AI, GROWTH AND PUBLIC POLICY

WHAT IS THE FUTURE FOR BRITAIN?

"The challenge of responding to the AI revolution is so urgent, the risk of falling behind other countries so great, and the opportunities so exciting, that nothing less than a relentless focus on delivering Matt Clifford's plan will do."

William Hague & Tony Blair

AI, Growth and Public Policy

Pressure on the government for action that matches its aspirations on economic growth is growing. On 12 January, in the midst of the steepest rise in government borrowing costs since the financial crisis, Prime Minister Sir Kier Starmer announced plans to 'unleash AI' in the UK, in order to increase economic growth.

The media has been quick to point out potential issues with the UK's competitiveness in the AI sector. In particular, this includes the UK's lack of computing power, or "compute". Matt Clifford, appointed as advisor on AI opportunities has recommended a 20-fold increase in AI computing power by 2030 as part of his plan for growth (see Recommendation 2 of his AI Opportunities Action Plan (the "AI Action Plan").

But who, not what, will bring about the AI revolution and boost economic growth, and how can immigration and tax policy benefit the sector and stimulate growth, beyond what is already in place?

The current public discourse on the intersection of AI and immigration is focussed on skilled workers. Whilst this is a laudable aim, action is needed to help the venture capital industry quickly scale up the UK's tech sector, with a particular focus on the opportunities that the advent of AI presents.

Individuals with a track record of making significant, successful investments in innovative businesses ought to be provided with a clear route to move to and settle in the UK. To do otherwise risks us missing out on the essential skills and capital that our tech sector urgently requires for the growth that is now demanded across the political spectrum.

The AI Opportunities Action Plan and immigration policy

The AI Action Plan recognises the UK's inherent strengths. It notes how the UK already possesses the highest number of graduates from AI-relevant higher education in Europe (although how many of these graduates stay in the UK after graduation is another question). The Plan further remarks that the UK also has "emerging areas of research and engineering strength - particularly in AI for science and robotics". A clear example of this is Google's DeepMind, which originated as a start-up in London in 2010, before being acquired by Google in 2014.

We would add to these strengths the more commonly cited pull factors that the UK already possesses, which continue to attract immigrants from across the world: a central time zone that enables us to do business with both the Americas and Asia in the same day, the home of the world's lingua franca in English, and a tolerant and stable society, with a rich and evolving history of outward-looking engagement with the world.

Although the AI Action Plan mentions jobs several times, with a focus on the creation of new high-skill jobs, as well as the need for workers to "reskill", it goes even further, and proposes that the government should:

"explore how the existing immigration system can be used to attract graduates from universities producing some of the world's top AI talent."

The Plan even goes on to suggest some improvements:

"Graduates from some leading AI institutions, such as the Indian Institutes of Technology and (since 2020) Carnegie Mellon University in the US, are not currently included in the High Potential Individual visa eligibility list.

Government should take steps to develop new pathways, and strengthen existing ones, to support these graduates. It should also explore how best to address wider barriers like the cost and complexity of visas which create obstacles for start-ups and deter overseas talent from re-locating to the UK."

The government's response to the AI Action Plan

The government's response also focused heavily on the domestic development of skills, rather than attracting workers from abroad. it did, however, "partially agree" with Recommendation 21, while deferring to the government's as yet unpublished industrial strategy:

The Industrial Strategy will set out how the UK will attract highly skilled AI workers from abroad. The UK offers internationally competitive visas that can support a range of individual needs, including for talent to join UK-based organisations or to start their own business. Talented AI graduates from institutions not on the HPI eligibility lists can enter the UK through any one of several other visa routes, including Skilled Worker, Innovator Founder, Government Authorised Exchange and Global Talent.

While we await the publication of the industrial strategy, we are concerned that recent changes to the UK's immigration policy, beyond the failure to update the High Potential Individual list and a failure to open up new immigration routes, also undermine the AI Action Plan's vision for growth.

Raising capital and scaling innovative businesses

Before describing the UK's current immigration framework and our specific views on how it might be improved, it is right to acknowledge that innovative businesses have a need for capital more generally, not just computing power.

According to the Royal Academy of Engineering:

2024 presented significant challenges for start-ups seeking funding due to the economic climate, including higher interest rates, post-pandemic inflation and lagging productivity growth. The result has been that fewer companies receiving bigger cheques as investors become more risk averse, with late-stage deep tech companies being more successful in closing larger deals. The notable exception to that investment trend is AI start-ups.

These views follow similar findings from Forbes last year, which point out the growing difficulties faced by tech companies graduating past seed funding rounds and into "Series A" capital raising, due to rising interest rates and increased competition from higher numbers of start-ups entering the seed funding stage.

AI start-ups in particular can achieve $1bn valuations in just 3-4 years, but are becoming increasingly capital-intensive. Furthermore, high inflation and interest rates have suppressed the IPOs of tech businesses. This means new companies are staying private for longer, during which time their options for raising capital are naturally limited to private investment.

While the amount of capital required to start a new business varies significantly, from just a few thousand right up to millions of pounds, it is precisely the most ambitious businesses that require financial encouragement for the UK as a whole to see significant change. According to various start-up advisory firms, such as Start-ups.co.uk, SeedLegals and Jump Accounting, UK start-ups might raise around £50,000 to £250,000 in their first pre-seed round and £500,000 to £1.5 million in their seed round.

Although we welcome the government's renewed interest in immigration reform for highly skilled individuals in tech, we should go further. Policy change is also needed to attract further capital for scaling the start-up tech sector, particularly with a view to achieving the potential of AI.

The UK's venture capital market is the third largest in the world after the US and China, valued at over £16 billion. If the government is as serious as it says about growth, it should work with the skilled individuals in that industry, who are already specialists in the business of growth itself. Immigration pathways can support their equally important work.

An investment in innovation visa that attracts sums in the region of £5-20m would make a significant difference in assisting AI and tech businesses scale up fast (using the figures above, every visa could move several start-ups from seed funding to Series A). Any investment in innovation visa would also need to be designed in conjunction with developments in tax policy, to ensure the UK remains competitive internationally.

Tax policy: investors and immigration

The Government's AI plans sit at odds with their tax policies for individuals – particularly wealthy foreigners looking for opportunities in the sector. Rachel Reeves' October 2024 Budget has seen many wealthy investors actually leave the UK and the feedback from those we advise is that they no longer feel welcome in a jurisdiction where punitive (and often complicated) tax laws make investment unattractive and punish growth and entrepreneurial success. Whilst the amendment to widen the temporary repatriation facility for non-doms announced by the chancellor at Davos is welcome, the overall message being sent remains a negative one for investment.

It is true that there continue to be options for tax efficient investments such as through the Enterprise Investment Scheme and Venture Capital Schemes and R&D tax reliefs for companies, but if AI is to be 'unleashed' in the UK, there has to be an incentive both to those working in the sector and those investing in it and at present those incentives are not evident.

Add to that a suggestion that the increased tax burden is actually pushing companies to adopt AI more readily, in an attempt to cut head count (and associated tax bills) following the Budget, and we could find that wealthy investors are able to benefit from the UK's use of AI, whilst remaining outside the jurisdiction. The same is true of those working in the sector who do not need to be in the UK to develop AI which is ultimately 'unleashed' here.

The UK's current framework for skilled immigration

Understanding the UK's current immigration framework is vital in order to assess the present need for change.

The High Potential Individual visa enables graduates from a list of top overseas universities to come to the UK for 2 years, or 3 if they hold a PhD. Crucially, however, the visa does not provide a route to permanent settlement and so visa holders must switch to a different status if they wish to remain in the UK.

The Government Authorised Exchange visa allows for a maximum of 2 years in the UK for work or study, but requires the sponsorship of an established company, or approved study through a list of schemes, and does not provide a route to permanent settlement beyond that.

Skilled Worker visas are perhaps the most well-known visa for those coming to the UK for work. They offer a 5-year route to permanent settlement, but also require sponsorship by an established company holding a sponsor licence, and are therefore more easily navigated by large companies with a foothold in the UK already.

The Global Talent visa, introduced in February 2020, and its predecessor, the Tier 1 (Exceptional Talent) route which itself was introduced in 2019, allows for individuals to apply on the basis of either 'talent' or 'promise', but now requires the approval of a Home Office approved endorsing body, each of which has their own rules and adds another layer to the application process. The endorsing body must certify the exceptional talent or promise of an applicant within their field. Global Talent visa holders have a route to permanent settlement in either 3 or 5 years depending on the specifics of their application.

The Innovator Founder visa was introduced in 2023 and replaces the "Innovator" and "Start-Up" visas which themselves replaced the "Entrepreneur" route back in 2019, and was launched not long after the closure of Tier 1 investor category in February 2022. The Innovator Founder visa effectively combined the Innovator and Start-Up visas and altered the route slightly by removing any requirement for investment funds for the initial application (it had previously been £50,000 under the Innovator visa). Applicants for Innovator Founder visas must show that they have realistic plans to actively grow a new, innovative, viable and scalable business in the UK. Like Global Talent applications, these are submitted first to an endorsing body and thereafter to the Home Office. Innovator visas also provide a route to settlement after 3 years, if they can show continued engagement, and a certain level of growth (by e.g. investment, revenue, number of employees, acquiring IP rights) in their business.

The Tier 1 Investor visa

These existing immigration routes were presented by the government as being sufficient for the growth envisaged by the AI Action Plan. However, since the closure of the Tier 1 Investor visa system in 2022, there has been no way for foreign investors to settle in the UK without an accompanying requirement to actively work in a new or existing UK business.

The Tier 1 investor visa was open to applicants who could show they were able to invest £2 million or more in the UK. If an investor could then show that they had invested at least that sum in actively trading companies in the UK, and maintained that investment throughout their period of leave, it also provided a 5-year route to settlement in the UK. Faster routes to settlement were available for those willing to invest greater sums, up to £10 million.

The investor route closed in 2022 following concerns over the government's ability to evaluate the sources of wealth relied upon by investors for the route. A review of 6,312 investor migrants had found "a small minority of individuals that were potentially at high risk of having obtained wealth through corruption or other illicit financial activity..." The government also cited concerns about the economic value of an investment-based route based on passive wealth.

We believe that these concerns can be responded to in various ways that fall short of abstinence. Even if the Home Office remains reluctant to shoulder full responsibility for verifying sources of migrant investor funds (something that American immigration officials are content to do when deciding whether to grant EB-5 investor visas in the United States), solutions are available that will re-enable wealthy investors to bring the skills and capital we need to the UK.

The Innovator Founder visa has been presented as a replacement for the investor visa. However, this route in reality is the successor to the Innovator and Start Up visas and the earlier Entrepreneur visa. It is wholly different in substance and is geared towards entrepreneurs setting up and actively running a new company, rather than encouraging existing ones, even if these are small and require investment to grow and succeed. The relevant capital that underpins the Innovator visa is therefore inherently much riskier than the types of assets investors naturally prefer, as well as the requirements for the applicant being different in nature.

There is no longer a visa that recognises investing is an occupation in its own right, and not only a by-product of setting up or managing a business. Many of the world's investors are not exclusively involved in creating new start-ups, nor are they engaged in employed work for established companies (for which a skilled worker visa would be more appropriate). Investors need the time, security and opportunity for oversight that a visa with a route to settlement can bring, to increase their stakes in British business.

Neither does the Innovator Founder visa encourage innovation wherever it can and does emerge: established businesses, regardless of whether they are young or old, small, medium or large in size, are all capable of innovation. The Innovator Founder visa is restricted to applicants who are able to show they are committed to an entirely novel venture.

Investment in innovation - some practicalities

Under the old Tier 1 investor system, applicants were not allowed to invest in companies mainly engaged in property investment, development or management. Government bonds were also excluded as permissible investments after 2019.

Specifying permitted investments with greater clarity could be the focus of a new route, targeting the sectors in which the UK particularly wants to stimulate growth, such as AI. A new investor visa could stipulate that allowable investments would be limited to finance for UK firms pursuing AI technologies, or simply in tech businesses (subject to competition law requirements).

Given that investing is an occupation in its own right, an elegant alternative to re-opening a bespoke investor route could be to expand the existing Global Talent Digital Technology visa sub-category, so that established investors who are able to document a years-long track record of making successful investments would be able to use it. This could still be protected by way of the existing Global Talent endorsing body for tech (Tech Nation) providing additional oversight and would significantly reduce the impact of reforming any Home Office procedures.

As a third possible safeguard, restricting the nationalities of those who can come to the UK on a new investor visa could play a role. We do not know whether this was considered when the discussions around closing the investor visa were taking place and instead, the endorsing bodies became the added layer of protection in the Global Talent and Innovator Founder routes. Lists of countries are already widely used under the UK's current regime for the purpose of assessing the status or treatment of foreign nationals in the UK, such as the visa national list, the categories of extradition territories and the asylum inadmissibility regime. The Financial Action Task Force already curates a list of high-risk countries that is incorporated into the UK's Money Laundering Regulations. A similar or even a longer list could be deployed to control who could access a new investor route.

Growth, GDP and Immigration

It is important to be aware that the relationship between growth, immigration policy, and the wealth of citizens is not completely straightforward.

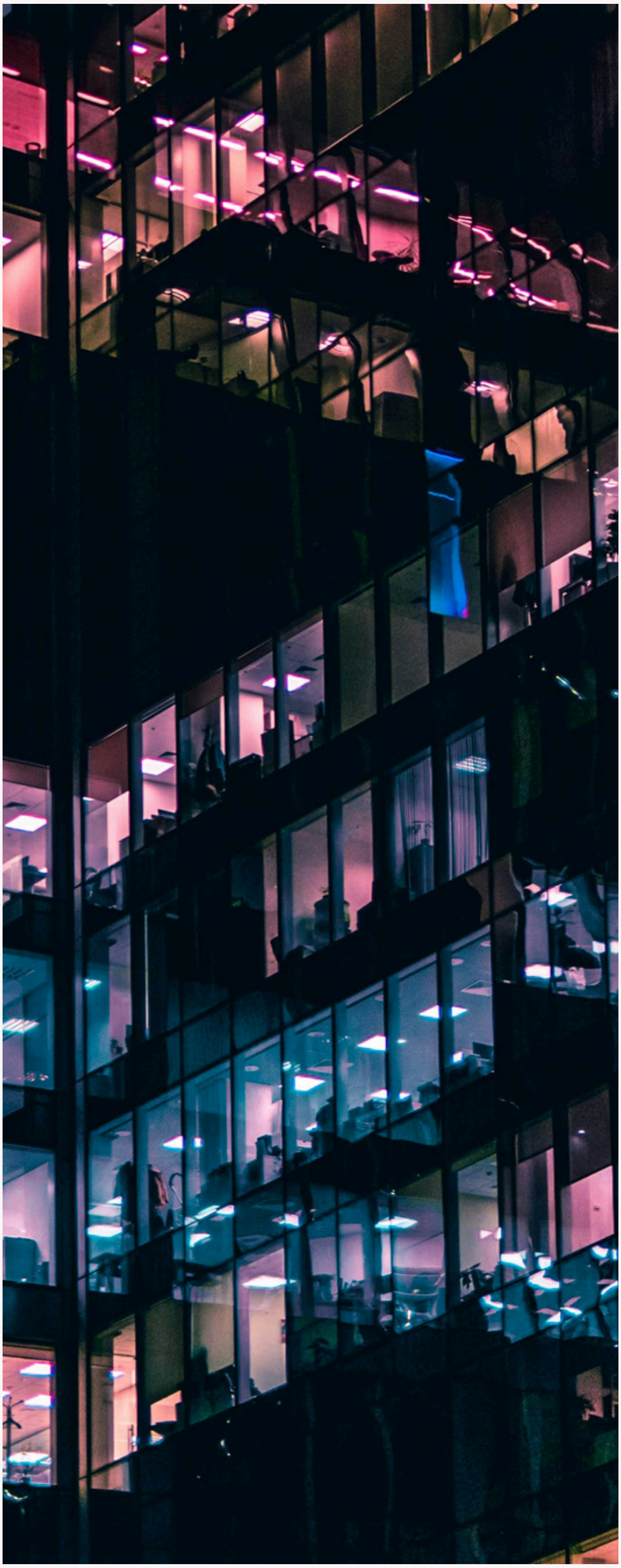
Gross Domestic Product, or "GDP" is a crude measure; it simply adds up the market value of all the "final" (i.e. ready for consumption or use) goods and services produced in a given territory over a period of time. It is therefore a broad metric of economic strength, but certain policies can have a significant impact on GDP without necessarily improving outcomes for individuals, and vice versa. Bull markets and bubbles can boost GDP without reflecting the real value of goods and services traded, and other important economic activities are not captured at all, such as second hand markets and domestic work.

As explained by Deloitte, net migration increases headline GDP because more people are added into an economy. More people nearly always means more consumption and more production, but doesn't always mean the amount of resources available to each individual increases proportionately. For that, GDP per capita is the better measure.

Since not all immigrants are immediately economically productive (for instance, dependents) and don’t necessarily earn as much as their average local counterpart on their first day in their new country (in the private sector especially, price competitiveness may be one of the reasons immigrants are able to secure jobs), large-scale immigration can often bring down GDP per capita, at least initially.

These subtleties are often missed in the public debate surrounding immigration policy. For governments trying to appear hard-line on immigration but also to promote growth, which is normally expressed as the global GDP figure alone, these two forces pull in opposite directions.

Investor migrants, however, who can be required to significantly contribute directly to the UK economy, could increase both headline GDP and GDP per capita, by encouraging growth of UK businesses employing UK residents, boosting UK tax revenues in the process.



Conclusion

Introducing an investment in innovation visa in line with our proposals above would enable wealthy migrants with a genuine intent to move to the UK to do so. This would boost tax revenues, incentivise crucial investment and scale a sector the AI Action Plan calls "the government's single biggest lever to deliver" growth.

Any investors who would want to move to the UK on the back of a sizeable, vested interest in AI or tech are overwhelmingly likely to be individuals who would, perhaps very significantly, benefit both headline GDP and GDP per capita, while providing additional intangible benefits in the form of intellectual capital and the training of a new generation of British entrepreneurs.

The tiny Chinese firm DeepSeek, a start-up founded in just 2023, recently released an AI model that demonstrates a comparable performance to AI models developed by OpenAI and Meta and which was trained on far fewer chips and for only £5m. This, and the acute reaction from western tech businesses, plainly demonstrates the potential impact that even modest firms can have on such a rapidly emerging technology.

Each new investor visa could be the vital difference between a UK-based DeepSeek equivalent getting the funding it requires, and another failed start-up.

Finally, as we have previously argued, an investor visa is a way to swell investment without raising taxes, shifting spending or borrowing and thereby increasing debt. Tax reliefs are already available for investments into shares in "knowledge-intensive companies". If the government is willing to direct taxpayer resources into such ventures, it should be willing to facilitate private investment in the name of growth.

The UK competes in a global marketplace for both skills and capital. Streamlining immigration pathways for career investors in innovative businesses is of national importance. Lord Drayson has recently commented that DeepSeek's success represents a new opportunity for UK businesses to effectively engage with AI. We cannot afford to miss this opportunity a second time. The relentless focus called for by Hague and Blair must be applied to all areas of public policy, including tax and immigration.

Contact our experts

KATHRYN BRADBURY
Partner
Citizenship & Immigration
T: 020 7465 4398
kbradbury@phb.co.uk

FREDERICK BJORN
Partner
International Tax and Trusts
T: 020 7465 4313
fbjorn@phb.co.uk