Family Business Transfers and Continuity: Let the Next Generation Drive the Twin-Transition

Family Businesses are the Backbone of the Economy

As a continent, Europe needs to recognise **that the transfer of business represents a huge opportunity for growth, resilience and continuity.** The next generation of business owners are ready, willing, and able to take over and are eager to drive the sustainable and digital transition that our continent needs. To ensure that we give the next generation the best chances of succeeding, we need a simple and easy way to navigate the legal, fiscal and regulatory framework for these business transfers to occur.

Family businesses (FBs) make **up more than 70-80% of all European companies**, encompassing a vast range of firms of different sizes. Most SMEs (especially micro and small enterprises) are FBs. FBs also account for an important part **(about 40% - 50%)** of European employment. FBs are important, not only because of their essential economic contribution, but also because of the values they possess which form their DNA. For example, FBs bring long-term stability through their commitment to local communities, and the responsibility they feel as business owners to society as a whole. For all these reasons, FBs must be considered as strategic assets for Europe.

Approximately 450.000 enterprises, many being FBs, representing 2 million jobs are transferred yearly in Europe.[1] This represents risks but, critically, it also represents great opportunity. For Europe's future prosperity, these transfers must be managed successfully so that Europe's businesses can continue to thrive and remain competitive.

Family Businesses and Succession

Family businesses, as with all business entities, face challenges; one in particular stands out as the most important: *'The transfer of business ownership, together with the transfer of management from one generation to the next, is the greatest possible challenge facing family businesses'*[2]. A family business transfer must be considered not only as a transfer of management, but 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.

1 https://single-market-economy.ec.europa.eu/smes/supporting-entrepreneurship/transfer-businesses_en
2 http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A8-2015-0223+0+DOC+XML+V0//EN

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As a result, because of the intrinsic complexity of family business succession, it is crucially important that the environment, where the transfer takes place, **gives a family business the best chance of survival**. After all, due to this process being a continuity of values and long-term goals, a transfer and continuity of businesses within the family saves employment thus, protecting jobs unlike other transfers to new external owners which sometimes brings radical change or a significant new direction. We would like to argue that during a business transfer, you transfer not only the shares of a company, but also the social value, along with a set of obligations.

Family Businesses are active contributors to the public purse!

Family businesses are active members contributing to the public purse. A recent research report based on 2021 statistics published in October 2023 by the Family Business Research Foundation and PwC UK reveals evidence on the contribution made by the family business sector to the UK's public finances. They estimate that the tax contributed by family businesses to be £225bn in 2021 and of this '*employment taxes and VAT represented the largest proportion (80%) of all taxes contributed by the firms*' in their study. [3]

It is not just the tax contributions that family businesses make that contribute to society but also their ability to withstand economic crisis while largely retaining employees. In a recent study commissioned by FBNed and Stichting Familie Ondernerming and conducted by SEO Amsterdam Economics, the contributions made by family businesses in the Netherlands was mapped. The study found that '*…because of their structure and governance [family businesses] are quicker to adjust to new circumstances … [thereby leading] to lower social costs, especially in times of crisis which is visible in fewer layoffs, less frequent use of government schemes and fewer bankruptcies*.' [4] The jobs maintained and created by family businesses not just in one generation but also in future generations, make family businesses valuable assets to society.

As such, it is in our best interest to ensure a strong transfer of business process to certify that businesses are not met with an over complicated and costly process which could lead to the closure, relocation or downsizing of a company. It is important to recognise that family businesses can be the stable, long-term vehicles for EU's competitiveness and open strategic autonomy goals.

How to support Family Business Transfers and Continuity

Significant regulatory improvements have been made for familybusinesses in Europe. They enjoy more support from experts and dedicated organisations when they go through the transfer process and the European Commission has made significant efforts to support the

[3]-https://static1.squarespace.com/static/64dcaa8b96fc07122c799a2f/t/64f9b7ff9d2cfc522e268092/1694087171737/total-tax-contribution-of-uk-family-businesses.pdf
[4] https://fbned.nl/nl/nieuws/2024-03-18-wetenschappelijk-onderzoek-toont-aan-familiebedrijven-vergroten-economische-stabiliteit-van-nederland

business transfer environment. But, despite all the progress, it is obvious that significant improvements can be made to the transfer of business environment for family businesses. Below, EFB underlines the most important issues that need to be addressed by policy makers. In sum, **ownership matters.**

The transfer of business is not just about buying and selling; it is about protecting the legacy and leaving the company in a better shape for the next generation. **Family business transfers for the potential they represent to the European economy, must not be ignored**.

EFB recognises that the transfer of business is not limited to family succession. When a business is not transferable to family members, for any myriad of reasons, the transfer to employees or a third party is necessary. But in many Member States family succession remains the predominant form of transfer and, as such, must be recognised and supported accordingly. We need the 1994 Commission Recommendation on the transfer of small and medium-sized enterprises to be maintained by Member States.[5] Over the last year the exemptions put forth in the 1994 Recommendation have, in some Member States, been removed, thus threatening the competitiveness of family businesses in Europe. Family business entrepreneurs create the jobs of the future and commit to the inclusive, sustainable growth that Europe needs.

Therefore, the European Commission must continue to communicate to national administrations, and internally, the importance of family businesses and the need for them to receive effective support when they go through a transfer. EFB would like the opportunity to provide input to policymakers on the Transfer of Business issue.

1. The tax and regulatory framework must not hinder family business succession.

The state of play across the EU's Member States varies. In Sweden, Austria, Estonia, Romania, Slovakia, Norway and Cyprus there are no inheritance or gift taxes. While Latvia has some taxes on gifts but not on inheritance tax, the rest of the EU's Member States levy either an inheritance tax or a gift tax or both. The United Kingdom, for instance, has a Business Relief for Inheritance Tax which enables, "…business relief of either 50% or 100% on some of an estate's business assets which can be passed on: while the owner is still alive and as part of the will."[6] There are many countries that have considered the importance of a businesses' transfer and have come up with a systems that do not hinder the transfer process. Thus preventing a negative impact on employment, job creation and economic growth when a business transfer takes place.

In addition, inheritance and gift taxes create a substantial disadvantage for family

[5] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31994H1069
[6] https://www.gov.uk/business-relief-inheritance-tax

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.** At a time when the European Single Market needs to increase its competitiveness, the inheritance and gift taxes which prevent family business owners from transferring to the next generation must be taken into account.

Furthermore, in those instances where families and businesses have to fund tax liabilities arising as a result of events which are inevitable, and which result in no economic return to them, it is imperative that the fiscal and administrative burden is proportionate to the associate risk of loss of activity for local communities. Often, financial resources must be used to fund these liabilities, resulting in less money for future business investment. Investment, of course, drives increased employment and growth, key issues for all governments and economies.

As such, the European Commission is the ideal institution to monitor and review the legal, administrative, and fiscal environment that surrounds family business transfers across Europe. It should perform regular appraisals, discuss the outcome with stakeholders and 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 transferof business situation in the cross-border context.

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

As mentioned previously, data on business transfers is sorely lacking. This can be equated to the fact that data on ownership is also rightly limited, to the extent of data protection.

Policy makers should be fully aware of this challenge; the commissioned report for the Business Transfer Expert Group[7] 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 Commission's commitment, in the SME Relief Package published on 12 September 2023, to '*...assess the framework conditions for business transfers in Member States together with the network of SME Envoys- by Q2 2024*' illustrates the importance of business transfers to the European economy.[8] The assessment of the framework conditions will require up-to-date data from across the EU's Member States.

Thus, we recommend that the European Commission should launch a pilot scheme to

[7] EUROPA – Family Business – Expert Group Final Report
https://ec.europa.eu/docsroom/documents/4263/attachments/4/translations
[8] https://single-market-economy.ec.europa.eu/system/files/2023-09/COM_2023_535_1_EN_ACT_part1_v12.pdf

capture data surrounding the transfer of business situation in Europe, with the hope of creating a permanent data programme in the Member States. Moreover, the Commission should use business registers to gather data on the transfer of business process so that this can be accessed in a sustainable and regular manner.

3. 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 the European level.

4. Importance of maintaining exemptions during the transfer of business process.

In 2014[9], 2016[10] and 2018[11] EFB, in conjunction with KPMG, demonstrated that the fiscal environment, when it comes to transferring ownership, is highly complex. KPMG has also demonstrated this in 2020[12]. In their 2023 report, KPMG identified changes made to inheritance taxation and gift taxes of Germany, Spain, the Netherlands and Greece which we interpret as potentially jeopardising the transfer of business and thereby leaving family businesses in a worse-off state[13] .

The analysis showed that there is a wide range of complexity across Europe in the levying of tax, and that in certain Member States it is essential to be 'tax literate' (those who are aware of exemptions and reliefs and that qualify for them) to give a family business the best chance of survival.

Protecting the industrial base of Europe will be difficult if the succession and inheritance exemptions are not maintained by Member States. Recently, the Dutch government decided to revisit the business succession scheme and inheritance tax. This includes a change, '*to exclude leased real estate so that it will not be taxed at a reduced rate.*'[14] Furthermore, '*...there is a discussion of reducing the 83% exemption for gift and inheritance tax.*'[15] Thus increasing the tax due when there is a transfer to the next generation. If these

[9] https://europeanfamilybusinesses.eu/wp-content/uploads/2021/04/efb-kpmg_european-tax-monitor_efb_final.pdf
[10] https://europeanfamilybusinesses.eu/wp-content/uploads/2021/04/kpmg-global-family-business-tax-monitor-2016.pdf
[11] https://europeanfamilybusinesses.eu/2018-global-family-business-tax-monitor/
[12] https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2020/10/global-family-business-tax-monitor.pdf
[13] https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2023/03/global-family-business-tax-monitor.pdf
[14] https://single-market-economy.ec.europa.eu/system/files/2023-09/COM_2023_535_1_EN_ACT_part1_v12.pdf
[15] https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2023/03/global-family-business-tax-monitor.pdf

changes take place, there is a potential for delocalisation of people and companies. This is a risk which is heightened if some countries in the EU offer exemptions on succession and inheritance tax while others do not. It risks creating a distortion in the playing field among Member States.

Where in Belgium a company must meet specific qualifications in terms of shared ownership and maintenance of capital post-transfer to qualify as a family business and receive favourable tax rates on transfer, in the Netherlands exemptions only apply for business assets that have been part of the business at least 5 years before a gift transfer, one year in case of death, and shares must be held and the business continued for at least 5 years after the transfer.[16]

It is vital that entrepreneurs can benefit from any reasonable exemptions that may be available to them when they seek to transfer the business so as to ensure the business' continuity for the benefit of their related ecosystems. There is a potential that Europe will become more attractive for further investment of family businesses. An international advantage which might partially compensate high costs and enormous bureaucracy of European rule making.

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 order to succeed. Early planning is also needed to ensure that the successor has the necessary skills and motivation to continue the business.

In addition, family businesses all too often do not have access to the expertise that is required to prepare and initiate a transfer. This also applies to the non-technical components of the transfer (family communication, family expectations, family values, family competencies, family dynamics, etcetera.) which are just as important as the technical issues of a transfer (taxes, etcetera).

Through its Erasmus+ programme, the European Commission has recently funded two projects on the Transfer of Business process: SPRING and SUFABU. [17] [18] Whilst having these projects is a commendable start and works to create useful resources for family business owners, more must be done to provide expertise to family businesses to prepare themselves for succession.

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

[16] KPMG Private Enterprise Global Family Business Tax Model: 2020

[17] https://www.euspring.eu/

[18] https://www.sufabu.eu/

better prepare their transfers. Member States must enact national action plans to facilitate the transfer of business.

Overall, in order to stop businesses from closing when a transfer takes place and to protect jobs, Europe's industrial base and Europe's competitiveness, the issues faced by companies during the business transfer process must be resolved. Collecting data from each EU Member State on the exemptions they have retained from the 1994 Commission Recommendation, the extent to which an exemption has allowed business transfers to carry on with greater ease, the best practises employed by a Member State and by business owners within that Member State are just some of the data points that should also be considered. As such, EFB will continue to call for the protection of FB transfer support measures by Member States and to advocate for a regime that recognises the strategic importance of our family businesses.

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European Family Businesses (EFB) *is a federation of 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, 10% of European GDP.*