EFB response
to the Single Market Act

EUROPEAN FAMILY BUSINESSES

European Family Businesses proposals on access to finance

Proposal No 12 Single Market Act: The Commission will adopt an action plan for improving SMEs access to capital markets in 2011. This will include measures to make investors more aware of SMEs, to develop efficient stock exchange networks or specific regulated markets focusing on SMEs and to make more adapted listing and disclosure requirements for SMEs.

Based on this proposal, EFB, as the Federation representing Family Businesses in Europe, proposes the following for the consideration of the European Commission:

1. Creation of special capital markets for small and medium private companies. All efforts to create cross-border financial institutions will be welcomed.
2. Creation of a pan-European free floating over the counter market.
3. Improve the role of the European Investment Bank in order to give guarantees to those who invest in SMEs and back the loans to private companies.
4. Offer guarantees to viable businesses that lack collateral, e.g. Loan Guarantee Scheme
5. Income from equity should not be subject to more severe taxation than income from other types of capital, e.g. receivables or real property. In the current economic downturn, the importance of a strong balance sheet with a solid amount of equity is being promoted. One important factor contributing to the retention of earnings is taxation (see EU Commission Study Effects of Tax Systems on the Retention of Earnings and the Increase of Own Equity, 15 February 2008).

http://ec.europa.eu/enterprise/newsroom/cf/_getdocument.cfm?doc_id=3919

According to a report by the High Level Group chaired by Wim Kok (Facing the Challenge: The Lisbon Strategy for Growth and Employment, November 2004), company financing in Europe is currently based on debt rather than on equity. "This makes it especially hard for start-ups and SMEs to attract sufficient financing, as they cannot meet the demands for guarantees by traditional financial institutions", the report says. However, in most European countries, in terms of taxation, debt is differentiated from equity; businesses receiving their assets in form of debt are allowed to deduct the interest payments from taxation. On the other hand, dividends paid on equity are not deductible for the payer. From the perspective of the owner, dividend income is mostly only partly exempted from tax, thus leading to partial double taxation.

6. Create favourable tax treatment for venture capitalists and private equity companies who invest in companies for a long period of time (creating a TAPIR, tax privileged investment return, from 5 to 10 years). Family businesses need market where patient capitalists invest and form advisory boards of senior owners.

7. To use the UK's Enterprise Investment Scheme (lower taxation on capital gains for investments in SMEs) as a model for the EU, with some changes:

- To give tax exemption to the servicing of preference shares without voting rights.

- To use alternative classes of shares in the conditions that govern independence / relation of investors and investee firm, e.g. ordinary shares come with/without voting rights

8. Encourage big business with tax incentives -that are often granted to venture capitalists and other investors - to invest in independent smaller companies where the threshold for a SME to be independent is raised from max 20% of outside investment to 30%.

9. Find ways to foster joint ventures between private companies to improve their scope and size.

10. Encourage employee's financial participation with certain limits as way to provide companies with an alternative access to finance.

11. Use of new technologies as a way for allocating private savings into new SME´s investments. Similar to job hunting or property websites, we could use internet or social networks to put investors in contact with SMEs.

    See http://www.efesonline.org/EESC/EN.htm

12. Foster small scale loan capital. We could recreate very effective old instruments such as "Investors in Industry" or" Equity capital for industry" used after World War II and adapt them to the present in order to re-stimulate European Economy.

13. Regulate banks not to overcharge small firms -e.g. management fees for overdrafts.

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