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Mid-market manifesto

Supporting the UK's economic engine

March 2025



BDO

A manifesto for Britain's entrepreneurial mid-market businesses

The government is clear that its driving mission of delivering economic growth rests on a strong foundation of stability, investment and reform, and a close partnership with the private sector. We support this route as a way to deliver the full potential of the UK economy.

Businesses of every size and across every sector are vital to this mission, but it is the mid-market that will be the economic engine behind this growth.

Mid-sized businesses already punch way above their weight. Despite comprising less than one per cent of British businesses, they account for one in four UK jobs with revenues of £1.6tn – more than half the value of UK GDP.

This represents a huge opportunity for the government. Spanning a variety of sectors and located across all UK towns, cities and regions, the scale of the mid-market and its potential for driving growth are huge.

Our own economic research shows that, if mid-market businesses continue growing at a similar rate as that observed between 2018 and 2023, they are likely to contribute £745bn in GVA to the UK economy and provide an estimated 1.9m additional jobs by 2028.

That said, these businesses are often undervalued and overlooked by policy makers. Too big to benefit from the raft of policies aimed at start-ups and too small to have the ear of government like the big blue chips, they fall into a policy gap.

Part of the reason they often go unheard, their issues unaired, is that this segment of business is hard to define.

It is our intention with this manifesto to help give these businesses an identity, showcase their potential and recommend essential policies to remove the barriers to their growth.

In a nutshell: How the government can help the mid-market unlock its potential

- ▶ **Streamline taxation:** Tailored HMRC support, a simpler tax code, two-year advance warning for major tax changes and standardised compliance processes – these changes would provide certainty and increase confidence among mid-market business owners.
- ▶ **Make overseas trade frictionless:** The government should minimise complexity in trade for the mid-market. By cutting red tape and expanding access to export finance to the mid-market, the UK economy stands to benefit from this growth driver.
- ▶ **Bolster access to capital:** Alongside vital government grants and tax incentives to encourage equity investment, listing remains an important route to capital raising. The government must work to simplify IPO criteria, targeting new trading venue, PISCES, at mid-sized businesses to improve their access to finance.
- ▶ **Enable the skills pipeline for mid-market growth:** The mid-market would benefit from a dedicated skills hub and plan to tailor skills development support by region or industry. To resolve recruitment and retention challenges, the government must build a long-term strategy to connect young people with regional jobs or training – creating opportunity across the nation whilst shaping the workforce needed to drive growth.
- ▶ **Unlock opportunities in R&D and AI:** Tax exemptions for hiring researchers in high growth sectors, a centralised resource hub for AI best practice and ensuring R&D tax credits remain attractive will support innovation if the government hopes to encourage innovation across the UK.



Set HMRC and the tax system up to help mid-market businesses succeed

As firms grow, the complexity of dealing with their tax obligations increases. Mid-market businesses in the UK are often subject to the same complex tax obligations as large corporations, yet lack the government support, or teams in place to navigate them.

HMRC's own 'tax gap' estimates show that compliance failures by SMEs have increased in recent years. Reducing the complexity can be a cost-effective way to raise revenue whilst saving businesses hours they would otherwise need to dedicate to onerous compliance. To free mid-market businesses up to focus less on admin and more on growth, the government should:

- ▶ **Offer dedicated HMRC support for the mid-market:** The government should dedicate HMRC relationship managers to mid-market businesses to act as points of contact, familiar with the unique circumstances each business faces and able to advise them appropriately.
- ▶ **Create a simpler plain-English tax system:** It is widely agreed that the UK's 20,000-page tax code is antiquated and a barrier to growth. The government ought to abandon overly complex legislation such as the Corporate Interest Restriction rules, which require corporations to undergo a separate tax return each year. In the longer term, adopting a principle of designed-in simplification, with any proposed changes to tax rules accompanied by a simplification in that area, is essential. This would gradually improve the system without the time and money needed for rewriting the code.
- ▶ **Programme major tax changes through the Business Tax Roadmap:** The government's understanding of how important confidence and stability are for UK businesses and their investors is welcome. Although some agility is needed, given the turbulent external environment facing the UK, it is vital the government retains the Business Tax Roadmap for the long term. Programming all major tax changes through the roadmap, at least two years in advance, will provide businesses the time they need to get to grips with changes and limit market uncertainty.
- ▶ **Align the compliance check, penalty and appeals processes for all taxes:** There are approximately 40 different taxes a business can pay, and the compliance check, appeals and penalties process for each can differ significantly, creating an administrative and financial headache for all parties. The government ought to align these to help reduce the errors made by HMRC in compliance and enforcement work, whilst improving understanding for businesses and reducing the incidence of costly, time-consuming appeal and dispute activity.



Create a frictionless trade environment for the mid-market

Post-Brexit, there is a real opportunity for the UK to boost its role as an exporter by making it more straightforward for mid-market businesses to sell to new markets, rather than getting caught up in red tape and the potential implications of trade tariffs. A recent BDO survey of mid-market businesses found that exporting more of their products or services overseas is a top priority for one in four over the next six months.

To unlock the potential of mid-market exporters and achieve the UK's growth ambitions, the government should:



Reduce complexity in exporting: Complexity means that once again mid-market businesses lack the resources to navigate the system. In a recent survey, more than a third (34%) said red tape and complex custom rules are one of their top challenges in the next six months.

Whilst some external factors are beyond its control, the government should streamline trade by engaging with existing committees established under the Trade and Cooperation Agreement.

This dialogue should work to ease additional frictions with EU counterparts ahead of the coming carbon tax, preventing the UK from lagging behind other nations in terms of attractiveness to internal investors.



Increase export support for the mid-market: Current support is targeted at small businesses, including a UK Export Finance product launched in 2022 to help SMEs boost global trade under challenging market conditions.

The government should expand access to incorporate the mid-market, helping them create or expand their export capabilities. Nearly half (47%) of mid-sized businesses called for targeted information and guidance around exporting in the EU.

A further 57% called for more financial support to expand operations, citing measures like the Start Up Loan, British Business Bank grants and Export Finance loans as a promising start.



Boost the mid-market's access to capital

Our mid-sized businesses are ambitious, looking to move to the next level and expand their offering. A recent survey found that business leaders plan to invest £4.6mn on average over the next two to five years to scale up their operations. But to do so, they will need capital – and almost a quarter (24%) of respondents said sourcing new capital to invest was one of their top priorities.

If business leaders cannot find these resources in the UK, they could be forced to look to other markets.

To retain them, the government should:

- ▶ **Make listing more accessible:** Many businesses that want to float on a stock exchange, might have concerns over how they go about it, with 33% of mid-market business leaders calling for simpler regulation around listing and more than a quarter (27%) planning an IPO outside of the UK for greater ease. Government should work with the FCA to ensure its proposed reforms to listing requirements are carried out, including plans to create a single equity category and move away from the current tiered system.
- ▶ **Provide greater flexibility for businesses to attract new finance:** The government's Private Intermittent Securities and Capital Exchange System (PISCES) is a great mechanism through which mid-sized businesses can access new finance flexibly. Government must deliver its rollout at pace.
- ▶ **Establish a holistic grants programme:** Grants are vital in helping the UK economy lead on R&D, technology and green investment. There are over 100 government grants available to small businesses, many of which are capped at businesses with under 250 employees and therefore cut out the mid-market. Where there are grants available, there is no consistent way of knowing they exist, if you are eligible and how to access them. The government needs to develop a new, holistic grants programme if it hopes to foster growth, particularly amongst this group.
- ▶ **Reform tax rules to boost equity:** Government should foster an environment that encourages investment in the UK's growing mid-market businesses and take more steps to promote 'patient capital' investment in the UK. Similar measures to the EU proposals for a debt-equity bias reduction allowance (DEBRA) to give direct tax relief for equity investment in mid-sized businesses could work well.



Provide the skills pipeline the mid-market needs to grow

Located in communities across the UK, many mid-market businesses are struggling to fill the roles they need to grow and expand. Stubbornly high inflation rates, post-pandemic shifts in working patterns and skills shortages compounded by Brexit have caused the issue to spread across the UK. It is intensified in certain regions and sectors, including construction and green technology – with huge knock-on impacts on improving UK infrastructure, innovation and international trade.

To address this, the government should:



Develop targeted skills and training support for the mid-market: Establishing a new mid-market business skills hub would help provide advice and guidance for this vital market and fill a current gap in government support.

Only businesses with fewer than 50 employees are eligible for existing support, and bigger corporates will have large, dedicated HR teams to onboard and manage apprentices. Once more, the mid-market risks missing out on available talent.



Establish a strategy to join young people up with local jobs: Despite positions being available across the UK, young people are often not aware of the career opportunities on offer and default to university as a result.

To address this, the government should work with businesses, local authorities and the education system to connect young people to mid-market employers in their region that offer training and apprenticeship opportunities.

The ethos behind Skills England is the right one, pulling together universities, further education colleges and businesses to deliver skills targeted to support growth sectors.

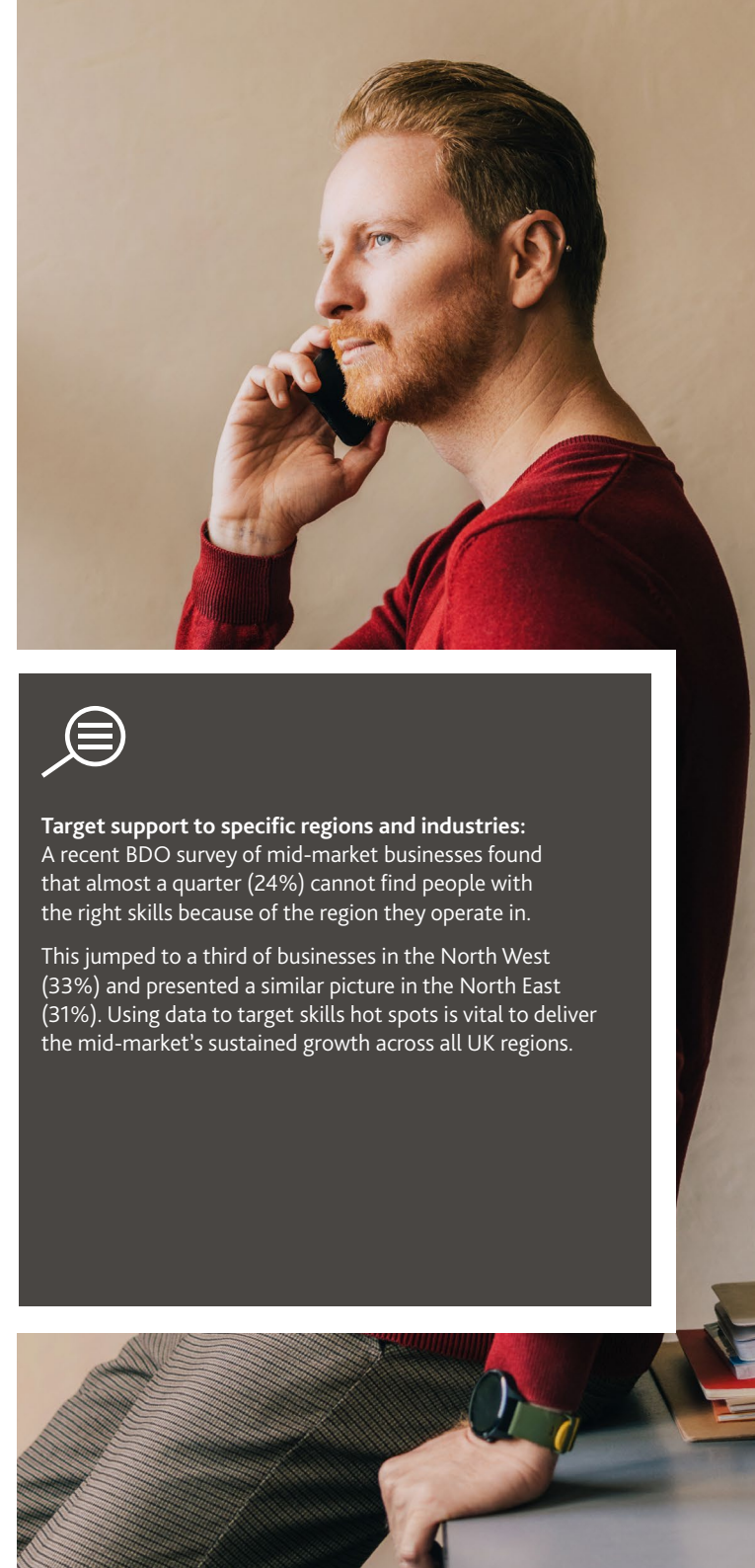
To ensure it delivers this work, the government must bring Skills England under the Department for Education's remit and prevent it from being siloed as an executive agency.



Target support to specific regions and industries:

A recent BDO survey of mid-market businesses found that almost a quarter (24%) cannot find people with the right skills because of the region they operate in.

This jumped to a third of businesses in the North West (33%) and presented a similar picture in the North East (31%). Using data to target skills hot spots is vital to deliver the mid-market's sustained growth across all UK regions.



Unlock opportunities for the mid-market in R&D and AI

As the world continues to modernise at an exponential rate, mid-market businesses must not fall behind. A recent survey found almost half (45%) are planning to allocate budgets to research and development (R&D) and AI in the next year. This represents a considerable increase since the start of 2024, when fewer than one in five (18%) were prioritising investment in these areas.

However, the right environment and assistance are necessary to turn these investments into reality. To unlock this potential, we recommend the government does the following:



Establish a new AI assurance platform: The government needs to create a centralised resource hub providing mid-market businesses with access to self-assessment tools, best practices, and frameworks to identify and mitigate risks will help them to keep up with larger counterparts.



Incentivise recruitment of STEM professionals: Incentives to encourage hiring scientists and engineers, such as an exemption from employers' NIC for the first three years of employing researchers in high growth sectors, would help mid-sized businesses boost their investments in this area. The government needs to consider restricting this to specific 'research zones', similar to current freeports or investment zones, and focused on the locations it targets for innovation investment.



Create a R&D Advance clearance process: Overly complex rules and regulations, such as the R&D contracting out rules, are barriers to application for mid-sized businesses. The government should tackle this and bring certainty to businesses and investors by creating a new R&D Advance clearance process for claims that is practical, flexible and fast. This must be resourced properly with dedicated funding as an investment towards achieving the government's growth agenda.



Activate tax levers to encourage investment: Whilst the government rightly prioritises value for money from R&D tax credits, it should maintain flexibility in the new single scheme for both large and SME businesses. We believe this should in future include higher rates of relief for truly innovative businesses in target industry sectors.



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