EFB Position Paper:
Priorities for Transfer of Business

EUROPEAN FAMILY BUSINESSES

Family businesses (FBs) make up more than **70-80%** of all European companies, encompassing a vast range of firms of different sizes and from different sectors. Most SMEs (especially micro and small enterprises) are FBs and a large majority of family companies are SMEs[1]. FBs also account for an important part **(about 40 % - 50 %)** of European employment. FBs are active in all sectors of the economy. Nevertheless, studies have shown that FBs are more prevalent in traditional and labour intensive sectors such as agriculture, manufacturing/crafts, construction, tourism, or retail trade[2].

1. FBs 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 Europe's continuing economic problems.

2. FBs can be categorised as being often "traditional" enterprises in spite of working in their field of activity with modern production processes and modern technologies. FBs (particularly the smaller ones) are often strongly anchored in the local community, resulting in a local business focus (i.e., co-operation rather with local suppliers, limited levels of foreign trade, employment of local inhabitants).[3]

3. FBs are an extremely important source of regional jobs, and consequently FBs retain valuable skills and knowledge via its local workforce.

4. FBs focus on long-term sustainability of the firm rather than the realization of short-term profits. Indeed, FB experts are of the opinion that the main characteristic of family businesses differentiating them from non-FBs is that they are run and managed without the intention to sell the business.[4]

5. FBs also represent the largest pool of entrepreneurial potential. FBs are natural incubators for future entrepreneurs, as family members are regularly exposed to the day to day workings of a business.

The importance of family businesses is undeniable. But family businesses, as all business entities, face challenges. One in particular is arguably the most important. As highlighted in the European Commissions' **Entrepreneurship 2020 Action Plan**, 'Transferring a business from one generation to the next is the defining feature of a family business and the greatest challenge that it can face. A family business transfer must be considered as a transfer of ownership, where that ownership is not a liquid asset but something which is built up and developed by the family over generations, including values, traditions and know how. The scope and scale of diverse approaches to inheritance and estate taxes across the EU demonstrate that there is still much room for improving the legal climate for family business transfers.[5]'

(1) Final Report of the Expert Group Overview Of Family Business Relevant Issues: Research, Networks, Policy Measures And Existing Studies (2009)
(2) KMU Forschung, Overview of Family Business Relevant Issues, 2008
(3) KMU Forschung, Overview of Family Business Relevant Issues, 2008
(4) KMU Forschung, Overview of Family Business Relevant Issues, 2008
(5) COM(2012) 7985 final

EFB Recommendations

There can be no doubt that significant regulatory improvements have been made for family businesses in Europe. They also now enjoy more support from experts and dedicated organizations when they go through a transfer process. But it is obvious that significant improvements can be made to the transfer of business environment for family businesses. EFB believes that there a five crucial action points that need addressing.

1. Family business transfers must be recognised

The transfer of business is not just about buying and selling. Family business transfers for the potential they represent to the European economy must not be ignored.

- DG Enterprise should continue to communicate to national administrations, and internally within the European Commission, the importance of family businesses and the need for them to receive effective support when they go through a transfer.

2. The tax and regulatory framework must not put family businesses at a disadvantage

Inheritance and gift taxes might create a substantial disadvantage for family businesses that have a long-term outlook. The different tax treatment of inheritance and retirement can also lead to 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. Finally, the EFB Tax Monitor (here attached) shows the lack of clarity and administrative burden surrounding reliefs.

- The European Commission is the ideal institution to monitor and review the legal, administrative, and fiscal environment that surround family business transfers across Europe. It should perform regular appraisals and it should submit recommendations to Member States when necessary. This could be done under the European Semester. In addition, under the justification for the better functioning of the Single Market, the European Commission should monitor the transfer of business situation in the cross-border context.

3. Accurate yearly data must be compiled on the transfer of business situation

The commissioned report for the Business Transfer Expert Group highlighted the need for accurate data on the Transfer of Business at the EU Level. Without this crucial insight informed decisions and policies are hard to make.

- The European Commission should launch a pilot scheme to capture data surrounding the transfer of business situation in Europe, with the hope of creating a permanent data programme in the Member States.

4. The dissemination of best practices must be improved between Member States

Many excellent best practices exist and have been outlined by the European Union to aid family business transfers. However, more must be done to promote exchanges of best practices between Member States to ensure that companies are not needlessly lost.

- The Commission should create and moderate a permanent forum to increase the exchange of knowledge and experiences between public administrations and family-business-related institutions (such as associations and academic research institutes) in different Member States. This tool would be used both for the exchange of best practices, and for the promotion of new policy making initiatives at European level.

5. More support is needed to help family businesses better prepare their transfers

A transfer is not a single event, but a process that must absolutely be planned in advance in order to succeed. EFB's Tax Monitor highlighted this necessity. Early planning is also needed to ensure that the successor has the necessary skills and motivation to continue the business.

- The European Commission should continue to act as the catalyst to ensure that family business owners are made aware of the resources and tools that are available to them to better prepare their transfer.

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European Family Businesses is a federation of 11 national family businesses associations. Our aim is to make political decision makers aware of the contribution of family businesses to society at large and to promote policies that are conductive to long term entrepreneurship. Our members represent turnover in excess of one trillion Euro, 9% of European GDP.