An international conference on the current research related to transfer of ownership and the impact of measures such as taxation.

Stockholm, Sweden, 25th – 26th March 2010

Transfer of Ownership in Private Businesses – European Experiences

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Conference Newsletter January 2010

Registration is open!

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Transfer of Ownership from the European Perspective

Transfer of Ownership in Private Businesses – European Experiences, an international conference, will reflect the many facets of transfer of ownership in privately owned businesses. As early as 1994, the European Commission presented recommendations to EU Member States as part of the Treaty of Lisbon in a special report that outlined measures to provide support and facilitate business transfers, Transfer of Businesses - Continuity through a new beginning.

Updated in 2005/2006, the report stated that Europe's population is ageing and the potential for business transfers is increasing in the Member States. The conditions for business transfers in the Member States and the measures required to facilitate transfers are presented in a matrix. For instance, the Commission notes the need for greater political attention to measures that facilitate business transfers. Beyond the fundamental aspects like taxation, the Commission emphasises the importance of prioritising soft factors like mentoring.

Five years ago, the Social Democratic Government then sitting repealed the inheritance and gift taxes in Sweden. The action was a response to the challenges faced by Swedish family businesses, as about half of all family-owned businesses were looking at a transfer of ownership within ten years. Swedish firms had to be able to change owners without risking their long-term existence, and the fate of hundreds of thousands of employees, customers and suppliers hung in the balance. The Confederation of Swedish Enterprise has studied the impacts of these changes in tax policy, which will be covered in the session devoted to Ownership Transfer: Critical Tax Issues.

The session on Critical Issues in Transfer Processes: Succession as Role Transitions will address business transfers from the human perspective. Topics will include how people leave the role of owner behind or take it on for the first time, the emotional impacts of the process and how the people who leave the enterprise create new roles and identities afterwards. Much of the research at the Centre for Family Enterprise and Ownership at the Jönköping International Business School concentrates on this type of problem.

Interview with Grant Gordon

Grant Gordon is the Director General of the British Institute for Family Business and will be participating in the conference in the Influence of Taxes on Ownership Transfer session.

What is the Institute for Family Business?
The IFB is an independent, not-for-profit, politically neutral, membership association which supports the UK family-owned business sector through advocacy, education and research.

What is the situation in the UK when it comes to transfers of privately owned businesses?
There is a lot of room for improvement. A study by PriceWaterhouseCoopers shows that less than 50% of British family businesses have begun planning for a transfer of ownership. So, the majority of family businesses in the UK really need to get started with transfer planning.

With reference to the EU Commission report Transfer of Business - Continuity through new beginning, has any progress been made in the UK?
Conditions for transfer of ownership have been pretty stable in the UK. But then again, the issue of transfer of ownership in family businesses hasn't received a lot of attention.

There are no wealth, inheritance or gift taxes in Sweden anymore. What do you think of these changes in tax law, and do you believe they facilitate business transfers?
Tax conditions for family businesses have been relatively stable in the UK for two decades, under both Tory and Labour governments. The assets held by family businesses are exempt from inheritance tax, which is accepted across party lines.

Taxation is a national issue and I don't want to comment on Swedish tax rules, but it is important to emphasise the importance of the family business sector and ensure that conditions are such that businesses make it through a transfer.

What are your hopes for the upcoming conference, Transfer of Ownership in Private Businesses?
I am delighted to have the opportunity to learn from other countries. I see the conference as a platform for discussing the strategic issue of how we can establish favourable conditions for family businesses in the long term.

Role Transitions – The Key to Successful Business Transfers

The roles of owner and managing director are central in a transfer of ownership. These transitions sometimes occur simultaneously, for instance when the company is sold and the owner leaves the firm. But in many cases, a new MD takes over beforehand, as part of an imminent transfer of ownership/generational change. In these cases, entrepreneurs shed the role of MD and begin to more actively exercise the role of owner.

This is a major transition for an entrepreneur. Business owners often identify with the role of MD and become "one with the company." Taking off the "managing director hat" can often be something of an identity crisis: "If I no longer have the business, who am I?" Thus, changing the managing director is a process of mental and emotional maturation – one people need to prepare for and take seriously. For the transition to succeed, business owners must have a new and clearly defined role that fills their hours and expresses their dedication. If the entrepreneur does not have such a role, the transition may fail. The new MD is given no room to manoeuvre because the old boss cannot let go. And suddenly the firm has "two MDs" who are both laying claim to the position.

When the position of MD is transferred to someone else, the owner's role also changes. The business owner must then begin to more clearly exercise his or her ownership, as part of the overall governance of the firm. But what, exactly, does a non-executive owner do? Often, owners who are also former MDs spent most of their time performing the managerial role. The role of owner is somewhat vaguer. It is present in the background, but is nothing the entrepreneur really spends much time thinking about. When the position is transferred to another person, the ownership role moves closer to centre stage and must be filled with content that differentiates ownership from management.

When these role transitions are managed well, the changes set the stage for both personal and business development. Carefully defined roles are also a prerequisite for professional corporate governance. Skilful role transitions are thus an important key to successful transfers of ownership/generational changes.

Annika Hall, PhD, is a researcher and project manager at the Centre for Family Enterprise and Ownership at the Jönköping International Business School. Her research interests include external management in family businesses and how values can be transferred over time in expansive, multi-generational family businesses.

Interview with Philip Aminoff

Philip Aminoff is the chairman of GEEF, the European Group of Owner Managed and Family Enterprises. He will be participating in the conference in the session on Ownership Transfer: Future Needs and Actions.

What is GEEF and what does it do?

GEEF, the European Group of Owner Managed and Family Enterprises, is the pan-European umbrella organisation for associations representing long-term family enterprises in 12 European countries. GEEF's mission is to establish an environment in Europe that provides a solid foundation for long-term family enterprise.

Even though family businesses provide more than half of Europe's private-sector jobs, policymakers have entirely overlooked the fact that companies are usually owned and operated by people. There is a need for action in the areas of economic policy, legislation, official attitudes and organisational structures, taxation and research and development. Successful policies are those that push entrepreneurs to make long-term investments and create jobs for the future, while ignorant policies can, for no good reason, lead to the collapse of firms, sell-offs and dwindling investments in the future.

How would you describe the situation for transfers of ownership in family businesses in Finland?

We still pay inheritance and gift taxes in Finland. In practice, this means that Finnish tax law systematically favours firms owned by institutions (state/municipality/pension funds) over firms owned by households – physical persons, in other words.

Accumulated capital does not normally constitute a basis for taxation in institutionally owned firms. But tax is assessed on the accumulated capital of person-owned firms at least once every generation. In this way, institutionally owned firms become tax-exempt havens of a sort, which, with the state's blessing, are given better conditions for building a strong capital base. Countries that levy inheritance and gift taxes on company assets thus steer enterprise away from personal responsibility and towards the faceless, which is not good.

How would you describe the situation for transfers of ownership in family businesses in the EU?

There have been some pretty major changes in recent years. Many countries have completely abolished inheritance and gift taxes, and several others have instituted assessment relief schemes for company assets transferred to the next generation.

Things have also been moving in the right direction at the EU level. In recent years, the European Commission has taken steps towards preventing the strangulation of firms by bureaucracy and taxation in connection with generational change.

Have there been any changes in the conditions for transfers of ownership in Finland since 1994, when the original EU report Transfer of Businesses - Continuity through a new beginning was released?

There have been several changes in the right direction. A structure that allows appraisal relief in connection with generational changes in farming and business has been introduced, and the inheritance and gift tax rates were lowered. But in our country, it seems like we still have a hard time understanding that a death in an ownership group does not generate income.

Sweden has abolished the inheritance, gift and wealth taxes. What do you think of these measures to facilitate business transfers?

From the business owner's angle, Sweden is a clear front-runner. When the state gives all categories of owners equal terms for long-term ownership, it stops conferring advantages on institutionally owned firms.

One good consequence of the restructuring in Sweden is that assets received as a gift or legacy have an acquisition value of zero, rather than an inheritance tax value. In this situation, there is no need for the authorities or heirs to wrangle about the probable market value of the firm's assets. Instead, taxation of any later capital gains from a sale can–logically and neutrally–be based on the difference between the selling price and the zero expenditure to acquire the assets. I believe the right time for taxation is when there is an income from which the tax can be paid.

What are your hopes for the upcoming conference in Stockholm, Transfer of Ownership in Private Businesses – European Experiences?

I think the conference will be a good opportunity to further open people's eyes to the importance of creating a level playing field for all types of firms, all types of savings capital and all types of owners. In far too many countries, there are still laws and taxation that actually encourage sell-offs instead of continued enterprise and entrepreneurship.

NEW REPORT FROM THE CONFEDERATION OF SWEDISH ENTERPRISE

Five years with no inheritance and gift taxes

Current statistics from Statistics Sweden (SCB) show that of the 148,000 family business operators in Sweden (counted as partners in a closed company) 46 percent are 50 or older, and a goodly number–18 percent–are 60 plus. Thus, favourable conditions for transfers of ownership are still a topical and highly prioritised policy area.

Aimed at arriving at an understanding of the impacts of the repeal of the inheritance tax, a total of 14 interviews were held in late November and early December 2009, with people whose work brings them into contact with issues related to the inheritance tax.

The sample consisted of lawyers, accountants, tax consultants, financial advisers and tax and accounting experts. The interviews were held by phone, and the questions on which the ensuing discussions were based were as follows:

- How has repeal of the inheritance tax affected your operations?
- Have you seen any particular effects due to the repeal?
- Has the repeal resulted in any change in the number of business transfers?
- Has the nature of business transfers changed?
- How has the 2007 repeal of the wealth tax affected transfers of ownership?

The main change that emerged in the interviews is a radical contraction of the market for advisory services in connection with transfers of ownership since the repeal of the inheritance and gift taxes. One interesting observation is that none of the people interviewed said they were in favour of the tax or thought it should be reinstated, despite the impact on their business. Instead, they were glad the repeal was such a relief to their clients.

As one, the people interviewed all stated that the repeal of the inheritance and gift taxes has simplified matters for their clients. Another key impact is that transaction costs have been substantially reduced in terms of both time and money. As well, focus on tax consequences has declined, allowing greater scope and concentration on business decisions.

One long-term impact is that the repeal of the inheritance and gift tax will confer a tax law advantage on Sweden from the international perspective.

Gunnar Hjertquist, attorney-at-law and a partner in the legal firm of Gärde Wesslau Advokatbyrå, was one of the people interviewed. He believes the repeal has made transfers easier for all parties to the transaction.

Structures aimed at minimising inheritance tax have fallen by the wayside. Before the repeal, planning for generational changes or transfers of ownerships was a critical task. This is no longer the case, and since the repeal, opportunities have improved to zero in on who will take over and how the transfer should be carried out. According to Hjertquist, the repeal of the inheritance and gift taxes, on top of the repeal of the wealth tax, may put primary focus on more business-oriented conduct, discussions and decisions, rather than tax issues.

"When you can devise smart, business-oriented solutions and smooth transfers of ownership, the process promotes growth and business development overall. It is easier to carry out a transfer because you can put the suitability and interests of the parties to the test."

For more information, you are invited to contact

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