UK sector matures, access to scale-up capital is critical but there are few sources of this type of capital in the UK, and this is holding back growth and global expansion of UK businesses.

Data recently published by BIA shows the sector £564 million raised compared to Q1's £240 million[1]. This 135% increase marks a stark improvement and is the highest amount raised in any quarter since Q3 of 2021. The boosted investment means the sector has already surpassed the total amount raised in 2023. The sector raised £1.98 billion in Q1 and Q2 2024, beating the £1.80 billion raised in the whole of last year. Although positive, this good news story for the UK economy is fragile, as global stock markets remain volatile and investor confidence weak.

Moreover, UK venture capital investment is largely coming from overseas investors[2], which is a vulnerability for our domestic sector and means value is not being captured in the UK. Companies are increasingly looking to the US public markets for capital or being sold to larger business before establishing "sticky" roots in the UK, adding a further pull to move operations across the Atlantic, to the detriment of the UK science base and our economy. We clearly have life sciences companies that can compete for capital on a global stage, but significant domestic investment is notable by its absence, which does not make for a resilient financing ecosystem in the UK.

Concerted action is required to build the UK financing ecosystem for life sciences

We understand and support the principle of fairness in the tax system. We also understand the "tough decisions" the Prime Minister and Chancellor have said this government will need to take to repair the public finances and focus on growth.

There is a risk that changes to the tax treatment of carried interest could lead to less domestic venture capital activity, as investors may be disincentivised to operate in the UK if higher taxes are applied to money they gain from their work. We therefore urge caution and careful consideration of impacts on life sciences as a priority growth sector as the government determines how best to meet its manifesto commitment.

We also strongly urge the government to consider this call for evidence in the wider context of the government stated ambition to improve access to finance for innovative businesses, as outlined in the recently published pensions review led by Emma Reynolds MP, the National Wealth Fund and the Labour Party's *Prescription for growth*[3]. Any reduction in venture capital investment resulting

[1] UK biotech financing April – June 2024, BIA, August 2024: https://biotechfinance.org/
[2] UK scale-ups increasingly relying on overseas investors to grow, BVCA, August 2024: https://www.bvca.co.uk/insights/bvca-news/details/UK-scale-ups-increasingly-relying-on-overseas-investors-to-grow
[3] A Prescription for Growth: Labour's plan for the life sciences sector, The Labour Party, February 2024: https://www.bioindustry.org/resource/labour-plan-for-the-life-science-sector.html

from changes to the tax treatment of carried interest will put even more stress on the importance of the government's continuation of the Mansion House agenda to unlock pension fund investment for unlisted companies, support for the British Business Bank's programmes to catalyse growth of the UK venture capital ecosystem and an industrial strategy for life sciences.

For any further information on the contents of this submission, please contact the BIA policy team at policy@bioindustry.org.