CIMA

The Growth Paradox:

UK SMEs Want to Expand — Policy Must Catch Up

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Introduction

Small and medium-sized enterprises (SMEs) are the backbone of the UK economy. They account for the vast majority of businesses, generate 51% of UK private-sector turnover and employ around 60% of the UK workforce.[1] SMEs play a critical role in supporting local economies and communities, creating employment opportunities and driving economic activity across every region of the country.

However, the economic environment many SMEs find themselves in is increasingly challenging. Rising costs, weak economic growth, and mounting structural pressures are making it harder for businesses to expand, hire, and invest for the future.

The survey data in this report suggests that three critical factors are shaping the SME landscape: taxation, workforce skills, and economic uncertainty. Together, these factors affect whether businesses can afford to recruit staff, invest in productivity improvements, and pursue growth opportunities.

This matters not only for individual businesses — it also matters for future UK economic growth. If SMEs are held back from expanding their workforce, investing in productivity improvements, and seizing new opportunities, the effects will be felt across the wider economy.

This report draws on findings from a 2026 survey of CIMA members working in or advising UK SMEs and on in-depth interviews with SME leaders.

The report also sets out recommendations aimed at creating a policy environment more conducive to SME growth, hiring, and investing.

The growth paradox: UK SMEs want to expand; policy must catch up.

[1] gov.uk/government/statistics/business-population-estimates-2025/business-population-estimates-for-the-uk-and-regions-2025-statistical-release.

Key findings

Taxes are a major barrier to SME growth.

- **61%[2] of CIMA members** working in or advising UK SMEs say the government should prioritise tax cuts to support SMEs, up from 37% who so responded in the 2024 survey. This represents a 65% increase since 2024.
- **80% of CIMA members** say employer taxes are either ‘very much’ or ‘extremely’ a barrier to SME growth.
- **63% say employee taxes** are either ‘very much’ or ‘extremely’ a barrier to growth.
- **47% say fiscal drag** on tax thresholds is ‘significantly’ constraining SME growth.

Workforce pressures are holding back SMEs.

- **46% of CIMA members** working in or advising UK SMEs report that their business is currently understaffed.
- **27% say that their organisation needs more employees** but they are hesitant to recruit.
- **30% identify talent and skills** as a barrier to improving productivity.

Taxes are a major barrier to SME growth.

- **50% of respondents** expect their SME to expand.

AI is not among the top risks facing UK SMEs.

- **Respondents ranked artificial Intelligence (AI)** below several other risks, including low economic growth, business confidence, taxation, and skills shortages. This suggests that many SMEs are currently more focused on immediate/short-term risks and domestic economic conditions — in other words, policy pressures within the government’s control.

[2] All percentage figures in this report have been rounded to the nearest whole number (n.5% is rounded up); therefore, percentages might not always add up exactly to 100.

Recommendations

Priority actions

1. Reduce employment-related taxes on SMEs.

Employment taxes remain one of the most significant burdens to SMEs and a barrier to growth and hiring. Reducing the cost of employing staff would help businesses recruit, expand, and invest.

2. Address fiscal drag and frozen tax thresholds.

Fiscal drag increases the effective tax burden on SMEs, affecting financial planning and decision-making. Reviewing thresholds and indexation would help ensure the tax system does not discourage growth.

3. Simplify tax administration and compliance requirements.

Reducing the complexity of the tax system would free up SME time and resources currently spent on compliance and administration.

4. Provide greater policy certainty for businesses.

Setting out a clear multiyear policy road map would provide SMEs with the stability needed to plan investment and growth.

5. Reduce barriers to SME hiring.

Addressing employment costs and workforce policy pressures would support SMEs in expanding their workforce and responding to skills shortages.

Taxation

1. Reduce employment-related taxes on SMEs.
2. Reduce the overall tax burden on SMEs.
3. Avoid further cumulative tax pressures on SMEs.
4. Improve tax authority responsiveness to SMEs.
5. Improve support for SMEs navigating the tax system.

Workforce, talent, and skills

1. Reduce barriers to SME hiring by addressing employment costs and workforce policy pressures.
2. Expand SME capability support programmes.
3. Reform the Lifelong Learning Entitlement and Growth and Skills Levy.
4. Strengthen SME influence in regional skills systems.

Investment and growth

1. Provide greater policy certainty through a multiyear business policy road map.
2. Reinstate and modernise the Growth Accelerator Scheme.
3. Strengthen SME capability support through an expanded Business Growth Service.
4. Improve access to finance and investment for growing SMEs.
5. Strengthen incentives for SME investment, technology adoption, and productivity improvements.

The economic environment and risks facing UK SMEs

A cautious outlook for UK SME growth

The survey results point to a cautious outlook for UK SMEs. Many businesses remain ambitious about expansion, but respondents also report a range of economic and policy pressures affecting their ability to grow.

Inflation, weak economic growth, and rising employment costs are among the most frequently cited concerns, alongside structural challenges including taxation, regulation, and skills shortages.

Although 50% of CIMA members working in or advising UK SMEs expect their organisation to expand over the next 12 months, many also report significant barriers that may limit their respective organisations' ability to do so.

It is important that policymakers understand the pressures SMEs face. Changes in SME hiring, investment, and expansion often foreshadow changes in wider business confidence and economic performance.

SME growth expectations

CIMA members were asked about the outlook for their organisation over the next 12 months. The results indicate that:

- **50% of respondents working in or advising UK SMEs expect their organisation to expand.**
- **37% expect their organisation to remain at a similar level.**
- **12% expect contraction.**

Despite the fact that 50% expect their organisation to expand over the next 12 months, hiring intentions appear far more cautious. More than a quarter of respondents (27%) say their organisation needs additional employees but is hesitant to recruit.

For policymakers, this growth paradox should act as a warning sign. SMEs account for a substantial share of private-sector employment and regional economic activity — a slowdown in SME expansion would have wider economic consequences.

UK growth expectations in a global context

Respondents working in or advising UK SMEs appear somewhat less optimistic about expansion than those in other regions included in the survey.

Net expansion scores — which measure the balance between respondents expecting expansion and those expecting contraction — illustrate this difference.

Region	Net expansion score
Africa	64
EU (including Ireland)	50
Asia-Pacific	45
UK	38

These findings suggest that business confidence among UK SMEs is weaker than in several comparable regions.

Economic pressures facing SMEs

Economic pressures are clearly reflected in the concerns identified by respondents working in or advising UK SMEs.

Top 10 emerging issues concerning SMEs

Rank	Issue	Weighted %
1	Inflation	14%
2	Low economic growth	14%
3	Business confidence	11%
4	Consumer confidence	11%
5	Regulation	10%
6	AI	9%
7	Skills and talent	8%
8	Geopolitics	7%
9	High-interest environment	6%
10	Supply chain disruption	5%

These findings reflect the challenging economic environment facing many SMEs. Inflation and weak economic growth are the most frequently cited concerns among respondents, reflecting the cost pressures and subdued demand conditions affecting many businesses.

Alongside these macroeconomic challenges, respondents also point to structural pressures including regulation and skills. Together, these factors are shaping SME decisions about hiring, investment, and expansion.

The scale of macroeconomic pressure

The survey results highlight the scale of economic pressures facing UK SMEs. When responses relating to inflation, low growth, interest rates, and declining business confidence are grouped together, 57% of respondents identify macroeconomic conditions as a key challenge. This indicates that broader economic and demand-side pressures are currently the most significant emerging issue affecting SMEs in the UK.

Key business risks facing UK SMEs

While the previous section highlights the emerging issues affecting SMEs, CIMA members were also asked to identify the most significant risks currently facing their organisations.

Top 10 Key business risks facing UK SMEs

Risk	Weighted %
Low economic growth	17%
Business confidence	15%
Taxes	14%
Skills and talent	11%
AI	9%
Geopolitical environment	8%
Inflation	7%
Regulations	6%
Staff retention	4%
Supply chain disruption	3%

The results highlight the range of structural and economic risks currently facing UK SMEs.

Low economic growth is the most frequently cited economic risk. This reflects concerns among businesses about subdued demand conditions and the broader outlook for the UK economy.

At the same time, taxation pressures are identified as a major risk to business performance. This reinforces the wider findings in the survey that fiscal policy pressures are playing an increasingly important role in shaping SME investment and hiring decisions.

Workforce challenges also feature prominently — including skills shortages and staff retention challenges — as a key risk, highlighting the ongoing difficulties many SMEs face in attracting and retaining the talent needed to grow their businesses.

These findings illustrate how SMEs are navigating a business environment shaped by both macroeconomic uncertainty and structural pressures, including taxation, workforce constraints, and regulatory complexity.

Cost pressures and economic uncertainty

Inflationary pressures have increased SMEs' operating costs across a range of areas, including wages, energy, and supply chains. At the same time, subdued economic growth continues to affect demand.

For businesses planning investment or expansion, this combination of rising costs and uncertain economic growth creates a challenging environment.

Recent geopolitical developments have intensified these pressures. As a result, the inflation concerns respondents identified in this survey might be understated in light of the pressures businesses are likely to face in the coming months.

For SMEs, which often operate with tighter margins and fewer financial buffers than larger firms, such volatility can quickly translate into higher operating costs and greater uncertainty when making investment and hiring decisions.

Implications for SME growth

Overall, the survey results indicate that respondents working in or advising UK SMEs remain committed to growth but are operating within a challenging economic and policy environment.

Inflationary pressures, subdued economic growth, and wider economic uncertainty are shaping business expectations and contributing to a more cautious outlook for expansion.

Alongside these economic pressures, respondents also identify structural factors — particularly taxation, regulation, and skills shortages — as risks affecting the ability of SMEs to invest, hire, and grow.

Tax pressures are curbing SME growth

Taxation emerges as a major barrier to SME growth.

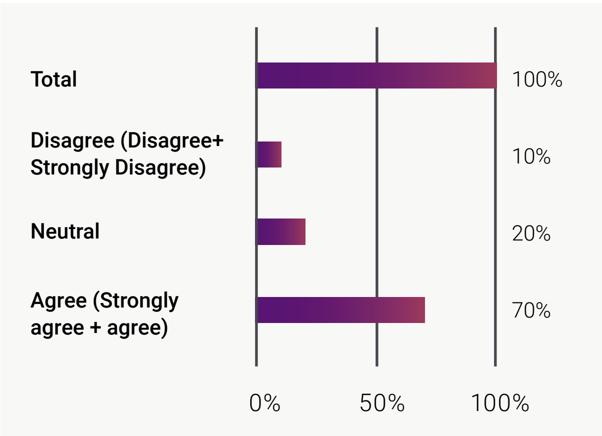
The survey findings indicate that tax pressures are increasingly constraining the ability of UK SMEs to grow and invest.

70% of CIMA members working in or advising UK SMEs agree that taxes are a barrier to SME growth; 35% strongly agree. Taxation also ranks among the top business risks identified by respondents, reinforcing the importance of fiscal policy in shaping SME investment, hiring, and expansion decisions.

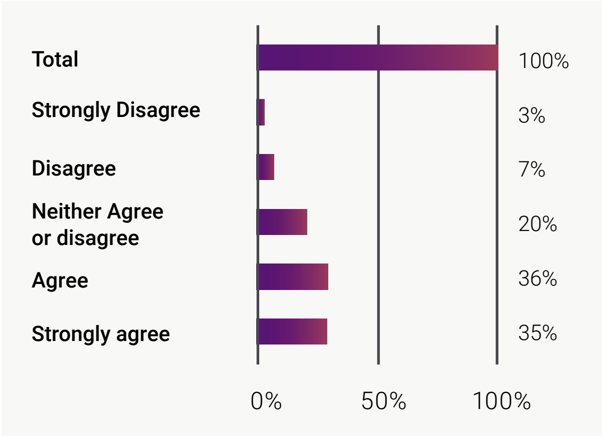
The growing importance of taxation is also evident when compared with CIMA SME survey results from 2024. In the previous UK SME survey, 37% of respondents said the government should prioritise tax cuts to support SMEs. In the current survey, that figure has risen to 61%, representing a 65% increase in the number of respondents supporting the prioritisation of such tax cuts.

This sharp increase suggests that taxation is not simply a longstanding concern — it's a growing pain point for UK SMEs.

UK: 'I think taxes are proving to be a barrier.' Grouped



UK: 'I think taxes are proving to be a barrier.'



These findings reinforce the broader economic pressures identified in the previous chapter. Alongside concerns about inflation, weak economic growth, and workforce challenges, taxation is now a key structural issue affecting the business environment for SMEs.

This is reinforced by responses on policy challenges facing SMEs. Respondents identified the UK's high-tax environment as one of the top three policy risks affecting their organisation. Across the top 10 policy challenges identified by UK respondents, taxation appears twice — both the high-tax environment and changes to tax policy — indicating that tax pressures represent the most significant policy concern for many SMEs.

Top 10 policy challenges facing SMEs

Rank	Policy challenge	Weighted %
1	Lack of certainty and clarity in government policy	13%
2	Growing level and complexity of government regulation	11%
3	High-tax environment	10%
4	Minimum wage	9%
5	Increased employee rights	8%
6	Lack of consumer/ business confidence	8%
7	High inflation	7%
8	Changes to taxation policy	6%
9	High interest rates	6%
10	Geopolitical environment	6%

'Taxes take resources away that could be invested in growth.' SME business leader on how higher taxes affect his SME

For many SMEs, the impact of taxation extends beyond the headline tax rate. Smaller businesses typically operate with tighter margins and fewer financial buffers than larger businesses, meaning increases in tax pressures can directly influence decisions around hiring, investment, and business expansion. Given the central role SMEs play in employment, regional economic activity, and business dynamism, these pressures can have wider implications for productivity and economic growth across the UK.

Employment taxes are the most significant tax pressure

While taxation broadly is identified as a major barrier to SME growth, the survey findings show that employment taxes are the most significant specific tax pressure affecting UK SMEs.

When CIMA members working in or advising UK SMEs were asked to rate how different taxes are proving to be a barrier to their SME's growth and expansion, 80% said employer taxes were either 'very much' or 'extremely' a barrier to growth. This was the highest score of any tax category tested in the UK results.

Please indicate how each of the following taxes are proving to be a barrier to your SME's growth and expansion.

UK percentages

Tax Item	Not a barrier at all	Slightly a barrier	Moderately a barrier	Very much a barrier	Extremely a barrier	N/A
Employer taxes	0%	4%	13%	36%	44%	2%
Employees taxes	6%	10%	20%	30%	33%	1%
Property taxes	15%	22%	19%	13%	18%	13%
Corporation tax	10%	14%	31%	25%	16%	3%
VAT thresholds	24%	18%	22%	21%	12%	4%
Business rates	9%	9%	20%	27%	29%	6%
Import tariffs	18%	12%	24%	16%	11%	19%
Fiscal drag on tax thresholds	6%	11%	32%	22%	25%	4%
Other	25%	2%	5%	6%	13%	48%

This suggests that employment taxes are not simply adding to operating costs but are directly constraining the ability of SMEs to expand.

> **'Higher employer taxes result in less staff taken on, equals inability to expand.'** SME business leader

For many smaller businesses, employing staff is one of their biggest costs. When employment taxes rise, this can have an immediate impact on decisions around recruitment, investment, and growth.

The pressure is not limited to employer taxes alone. The survey also shows that 63% of respondents said employee taxes were either 'very much' or 'extremely' a barrier to growth. This makes employee taxes the second most significant tax pressure identified by UK respondents to CIMA's SME survey.

This is important because it shows that tax pressures are being felt on both sides of the labour market. Employer taxes increase the direct cost of hiring, while employee taxes can contribute to wage pressure by reducing take-home pay and increasing expectations around salary levels. Together, these pressures make labour more expensive and can reduce the capacity of SMEs to grow their workforce.

> **'Employer taxes are becoming too burdensome on the business. This ties our hands when wanting to hire new staff.'** SME employer

The findings in the table immediately preceding show that the tax pressures felt most strongly by SMEs are those most directly linked to employing people and maintaining business operations. This supports the wider survey evidence that tax is affecting not only profitability, but also the practical decisions SMEs make about whether they can afford to hire, retain staff, and grow.

When respondents were asked to describe how taxes act as a barrier to SME growth, 41% of respondents referenced employment cost pressures, including employer National Insurance contributions, payroll taxes, and increases in the minimum wage.

Similarly, when asked about the top policy challenges facing their organisation, respondents identified pressures related to labour costs, including the high-tax environment, minimum-wage increases, and increased employee rights in their top 10 policy challenges.

These findings suggest that employment-related taxes and costs are at the heart of the tax pressure facing UK SMEs. They increase the cost of hiring, add to wider labour-market pressures, and, for many businesses, contribute to a more cautious approach to recruitment and expansion.

Rising labour costs may accelerate SME automation

> **'Increasing taxes related to employing staff will see more businesses invest in systems and automation rather than hiring.'** SME business leader

Increasing employment costs are influencing how SMEs approach workforce expansion and productivity. As the cost of hiring rises, many businesses are exploring technology, automation, and AI as alternative ways to support growth. This shift is occurring alongside broader workforce capability pressures, where many organisations report difficulty recruiting the skills needed to expand.

- 46% of respondents report that their SME is currently understaffed.
- 27% of respondents say they need more employees but are hesitant to recruit.
- Respondents identify AI as an emerging issue affecting their organisation.
- Nearly one-third (30%) of respondents identified talent and skills as a barrier to improving productivity.

Rising employment taxes are interacting with wider labour market pressures, including skills shortages and staff retention challenges. As the cost of employing staff increases and businesses struggle to recruit the capabilities they need, some SMEs report becoming more cautious about hiring. In this environment, investment in automation, AI, and digital systems is increasingly being considered as an alternative route to improving productivity and supporting business growth.

Fiscal drag and the rising tax burden on SMEs

Alongside employment taxes, SMEs are also increasingly affected by fiscal drag, which is gradually increasing the effective tax burden on businesses even where headline tax rates and thresholds have not changed.

Fiscal drag occurs when tax thresholds remain frozen while inflation, wages, and business revenues increase. Over time this pushes individuals and businesses into higher tax bands or increases the amount of income subject to taxation. For SMEs operating with relatively tight margins, these changes — even without any formal change in tax policy — can significantly increase their overall tax burden.

When respondents were asked how different taxes were acting as barriers to SME growth, 47% said fiscal drag on tax thresholds was either 'very much' or 'extremely' a barrier to growth.

Looking more broadly across the responses, the impact is even more widespread. Seventy-nine per cent of respondents said fiscal drag is at some level a barrier to growth, indicating that most SMEs are experiencing pressure from frozen tax thresholds.

For many SMEs, fiscal drag interacts with wider economic pressures that are already affecting business costs and operating conditions. In particular, inflation can increase the impact of frozen thresholds by pushing up wages and operating expenses.

The survey findings highlight the scale of these pressures, with respondents stating that inflation is the number one emerging issue affecting their organisation. This reflects the cost pressures businesses are facing across the wider economy.

As wages rise in response to inflation and tight labour-market conditions, many employees are drawn into higher income tax bands despite little or no improvement in real purchasing power. This fiscal drag can reduce take home pay and, in turn, increase pressure on employers to raise wages simply to maintain employee earnings.

Bearing out these pressures, nearly 20% of respondents report difficulties in hiring employees with the right skills and retaining talent. In this context, frozen tax thresholds further amplify labour-cost pressures: as employees face higher tax liabilities, SMEs may need to offer higher wages to remain competitive. For businesses operating on tight margins, this makes hiring more expensive and can act as a constraint on growth and expansion.

As revenues increase, businesses may find themselves facing higher tax liabilities even when real profitability has not increased significantly. This means elements of the tax system can unintentionally penalise SME growth.

These threshold effects can influence business behaviour. Some SMEs may delay expansion, adjust pricing, or limit hiring in order to manage the impact of higher tax liabilities triggered by relatively small increases in revenue or wages.

The survey results suggest that fiscal drag is quietly increasing the tax burden faced by SMEs across the UK economy. While these pressures may build gradually, the cumulative impact can be significant, particularly when combined with rising employment taxes, labour costs, and wider economic uncertainty.

The cumulative tax burden on SMEs

> **'The cumulative effect of UK business taxes discourages investment in growth.'**
> SME business leader

For many SMEs, the challenge is not simply the level of any individual tax, but the combined impact of multiple taxes and compliance obligations that together increase the cost of operating and expanding a business.

SMEs face a range of fiscal pressures simultaneously, including employer and employee taxes, corporation tax, business rates, and VAT. When these costs are combined with compliance requirements and administrative complexity, the result can be a cumulative burden that reduces the resources available for investment, hiring, and innovation.

When respondents were asked which reforms were most critical to help unlock business growth, 35% stated reduced or simplified taxation; 18% identified reduced business taxation as the single most important reform priority.

Areas of reform most urgent for unlocking growth

Policy area	Weighted %
Reduced business taxation	18%
Regulatory burden and complexity	13%
Business energy costs	11%
Education and skills development	10%
Technology and innovation	10%
Policy certainty	9%
Reduced personal taxation	9%
Simplified taxation	8%
Access to finance	6%
Increased trade deals	5%

This ranked higher than other major reforms such as reducing regulatory complexity, improving policy certainty, or addressing energy costs, indicating that the overall tax pressure is perceived by many SMEs as the most immediate constraint on business expansion.

The cumulative impact of taxation is also evident when SMEs are asked how government could reduce the overall burden on business while maintaining fiscal sustainability, with 41% of respondents choosing an option related to taxation.

What policy options could reduce the cumulative burden on business while maintaining fiscal sustainability?

Rank	Policy option	Weighted %
1	Simplifying tax administration and compliance	12%
2	Ease of trade with other countries	12%
3	Tax reform	11%
4	Simplified tax system	9%
5	Skilled workforce	9%
6	Reduced tax	9%
7	Policy certainty	8%
8	Reducing regulatory duplication	7%
9	Reduce regulation	7%
10	Access to finance	5%

These responses suggest that SMEs are concerned not only about tax levels but also about the structure and complexity of the tax system itself.

This combination of tax levels and administrative complexity means that businesses often experience taxation as a layered burden rather than a single cost. As one SME business leader explained, 'Margins are tighter than ever once we factor in VAT, corporation tax, and additional NI payments.'

The dominance of tax issues is also reflected in SME policy priorities more broadly. When respondents were asked which policies would most effectively support SME growth, nearly 60% all policy selections related to tax reductions, making taxation the largest single category of reform identified by SMEs.

Select three business-related policies from the list that you think would most benefit SMEs.

Rank	Policy measure	Weighted %
1	Reduce employment taxes	26%
2	Reduce business rates	18%
3	Reduce goods and services taxes	11%
4	Increase public funding for skills and apprenticeships	9%
5	Expand access to finance (loans/credit)	8%
6	Increase incentives for savers/investors to invest in local business	7%
7	Facilitate international trade/more trade agreements	7%
8	Increase public funding for transport infrastructure	6%
9	Improve tax authority responsiveness	5%
10	Improve tax authority responsiveness	4%
	Other (Provide mentoring and advisory support)	0.3%

For smaller businesses operating with tighter margins and more limited financial buffers, the cumulative effect of these taxes can significantly influence business decisions. Higher overall tax costs can reduce funds available for reinvestment, delay hiring decisions, or limit the ability of firms to expand into new markets.

In this context, the survey findings suggest that SMEs are not simply calling for individual tax changes but are increasingly highlighting the need to address the overall tax environment affecting smaller businesses.

Tax administration and compliance burdens

Alongside the level of taxation itself, many SMEs also identify the administrative complexity of the tax system as a significant burden affecting their ability to grow and operate efficiently.

For smaller businesses, complying with tax rules can require considerable time and resources. Unlike larger organisations, SMEs typically have fewer in-house tax specialists and administrative staff, meaning that compliance obligations often fall directly on business owners or small finance teams. This can divert time and resources away from core business activities, such as investment, innovation, and customer growth.

When respondents were asked which policy initiative would most effectively boost SME growth, reduced administrative burden in tax compliance was the number one choice.

Which business policy initiative would boost SME growth?

Rank	Policy measure	Weighted %
1	Reduced administrative burden in tax compliance	14%
2	Reduced employer social security contributions	13%
3	Policy and regulatory stability over multiyear horizons	12%
4	Lower indirect tax burden (VAT/GST) on SMEs	10%
5	Skills development programmes (apprenticeships/training)	9%
6	Trade facilitation agreements/reduced trade frictions	8%
7	Support for technology adoption (AI/digitalisation)	7%
8	Improved access to finance and credit	6%
9	Government-backed SME loan guarantees	5%
10	Enhanced R&D incentives for SMEs	5%

The importance of tax administration issues is also reflected in responses to a related question on how governments could reduce the cumulative burden on businesses while maintaining fiscal sustainability. For this question, respondents again highlighted the importance of simplifying the tax system.

> **‘Less administration in tax and regulatory compliance would make a huge difference.’**
> SME employer

Respondents and those interviewed also highlighted the need for improvements in how tax authorities interact with businesses. For many smaller businesses, reducing compliance costs and simplifying tax administration could free up valuable time and resources that could instead be directed towards growth, innovation, and job creation.

SME policy priorities on taxation and policy recommendations

1. **Reduce employment-related taxes on SMEs.**

   Reducing employment-related taxes is the single most frequently cited policy priority among SME respondents.

   This report shows that employment taxes are already one of the most significant barriers to SME growth. Employer National Insurance contributions and other payroll taxes increase the cost of hiring and can discourage workforce expansion, particularly for smaller businesses operating with tight margins.

   Reducing employment-related taxes would help lower the cost of hiring and support job creation across the SME sector.

2. **Address fiscal drag and frozen tax thresholds**

   Fiscal drag is another major pressure identified by SMEs.

   As shown earlier, 79% of respondents say fiscal drag on tax thresholds is a barrier to SME growth, while 47% say it is a very or extremely significant barrier.

   Reviewing frozen tax thresholds and aligning them with inflation would help prevent the gradual increase in tax burdens that occurs when wages and business revenues rise but tax thresholds remain unchanged.

3. **Reduce the overall tax burden on SMEs and avoid further cumulative tax pressures**

   The survey findings show that SMEs are concerned about the wider tax environment affecting their businesses.

   These responses indicate that SMEs are experiencing pressure from multiple parts of the tax system simultaneously, including employment taxes, business rates, VAT, and other indirect taxes.

   Across both the quantitative findings and qualitative responses, businesses repeatedly highlight how the cumulative effect of multiple taxes is reducing profitability and limiting the resources available for investment and expansion.

   Policymakers should therefore consider the overall tax environment affecting SMEs and avoid introducing additional tax measures that could further increase the cumulative burden on smaller businesses.

4. **Simplify tax administration and compliance requirements**

   Reducing the administrative burden associated with the tax system is also a major priority for SMEs.

   Simplifying tax rules, improving digital systems and reducing reporting complexity could significantly reduce the administrative pressures faced by SMEs.

5. **Improve tax authority responsiveness and support for SMEs**

   The survey findings also highlight the importance of improving how tax authorities interact with businesses.

   Providing clearer guidance, improving communication channels, and ensuring faster responses to SME queries could improve the overall experience of interacting with the tax system.

Labour shortages and skills gaps are limiting SME growth

The survey findings suggest that UK SMEs face a combination of labour shortages, skills gaps and rising employment costs that are constraining workforce expansion and limiting growth.

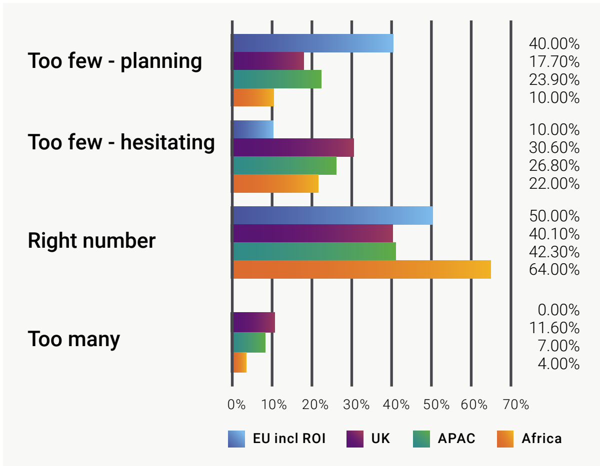
Almost half of respondents working in or advising UK SMEs report that their organisations are currently understaffed; many say they need additional employees but remain hesitant to recruit.

This represents an important structural challenge for the UK economy. SMEs play a critical role in job creation and regional economic activity, and when smaller businesses are unable to recruit the workforce they need, the effects can limit not only business expansion but also wider economic and regional growth.

Many SMEs report being understaffed but remain cautious about hiring

When respondents working in or advising SMEs were asked about their current workforce position, 48% reported that their organisation currently has too few employees. Within this group, 31% said they need additional employees but are hesitant to hire, while 18% said they are planning to recruit additional staff.

Describe your 2026 hiring plans



Skills shortages are widespread across UK SMEs

> **'The challenge is not finding people — it is finding people with the right capabilities.'**
> SME owner

Many SMEs report difficulties finding employees with the skills required to support business growth.

When respondents working in or advising UK SMEs were asked which skills are currently most lacking in their organisations, the most frequently cited gap was technology skills, identified by 25% of respondents. This was followed by leadership and management skills (21%) and communication skills (18%).

The importance of digital capability is also reflected in earlier research. CIMA's 2025 Mind the Skills Gap study found that 23% of SMEs identified the need to adopt new technologies as a key concern. The latest SME survey suggests that this challenge, although not significantly increasing, remains persistent, with 25% of respondents identifying technology skills as their organisation's most significant capability gap. This suggests the challenge for many SMEs is not simply adopting new technologies, but ensuring they have a workforce capable of implementing and using them effectively.

What skills are currently most lacking in your organisation?

Rank	Skill shortage	Weighted %
1	Technology skills	**25%**
2	Leadership/ management	**21%**
3	Communication skills	**18%**
4	STEM skills	**13%**
5	Finance skills	**9%**
6	Numeracy skills	**7%**
7	Other	**5%**
8	Literacy skills	**4%**

These findings suggest that the challenge facing SMEs is not simply one of recruitment volume, but of workforce capability. This reflects a wider pattern across the survey findings. Many SMEs report needing additional employees, but the availability (or lack thereof) of workers with the right skills and experience remains a significant constraint on recruitment.

SMEs require a broad range of capabilities when recruiting

The survey findings also highlight the breadth of skills that SMEs require when recruiting new employees. Respondents working in or advising SMEs were asked to rate the importance of a range of skills for prospective recruitment over the next 12 months.

The results suggest that SMEs place a high value on both technical capabilities and interpersonal skills. In particular, interpersonal skills (79%), communication skills (77%), and resilience and adaptability (77%) were among the most frequently identified as important for recruitment. These were closely followed by technology skills (73%) and problem-solving skills (73%).

Please rate the importance of the following skills for any prospective recruitment over the next 12 months.

UK percentages

Skill	Extremely important	Very important	Moderately important	Slightly important	Not at all important
Technology skills	25%	48%	19%	3%	4%
Data skills	21%	42%	27%	6%	3%
Communication skills	27%	50%	15%	5%	3%
Interpersonal skills	28%	51%	14%	4%	3%
Problem-solving skills	29%	44%	19%	5%	2%
Critical thinking	31%	40%	22%	4%	2%
Leadership skills	20%	43%	26%	7%	4%
Creativity	15%	38%	31%	13%	3%
Innovation	18%	38%	30%	12%	3%
Project management	20%	34%	29%	13%	4%
Resilience/Adaptability/ Flexibility	32%	45%	15%	5%	3%
Finance skills	16%	41%	33%	7%	3%
Numeracy skills	21%	42%	29%	4%	3%
Literacy skills	10%	42%	31%	3%	3%
STEM skills	11%	31%	37%	12%	9%

The prominence of interpersonal and communication skills reflects the nature of many SME workplaces, where smaller teams require employees to work across multiple roles and collaborate closely with colleagues, customers, and suppliers.

At the same time, the importance attached to technology and problem-solving skills highlights the growing role of digital capability and analytical thinking within SMEs. As businesses adopt new technologies and adapt to changing market conditions, employees with the ability to analyse problems, work with data, and adapt to new systems are increasingly valuable.

The findings suggest SMEs increasingly need employees with a broad mix of capabilities rather than narrow technical expertise alone.

Rising employment costs and policy pressures are affecting hiring decisions

Alongside skills shortages, the survey results suggest that rising employment costs and wider policy pressures are also influencing workforce decisions among SMEs.

When respondents working in or advising UK SMEs were asked whether recent government policy changes had affected their organisation, 51% reported that their business had been affected.

Further analysis of responses highlights that employment-related policy changes are among the most frequently cited pressures. Respondents pointed most to increases in employment costs, including increases in employer National Insurance contributions and the minimum wage, as having a direct impact on their organisations.

Open-text responses from the survey indicate that these cost pressures are influencing hiring decisions. Some businesses report delaying recruitment or reducing planned headcount in response to rising employment costs.

> **'Additional costs of employing staff are a major concern.'**
> SME business leader

Analysis of the survey comments shows that 63% of responses referencing policy impacts related to employment cost increases, while 37% refer to employment law or worker rights changes. Other commonly cited issues include broader taxation changes and reduced business confidence.

These findings suggest that workforce decisions are shaped not only by the availability of skilled labour, but also by the cost and risk associated with hiring. For many SMEs operating with relatively tight margins, increases in employment costs can affect decisions about whether and when to recruit additional staff.

Investment in SME workforce training remains limited

The survey findings also suggest that workforce capability challenges are linked to the level of investment in training and skills development within SMEs.

Earlier results show that many SMEs are already experiencing shortages in leadership, technology, and communication skills. At the same time, respondents indicate that developing these capabilities within the workforce can be difficult for smaller organisations that operate with limited resources and management capacity.

> **'Training is seen as a cost, not an investment.'**
> SME manager

This perspective reflects a wider challenge for SMEs. While developing employee skills can support productivity, innovation, and long-term growth, many businesses face immediate cost pressures that make it difficult to prioritise investment and time in training.

Findings on hesitancy to recruit and find employees with the right skills sets suggest that this lack of investment in skills development can reinforce existing labour-market challenges. When businesses are unable to develop capabilities internally, they may become more dependent on recruiting workers who already possess the required skills. In a labour market where these capabilities are already scarce, this can make recruitment more difficult and increase competition and cost for skilled employees.

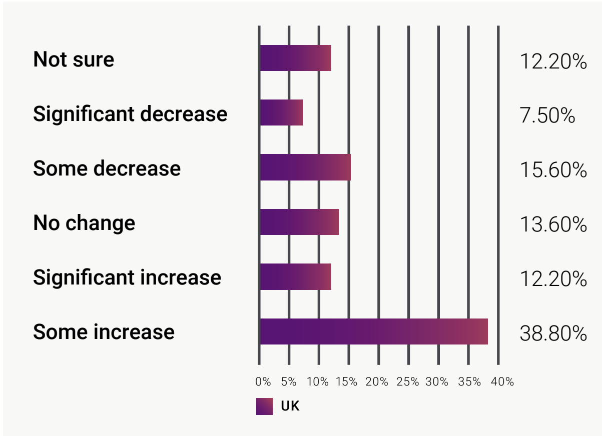
Strengthening workforce capability within SMEs is therefore likely to require a combination of internal investment by businesses and wider government support through training programmes, apprenticeships, and professional development initiatives.

Workforce constraints are affecting SME productivity and growth

The survey findings suggest that labour shortages and skills gaps are not only affecting recruitment decisions but are also having a measurable impact on productivity within SMEs.

When respondents were asked about changes in productivity within their organisation, 51% of UK respondents reported that productivity had increased; 23% reported a decrease and 14% said productivity had remained unchanged.

Over the past two years, how has productivity changed in your organization?



While the overall picture indicates that many SMEs are continuing to improve productivity, the results also show that a significant share of businesses are experiencing stagnation or declines in performance. This mixed pattern reflects the pressures that many SMEs face in maintaining efficiency while dealing with labour shortages, rising employment costs, and skills gaps.

Workforce constraints can limit the ability of businesses to expand operations, adopt new technologies, and improve productivity. When organisations struggle to recruit or develop the capabilities they need, growth opportunities may be delayed or missed entirely.

For SMEs in particular, workforce capability is closely linked to productivity performance. Smaller firms often rely on relatively small teams where each employee plays a significant operational role. As a result, skills shortages or gaps in key capabilities can have a disproportionate impact on business performance.

Strengthening workforce capability within the SME sector therefore has implications not only for labour market outcomes but also for wider economic productivity and long-term growth. Addressing labour shortages and skills gaps will be critical to enabling SMEs to expand, innovate, and contribute more fully to UK economic growth.

Policy priorities on SME workforce capability and skills development

1. **Reduce barriers to SME hiring by addressing employment costs and workforce policy pressures.**

Survey findings show that many SMEs require additional workers but remain hesitant to expand their workforce due to rising employment costs and regulatory pressures.

Nearly half of UK SMEs report that they are currently understaffed, while 31% say they need employees but are hesitant to hire.

Government should prioritise measures that reduce barriers to SME hiring. This should include

- addressing employment-related tax pressures that increase the cost of hiring,
- ensuring employment regulation remains proportionate for smaller businesses, and
- providing greater policy stability in labour-market regulation.

Reducing the cost and risk associated with hiring will be essential for enabling SMEs to expand their workforce and address labour shortages.

2. **Expand SME capability support programmes to help businesses access expertise and leadership capability.**

Many SMEs lack access to the specialist expertise required to support business growth, including leadership capability, financial management, and workforce development.

Government should strengthen programmes that provide strategic advice and mentoring to SMEs by

- expanding the Business Growth Service as a comprehensive one-stop support platform;
- reinstating the Growth Accelerator programme, which previously provided coaching, mentoring, and funding to help SMEs access external expertise they need to grow; and
- strengthening partnerships with professional bodies and industry organisations to improve SME access to specialist knowledge.

The Growth Accelerator scheme was particularly effective in enabling SMEs to access expertise and capabilities they did not have internally. Through coaching, mentoring, and funding support, businesses were able to bring in external specialists to strengthen leadership capability, improve strategy, and invest in specific projects to support growth.

Expanding programmes of this kind would help SMEs overcome capability gaps and strengthen the management capacity required to support business growth.

3. **Reform the Lifelong Learning Entitlement (LLE) and Growth and Skills Levy to expand access to higher-level professional training.**

The current structure of the UK's skills funding system does not fully meet the workforce development needs of SMEs, particularly for higher-level professional training and mid-career upskilling.

Government should accelerate and expand reforms to the LLE and the Growth and Skills Levy to improve access to flexible, employer-relevant training.

This should include

- extending the LLE to include professional qualifications and higher-level courses delivered by recognised professional bodies;
- reforming Level 7 apprenticeship funding to allow eligibility up to age 25, reflecting realistic learner progression pathways;
- accelerating the rollout of modular and flexible learning under the LLE; and
- improving flexibility in the Growth and Skills Levy to allow businesses to fund shorter courses and professional qualifications.

Ensuring that the UK's skills funding system supports higher-level professional training will help SMEs invest in workforce capability and address the skills shortages identified in this report.

4. **Strengthen SME influence in regional skills systems to ensure training reflects local business needs.**

The survey findings highlight that many SMEs struggle to recruit workers with the capabilities required to support business growth. Skills shortages are particularly evident in areas such as leadership, technology, and management capability.

Government should strengthen the role of SMEs in shaping the skills system by ensuring that regional skills policy better reflects the needs of local businesses. CIMA's engagement with its UK members and local SME leaders have resulted in the following proposals being advanced:

- Strengthen the role of Mayoral Combined Authorities in shaping regional skills strategies.
- Ensure that Local Skills Improvement Plans more effectively incorporate the needs of SMEs.
- Expand employer engagement in curriculum design across further education and technical training programmes.
- Strengthen partnerships among SMEs, education providers, and local growth bodies.

Ensuring that regional skills systems reflect the needs of SMEs will help align training provision with labour-market demand and support business growth across local economies.

The wider policy environment is limiting SME investment and growth

CIMA members working in or advising UK SMEs were asked what factors most affect confidence in a country to invest; the top three responses were the economic climate, skilled workforce, and political and policy stability.

What factors most affect confidence in your country as a place to invest and expand?

Factor	Weighted %
Economic climate	22%
Skilled workforce	15%
Political and policy stability	14%
Government policies focussed on economic growth	13%
Competitive economy	10%

These results suggest that SME growth is influenced not only by business decisions but also by the wider economic environment, policy stability, and the extent to which government policy supports growth.

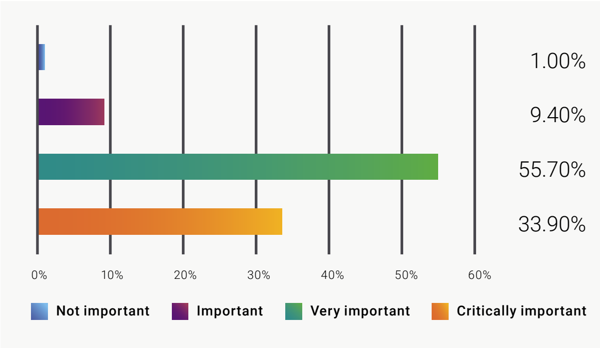
'Economic uncertainty makes it very difficult to plan investment or recruitment.' SME business owner

Workforce capability and access to investment remain important components of a supportive business environment; it's important to note, however, that they are closely linked to broader economic and policy conditions. Improving the wider operating environment for SMEs — including policy stability, access to finance, and support for technology adoption — is key to strengthening business confidence and enabling investment and growth.

Policy stability and government engagement influence SME confidence

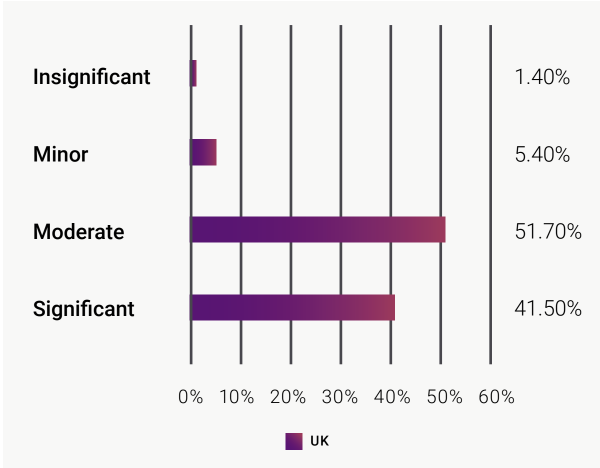
CIMA members consistently emphasise the importance of predictable policy frameworks when making business decisions. Almost nine of 10 UK respondents say policy stability and predictability are very or critically important for business decision-making.

UK: How important is policy stability, predictability, and long-term planning in shaping business decisions?



At the same time, many SMEs report operating in an environment characterised by a high degree of uncertainty. More than nine of 10 UK respondents (93%) report experiencing moderate or significant levels of uncertainty, including 42% who describe the level of uncertainty facing their business as significant.

UK: How would you characterise the level of uncertainty in your business plans created by the issues you have identified...



For SMEs with limited financial buffers, uncertainty can directly affect business behaviour. When future economic conditions or policy frameworks are unclear, firms may delay investment, recruitment, or expansion decisions until clarity emerges.

'Government policy changes too frequently for businesses to make long-term plans.' SME business owner

Survey responses also highlight the importance of constructive engagement between government and the SME community. Four in five UK respondents (80%) say communication and engagement between government and businesses influence business sentiment and confidence.

'Government needs to be consistent and predictable in its policies.' SME business owner

Greater stability in policy frameworks, improved communication around policy and regulatory changes and stronger dialogue between government and businesses could help SMEs plan investment decisions with greater certainty.

Technology adoption presents opportunities but also new challenges for SMEs

Technology adoption presents opportunities for SMEs, but many businesses report barriers including cost and a shortage of specialist skills. These constraints can limit the ability of smaller firms to implement digital systems, automation, and AI effectively.

'Technology adoption is difficult for SMEs due to cost and skills shortages.' SME manager

'Digital transformation requires investment that many SMEs cannot currently afford.' SME business advisor

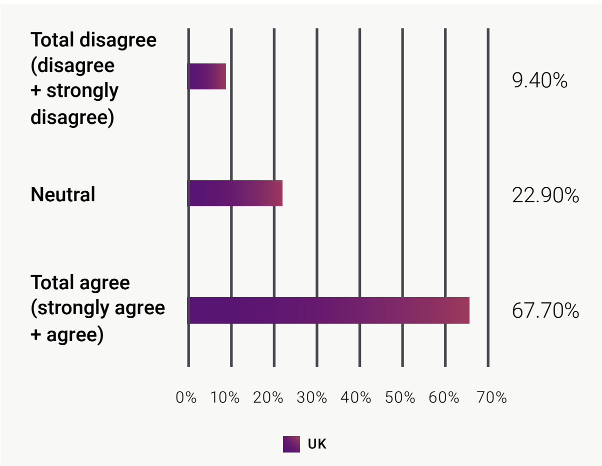
Access to finance remains a constraint on SME expansion

> **'Access to affordable capital is still one of the biggest barriers for SMEs.'**
> SME business leader

Access to finance continues to play an important role in enabling SMEs to invest, expand, and adopt new technologies. Survey responses suggest that although access to finance is not always the most immediate challenge facing SMEs, it remains a significant constraint on long-term growth.

Survey responses reinforce the importance of access to finance in enabling SMEs to scale. More than two-thirds of UK respondents (68%) agree that improving access to finance and capital is key to helping SMEs grow and expand.

Do you agree with the following statement: 'Supporting SMEs to scale up by improving access to finance and capital is a key part of securing SME sector growth'



For many SMEs, limited financing options can constrain investment decisions and delay expansion plans. Businesses may be aware of opportunities to grow or innovate but lack the financial resources required to pursue them.

Policy recommendations to strengthen the SME operating environment

1. **Provide greater policy certainty through a multiyear business-policy road map.**

   Policy certainty is essential for business investment. SMEs repeatedly highlight that frequent policy changes and regulatory uncertainty make it difficult to plan recruitment, capital investment, and expansion.

   Government should provide greater long-term certainty across business policy, including taxation, regulation, infrastructure planning, skills policy, and industrial strategy. One way to achieve this would be to publish a multiyear business-policy road map that provides visibility across key areas affecting business investment, including taxation, regulatory reform, infrastructure development, and skills policy.

   Providing clearer long-term policy direction would help SMEs make investment and hiring decisions with greater confidence and support long-term economic growth.

2. **Reinstate and modernise the Growth Accelerator Scheme to support SME scale-up.**

   Many SMEs lack access to the strategic expertise required to support business growth. Smaller firms often struggle to access specialist advice on areas such as financial management, digital transformation, innovation strategy, and workforce development.

   Government should reinstate and modernise the Growth Accelerator Scheme, which previously provided SMEs with subsidised access to coaching, mentoring, and strategic advice. The programme enabled firms to bring in external expertise and capabilities they otherwise lacked, helping businesses strengthen leadership capability and scale their operations.

   A modernised Growth Accelerator Scheme could focus on supporting SME leadership capability, digital transformation, and scale-up planning.

3. **Strengthen SME capability support through an expanded Business Growth Service.**

   Alongside scale-up support, SMEs require easier access to guidance and mentoring as they navigate growth challenges.

   Government should expand and strengthen the Business Growth Service, establishing it as a comprehensive, one-stop platform for SME support. This service should provide businesses with streamlined access to advice, mentoring, and expertise across areas such as finance, workforce development, regulatory compliance, digital adoption, and innovation.

   A strengthened Business Growth Service would help SMEs access the expert guidance required to overcome capability gaps and pursue growth opportunities.

4. **Improve access to finance and investment for growing SMEs.**

Access to finance remains a significant constraint on SME growth, particularly for businesses seeking to scale or invest in innovation and productivity improvements.

Government should strengthen mechanisms that support SME investment by

- expanding start-up loans and the British Business Bank Growth Guarantee Scheme;
- introducing targeted investment incentives, such as an SME Investment ISA, to channel savings into smaller businesses; and
- exploring the reintroduction of regional stock exchanges, potentially in virtual form, to support regional investment and SME growth.

Improving access to long-term growth capital would help SMEs invest in innovation, recruit skilled workers, and expand their operations.

1.

5. **Strengthen incentives for SME investment, technology adoption, and productivity.**

Investment in equipment, technology, and innovation is essential for improving SME productivity and competitiveness. However, many businesses face barriers when investing in new equipment, digital systems, and automation.

Government should strengthen incentives that support business investment and technology adoption by

- mitigating the reduction in the Writing Down Allowance for long-life assets, ensuring capital-intensive businesses can continue to invest;
- ensuring leased assets can access appropriate capital allowance treatment, helping SMEs invest in equipment they may not be able to purchase outright;
- maintaining and strengthening R&D tax incentives to support innovation and digital transformation; and
- expanding support programmes that help SMEs adopt digital technologies, AI, and automation.

Improving investment incentives and supporting technology adoption would help SMEs upgrade equipment, improve efficiency, and enhance long-term productivity.

Conclusion

The findings of this report send a clear message from CIMA members working in and advising UK SMEs: businesses remain ambitious to grow, but the policy environment is increasingly holding them back.

Across the survey, respondents consistently identified taxation as one of the most significant barriers to SME growth. Many reported that employment-related taxes, fiscal drag, and the cumulative impact of policy changes are increasing the cost of employing staff and making it harder for businesses to expand their workforce. For many SMEs, these pressures are directly influencing decisions about whether and when to hire.

These pressures are closely linked to the workforce challenges highlighted in this report. Many respondents reported that their organisations are operating with too few employees; others said they need additional staff but remain hesitant to recruit in the current environment. When the cost of employment rises and economic conditions remain uncertain, businesses are often forced to delay hiring even when they need additional skills and capacity.

These constraints risk limiting the ability of SMEs to contribute fully to future UK economic growth. SMEs play a vital role in driving innovation, supporting regional economies, and creating employment opportunities. When smaller businesses are unable to hire, invest, and expand, the effects extend far beyond individual companies — they are felt across supply chains, communities, and the wider economy.

The insights from CIMA members in this report underline the importance of a policy environment that enables SMEs to grow with confidence. Reducing barriers to hiring, addressing the cumulative tax burden on smaller businesses, and providing greater policy stability would help create the conditions in which SMEs can invest, expand, and improve productivity.

The UK's future economic growth will depend heavily on the success of its smaller businesses. Ensuring that SMEs have the policy stability, workforce capability, and tax environment needed to grow will be essential if the UK is to strengthen productivity, create jobs, and unlock its full economic potential.

Methodology of the CIMA UK Insights SME Survey 2026

This research presents insights from AICPA & CIMA members working in or advising SMEs. It draws on both quantitative survey data and qualitative interviews to explore the challenges and opportunities facing SMEs.

Research methodology and demographics:

- An online survey was distributed to CIMA members working in or advising SMEs across multiple regions.
- The final survey sample consists of 371 completed responses globally, including 147 UK respondents.
- To complement the survey findings, in-depth interviews were conducted with 30 AICPA & CIMA members globally who lead, work in, or advise SMEs. These interviews provided qualitative insights into the challenges facing SMEs and helped contextualise the survey findings.
- The interviews were conducted between November 2025 and January 2026; the survey was conducted between January and February 2026.
- Respondents represent a highly experienced group of professionals. More than 72% of respondents report having more than 20 years of professional experience. Many hold senior leadership or strategic roles, including C-suite executives, directors, senior managers, and business owners.
- The survey captures perspectives from SMEs across a wide range of sectors, including financial and professional services, manufacturing, education, technology, healthcare, and transport.
- Among UK respondents, 61% work in organisations with fewer than 50 employees, 26% work in firms with 51–250 employees, and 13% in firms with 251–500 employees.