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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: [HM Revenue & Customs](#)
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[Back to contents](#) > [CIRD80000](#) > [CIRD91000](#)

CIRD92100 - R&D tax relief: SME definition: venture capital company

This is an institution providing, as its specialised business, finance to start-up or developing businesses, where a fairly high degree of risk is involved. The investment would be likely to be in the form of equity, but may it be supported by loans. One would expect a high return commensurate with the level of risk, and the company to be looking to realise its capital in successful investments as part of the overall business.

We would also expect the company to make a significant number of investments in different companies so as to provide the spread of risk that one would associate with the carrying on of a business, rather than simply the making of one or more speculative investments.

It should be noted that the European recommendation's definition of an SME refers to a 'venture capital company', not a venture capital activity or investment. So it is not enough that a company makes one or more high-risk equity investments if that is not the principal character of its business.

We have seen examples of large groups that, through a group member, make strategic investments in new activities that have an obvious link with the overall business of the group. In these circumstances We would be unlikely to consider that the company was acting as a venture capital company if its aims were closely linked with the strategic aims of the group business. In these circumstances we would be more inclined to view this activity as the carrying out of an overall group purpose to expand the business by strategic investments rather than to invest for high growth and a lucrative realisation. But each case will need to be judged on its own facts.

While the EU recommendation is phrased in terms of a 'venture capital company', we recognise that the venture capital industry commonly carries on activities through limited partnership structures. For the purpose of this exemption we treat these as potentially being within the category of venture capital companies.

A common question that arises when examining venture capital companies is the extent to which they exercise control over the companies they invest in. This is addressed at [CIRD92500](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92500) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92500>) and [CIRD92550](https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92550) (<https://www.gov.uk/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92550>).

[intangibles-research-and-development-manual/cird92550](#)).

← **Previous page**
(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92000)

→ **Next page**
(/hmrc-internal-manuals/corporate-intangibles-research-and-development-manual/cird92200)



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