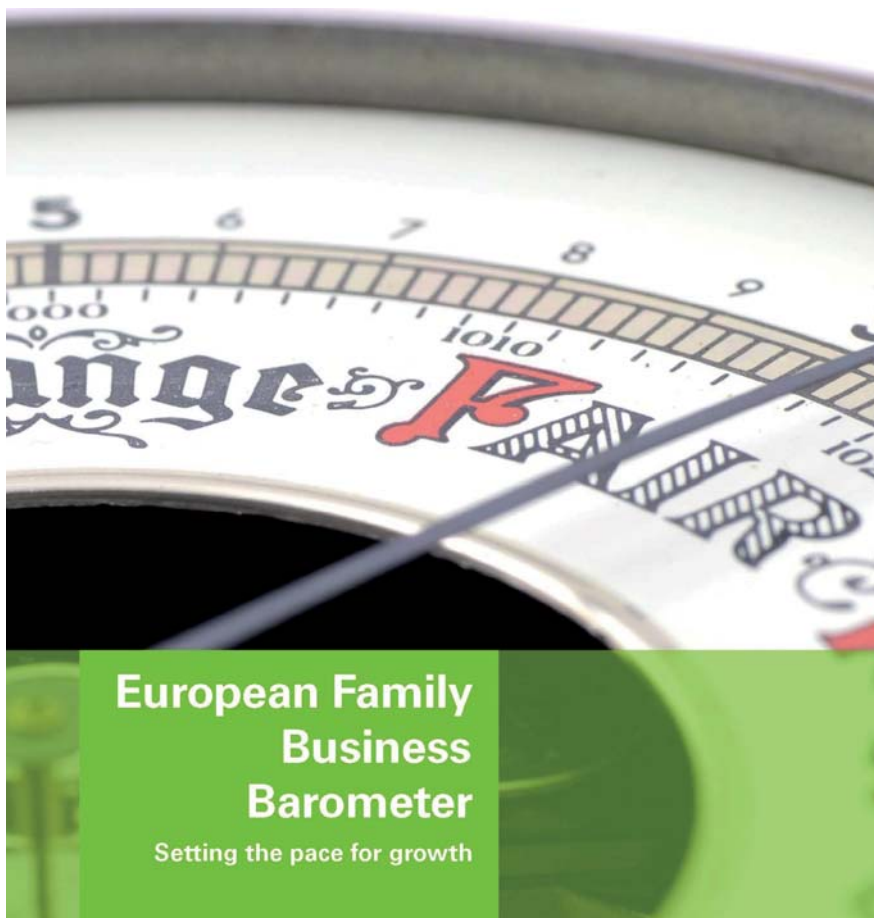


## SUMMARY

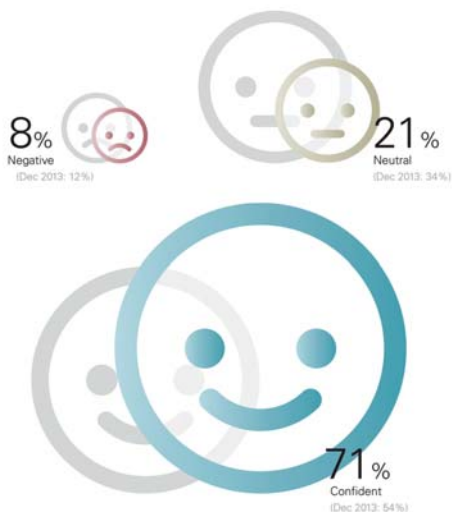
- Europe's family businesses increasingly optimistic
- EFB launch first European Family Business Tax Monitor
- Strategies beyond bank loans
- The development of a Family Business Act in Malta
- First European Family Businesses Summit



## Europe's family businesses increasingly optimistic

- The European Family Business Barometer shows that 71% of respondents (more than 710 companies across 18 EU countries took part) have a positive outlook for their business, an increase of 17% from the last edition in December 2013.
- Family companies have highlighted the decline in profitability and the 'war for talent' as their major obstacles over the next 6 months.
- A majority of family businesses surveyed have maintained or increased their turnover and staff numbers.

How do you feel about the economic situation of your family business for the next six months?



EFB and KPMG launch their second edition of the European Family Business Barometer, which seeks to measure the confidence levels of family-owned businesses across Europe.

The latest figures from the euro zone may be predicting uncertain growth, but for family businesses the future appears bright. Our survey indicates that a decline in profitability has increased as a concern with 49% of respondents (compared to 38% in 2013) classifying it as their biggest challenge. The survey also shows that family businesses have a huge potential to fully exploit the benefits of doing business internationally; and many have a lack of movement in their internationalisation. Yet, despite these pressures, family businesses remain confident.

There has been a noticeable increase in the positive indicators with respect to increasing or maintaining both turnover and staff numbers; the percentage of businesses signalling a decrease in turnover and staff numbers is reducing from 31% to 24% and 23% to 11%, respectively. Also, with an increase in respondents willing to state their view as positive, as opposed to neutral, all the signs point to returning market confidence.

The war for talent continues to be a big influence on future success and has become an increasing trend across the last two Barometers. The warning signs are that attracting the right people with the right skills is becoming an increasing challenge and one which may require intervention, if we are to mitigate it having a negative impact on the future of family businesses.

Full report can be found [here](#) >

## EFB launch first European Family Business Tax Monitor

- Family Business Transfers continue to be a major challenge in Europe - EFB and KPMG launch the European Family Business Tax Monitor.
- European Family Business Tax Monitor compares the tax treatment of inter-generational family business transfers in 23 European countries.
- Tax treatment varies significantly across Europe, with differing levels of complexity and obligations.
- The potential tax burden on business transfers within the family could hinder future growth and investment.
- The result of the EFB-KPMG Tax Monitor shows that in many European countries, governments still impose a tax on intergenerational family business transfers. Many European countries apply reliefs; however, if one is not prepared, the tax obligations can be severe. The Tax Monitor studies an example of a small family business valued at €10 million with a potential tax burden on succession through inheritance or succession on retirement.







#### Tax due on succession through inheritance:

Out of the 23 surveyed countries, 7 impose no taxes whatsoever. Assuming that no reliefs are applied, the potential tax burden varies from €0 to €4m. The figures highlight the importance of early preparation because the tax landscape changes dramatically when tax exemptions are taken into account. At present, the number of countries which impose no tax goes from 7 to 13. But even with exemptions certain countries impose comparatively high levels of tax, with the maximum being €1.5m.

#### Tax due on succession on retirement:

Out of the 23 surveyed countries, 6 impose no taxes whatsoever. Once again assuming no reliefs, the potential tax burden can be significant, with the top 4 countries levying between €2.8m and €4.2m upon a transfer of the business. When we look at the tax landscape with reliefs major changes occur. Currently, 13 countries apply no tax, but the top 6 still levy a comparatively high amount of between €0.3m and €1.5m.

#### Transfer of family business in Europe still a major challenge:

What is clear from the study is that family businesses can face an uphill struggle if they want to keep running the business within the family. Taxes are charged in many countries, but no cash has been generated by the individuals or the business as a result of the business transfer. The funds to meet the tax levy must be found from other sources. This reality can severely hinder the future growth and investment capacity of a business. Finally, the differing tax treatment of inheritance and retirement is interesting, and such policy differences can often result in changes to the families' behaviours. For example, the leaders of family businesses may hold on to control of the business for tax reasons, which can be frustrating for the next generation and act as a constraint on business growth.

The European Family Business Tax Monitor is based on the findings of 23 countries who undertook a taxation review on two scenarios for Oakwood, a family business valued at €10m. This first Monitor has looked into the tax impact of the transfer of the business to family members upon inheritance and retirement. Each participating country was given two case studies and a questionnaire to complete providing details on how their country would tax each event. Further research and analysis was then undertaken to highlight key trends in relation to exemptions and reliefs.

Full report can be found [here](#)>

## *Article.*

Andreas Torner, Deutsche Bank

# ***Strategies beyond bank loans***

Andreas Torner



## ***Capital market financing as the growth engine for European family businesses***

The contribution made by small and medium-sized companies to innovation and growth in Europe is immense. Roughly two-thirds of all employees and more than half of all investments are attributable to small and medium-sized companies, many of which are family owned. So the question of how these companies can finance their future growth is a pivotal one, necessitating new, innovative solutions.

Traditionally, European companies largely finance their operations by taking out bank loans. In around 70% of all cases, traditional bank loans are used to finance non-financial companies in the euro zone; in the USA, by contrast, this figure is less than one sixth. It is likely, however, that banks' financing capacities will diminish. It is only a matter of time before the post-crisis tightening of regulations in the European financial sector leads to further consolidation and, with it, a reduction in the volume of the loans sector. The new capital and liquidity requirements under Basel III will prompt numerous banks to review their long-term lending business, conceivably restricting new loan commitments.

The European Central Bank (ECB) has countermeasures in place, including its low interest rate policy and investment programmes, but these provide only little relief to small and medium-sized enterprises. Although the ECB is releasing funds as part of its targeted longer-term refinancing operations (TLTROs) to improve lending, particularly those financial institutions in countries most affected by the crisis must continue to ensure that their borrowers are highly creditworthy in light of the stricter capital adequacy requirements for banks. The result: irrespective of the country in which they are based, many family businesses in Europe are at risk of experiencing a shortfall in funding.

### **Capital market takes centre stage**

With a view to achieving a more balanced financing mix, companies are advised to strategically broaden their range of financing instruments, thereby establishing a broader base for future growth. As they do so, companies will automatically look to the capital market as an obvious alternative source of funding. It gives small and medium-sized companies access to long-term investors with cash to spend, for example insurance companies or pension funds. Depending on the size of the company and its lending requirements, the capital market can offer a whole range of instruments, including promissory notes, asset-backed securities (ABSs), private placements and mid-cap bonds. While a liquid secondary market for fixed income is not established until an issue volume of around €100 million is reached, ABSs and private placements are often possible from approximately €20 million. Leasing and factoring can be used as additional alternative financing components. Primarily companies with high growth rates are in a



position to use factoring to improve their cash situation.

In future, mid-cap bonds in particular can play a key role in the financing strategy of family businesses looking to secure new debt capital at competitive rates and broaden their financing mix. Other conceivable benefits include access to other currency zones and longer maturities than the traditional bank loan can offer. Although the difficulties experienced by some SMEs in repaying loans have recently led to public debate, as soon as mid-caps with a solid business model and good credit standing start to make increasing use of the capital market - bonds in particular - this should instil renewed confidence and help to establish mid-cap bonds as a segment of genuine quality. The transparency and disclosure obligations inherent to transactions on the capital market might initially discourage many companies, but the necessity of providing investors with transparent information on their finances can be extremely useful in helping companies to identify the opportunities and risks of their own business model and to optimise their internal structures and processes for the long term.

Issuing bonds for the first time is usually a complex process comprising, among other things, a credit rating, adjusting existing loan agreements, preparing and auditing financial data, compiling a prospectus and organising a roadshow for the company's management. Last but not least, regular post-issue financial reporting must also be taken into account when planning processes. Companies committed to venturing into the capital market therefore need a partner like Deutsche Bank - a partner that combines capital market expertise with a deep understanding of the mid-cap sector and that is in a position to provide qualified support at every stage of a company's planned bond issue.

#### Making the most of public funding

Public funding schemes are a huge help in financing innovative small and medium-sized companies. These include schemes that provide guarantees on default or arrange liability waivers for financially robust companies that do not have sufficient collateral. As part of its RSI guarantee programme, the European Investment Fund guarantees 50% of the loan amounts granted to innovative SMEs by selected intermediaries. Also worthy of note are the many investment

companies (so-called MBGs) in Germany that support eligible SMEs, usually in the form of a silent participation, thereby offering an alternative to capital market products. In light of the ever-increasing complexity of financing and funding options, a detailed knowledge of the different forms of financing that are suitable for and tailored to family businesses is a factor for success.

Deutsche Bank offers small and medium-sized enterprises, as well as larger family-owned companies, targeted access to international expertise and a global network. Specially qualified staff are organised into expert teams covering growth sectors such as green tech and life sciences with a view to understanding the needs and objectives of mid-cap clients and developing unique solutions for them. Our presence in a number of European markets gives us the ability to give full consideration to any special situations existing in the different regions.

Many European family-owned businesses are today on the lookout for new financing strategies beyond bank loans. Mid-cap bonds and other capital market instruments can offer access to new investor groups and create a wider base on which a company can build its financing. For financing to succeed, it is crucial that companies receive excellent advice from their bank, also in respect of public funding schemes. That is why we are so committed to creating a network of pan-European links between Deutsche Bank and European family businesses.







## ***The development of a Family Business Act in Malta***

History has shown us that family businesses have been the most robust, dynamic and adaptive sectors of the economy. This in spite of the fact that at business school they teach us that we should not go into business with friends or family and we should not employ someone whom we cannot fire. On the other hand family businesses have proven to be the most adaptive and resilient and have also demonstrated over and over again that they form a substantial part of our economies, generate billions in annual GDP and their existence provides stability to the economy as has been demonstrated during the most recent economic upheaval in 2008. But at the same time FB have to face major challenges that no other form of business has to face and this is due to the family dynamics at play within these systems.

As a consequence of these facts, the Malta Association of Family Enterprises (MAFE) has been lobbying with the political parties and other bodies in Malta to develop proposals of what is understood when one is talking about family businesses. No one doubts that such enterprises form a major part of the business sector and are thus a crucial part of the Maltese economy. This makes it essential that the long-standing concerns and difficulties faced by family business owners are addressed and supported by Government.

Family businesses will drastically improve their chances to



prosper through generations if they are provided with a legislative framework that will assist them to sustainably plan for and transfer the business, management, wealth and ownership of the family enterprise through the generations. Governments have failed to address these crucial issues in relation to family businesses, particularly with regards to governance procedures, ownership, economic planning and continuity planning. For this reason, MAFE has been at the forefront in putting forward its recommendations and suggestions to enable the political parties to consider the actual enactment of the Family Business Act which we are very satisfied to note that the current Government has actually embarked upon. At this point one must state that for such an Act to be effective one cannot solely consider the creation of tax incentives as is found in all other European countries in relation to ownership transfer, but the approach has to be a more holistic one.

The proposed legislation will present a framework that will tackle these issues and provide a tool for families in business to plan ahead for their continuation by facilitating business transfers between family members and from one generation to the next without compromising business continuity. Thus, increasing their chances of survival. It will also establish Malta at the forefront of legislative developments in relation to Family Businesses, since no similar law exists as yet in any other country.

The four key points that are being tackled by the Family Business Act concern the following areas:

- a) The definition and understanding of 'Family' and who is to be considered as 'Family' for the purposes of the FBA;
- b) The second area is the understanding of what constitutes a family business in terms of size of business, ownership, control, decision-making and voting rights and management control;
- c) Thirdly, the FBA will approach the difficulties that family businesses face in terms of succession and family governance. The law will strive to provide a holistic approach but the family in business must in the first instance have developed or is assisted to develop good family and business governance, and sound operating and management practices. Planning family business succession is already a very difficult process. Add to it the family dynamics interplaying at all levels of the family and the business and one has a herculean task to manage. As such family businesses will be expected to develop clear and formal family

governance structures and family agreements on how the family business is organised. Hence, family businesses will be assisted in the planning process since this is their Achilles heel;

- d) Finally the legislation - keeping in mind all these factors - will be inviting family businesses to register as a family business with the objective of offering them key incentives and assistance. The FBA will allow for family businesses registered as such, to qualify automatically for the incentives and assistance that will be made available. It is clearly understood that the incentives have to cater not only for the transfer and succession but also for the planning, developing of governance and training.

MAFE has been and still is at the forefront of this initiative and it is clear that our laws could be enhanced with this piece of legislation which specifically targets such an important economic sector of the Maltese economy. Therefore, enacting such a legislation will provide the tools for family businesses so that all their hard work, sacrifice and investment back into the business over thirty or forty years, will not be wasted because they are asset rich but cash poor and cannot meet the legislative financial and tax demands arising as a result of succession whether *causa-mortis* or *inter-vivos* because they did not have the tools to plan for their continuity.





SAVE THE DATE:

## ***1st European Family Businesses Summit***

Berlin, 24th and 25th of November

On the 24th and 25th of November, EFB will host the first European Family Businesses Summit, a very special event in Berlin where the German Chancellor, Angela Merkel, will deliver a speech. On the 24th there will be a networking dinner, followed by the conference program on the 25th. Key speakers from politics and business will discuss the challenges and advantages Family Businesses face in a changing European Union.

Don't miss this opportunity to meet important Family Entrepreneurs from all over Europe. Invitations will follow shortly.

Please visit [www.europeanfamilybusinesses.eu](http://www.europeanfamilybusinesses.eu) for more information.