EFB Position Paper:
A Renewed EU Strategy 2011-2014 for Corporate Social Responsibility

EUROPEAN FAMILY BUSINESSES

European family businesses generally support the ideas and view that are presented in this communications. We would like to emphasise the point that was made regarding types of business and their subsequent business conduct. Indeed, family businesses were specifically mentioned and it is encouraging to see that family businesses are recognised for having ownership and governance models that are conducive to responsible business conduct and sustainability.

'Family firms are important, not only because they make an essential contribution to the economy, but also because of the long-term stability they bring, the specific commitment they show to local communities, the responsibility they feel as owners and the values they stand for. These are precious factors against the backdrop of the current financial crisis(1).'

Regarding the point on 'principles of good tax governance,' we feel that this point could also be made regarding different forms of financing. In many European countries, debt enjoys a better fiscal treatment than equity. What do we mean be this? To put it simply, the taxation of income from equity is harsher than the taxation of income from debt. This concept is best explained by a recent IMF study which states that 'most tax systems today contain a "debt bias," offering a tax advantage for corporations to finance their investments by debt. This has grown increasingly hard to justify. One cannot compellingly argue for giving tax preferences to debt based on legal, administrative, or economic considerations. The evidence shows, rather, that debt bias creates significant inequities, complexities, and economic distortions. For instance, it has led to inefficiently high debt-to-equity ratios in corporations[(2)]'. This issue was also highlighted in the UK Mirrlees Review, performed by the Institute for Fiscal Studies.

EFB finds it somewhat surprising that throughout the communication we see no mention of philanthropy and CSR. This is surprising as both are often interlinked from the perspective of the family business.

EFB would recommend that the conclusion from a study performed by Beth Breeze for the Institute of Family business in the UK, be taken into consideration. In her study, she concludes that for family businesses, legislative approaches are widely viewed as off-putting;

(1) Final Report of the EU Expert Group, Overview of Family-Business-Relevant Issues: Research, Networks, Policy Measures and Existing Studies, November 2009

(2) Tax Biases to Debt Finance: Assessing the Problem, Finding Solutions, Ruud A. de Mooij, May 2011

(3) Beth Breeze, 'Natural Philanthropists: Findings of the Family Business Philanthropy and Social Responsibility Inquiry', June 2009

(4) Idem

'public procurement processes are widely recognised by family businesses as creating an effective opportunity for government to prompt philanthropic and responsible acts[3]'; 'tax breaks to encourage giving are always welcome', but 'existing tax reliefs are not widely understood or fully utilise[4]'.

Therefore, we would certainly support measures that take these conclusions into account. In other words, avoiding legislative measures which forcibly impose CSR on a company, but encouraging CSR activities via intelligent public procurement, and awareness raising on already existing tax incentives.

Generally speaking family businesses prefer to learn about philanthropy and social responsibility from their peers. Therefore, EFB supports measures that would promote dialogue between companies of the benefits and incentives of CSR.

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