GOV•UK

HMRC internal manual

Corporate Intangibles Research and Development Manual

From: **HM Revenue & Customs (/government/organisations/hm-revenue-customs)**

Published 11 March 2016

Updated: 10 September 2025 - **See all updates**

CIRD92550 - R&D tax relief: SME definition: control by venture capital companies

In many cases a venture capital company will be investing in start up companies that have been formed to develop and exploit a new scientific or technological idea. In such circumstances the venture capital company may be making a large investment in a company with few resources, and no established business history or experience. One of the roles of the venture capital company may be to develop and supervise the business framework so that the technical staff can get on with what they are best at. This role, coupled with the measures put into place to protect the investment by the venture capital company, may be sufficient to constitute control for the purposes of the SME tests. But cases will need to be judged on their own facts.

As the company develops, further finance may be sought from others, and the company will often recruit its own experienced executives and acquire more investors. This phase may well involve the original venture capital company loosening the reins, and the company getting more autonomy over its operations. So the development of the company and refinancing operations may well lessen any elements of control by particular investors.

If there are a number of investors it should not be presumed that they are acting in concert simply because they have agreements regulating the terms of their investments. One would need to see evidence that they were acting in concert before suggesting that joint control was in place. But if one party had the powers of the other investors delegated to it, or there were other arrangements in place that demonstrated they were acting with a common purpose (above and beyond simply seeking growth in the value of their investment) this might constitute joint control.

The 1996 European Recommendation refers to venture capital companies in the following paragraph:

‘Whereas stakes held by public investment corporations or venture capital companies do not normally change the character of a firm from that of an SME, and may therefore be disregarded; the same applies to stakes held by institutional investors, who usually maintain an ‘arm’s-length’ relationship with the company in which they have invested’.

This provides the framework for understanding why the interests of these investors can be disregarded in the absence of control. But if a venture capital company is financing and effectively running the start up company, rather than just holding a stake, it may well change its character.

In cases of difficulty, it may well be helpful to see any share subscription and investors agreements entered into by the venture capital company as these often set out the rules by which the company will conduct its business.

← **Previous page (/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92500)**

→ **Next page (/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92700)**