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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Participants from 19 countries discussed transfer of ownership

More than 130 participants from 19 countries gathered in Stockholm for two days to discuss transfer of ownership in private businesses. The exchange of information and experiences among business owners, academics, experts and advisers was intensive.

This first major international conference on transfers of ownership in family business offered four plenaries and eight parallel sessions. Themes covered included taxes, legislation, financing, success factors and new roles in connection with transfers of ownership and the social and psychological space for the new generation taking over.

Advantage Sweden

Magnus Larsson, chair of the SME Committee, Confederation of Swedish Enterprise, underlined the importance of ownership to business development in his welcoming address. Using examples from his experience as a business owner, Mr Larsson illustrated how the owners' commitment outweighed financial resources when a family business was challenged in the market by a listed company with huge financial muscle. It is thus incredibly important that family businesses can be handed down and that the transfer of ownership goes smoothly and is not obstructed by regulations and taxes.

Sweden is not often given the epithet of tax paradise, and rightfully so. But that is actually the picture that takes shape from the transfer of ownership perspective. When the inheritance tax, gift tax and eventually the wealth tax were repealed, Sweden moved into the vanguard of response to the large number of generational changes expected within a ten-year period. While many other EU Member States have lowered taxes (only France still has a wealth tax), Sweden is outstripped only by Austria, which has implemented tax relief for reinvestment.

According to Göran Grosskopf, chairman of IKEA, former chairman of Tetra Pak, and professor of tax law at Gothenburg University from 1984-1990, ownership of those two companies would have stayed in Sweden under the current tax structure. Provided, that is, that the companies felt confident in the long-term stability of the decisions to repeal the three taxes. Mr Grosskopf's message is clear: to keep company ownership in Sweden, all forms of rollbacks must be avoided. Sweden must not lose its advantage through political machinations.

Leif Melin, professor and director of the Centre for Family Enterprise and Ownership at the Jönköping International Business School, provided an overview of research into transfers of ownership. For example, while some researchers claim that the family business is a sub-optimal organizational form, reality shows that there are a great many successful family businesses. H&M, for instance, can still be classified as a family business, even as the multinational powerhouse it is today.

Leif Melin, professor and director of the Centre for Family Enterprise and Ownership at the Jönköping International Business School.

Critical tax issues

Participants in the session on critical tax issues agreed: policymakers in many countries have in recent years become more interested in ownership and corporate taxation. Topics of discussion during the session included what changes have been implemented, what lies ahead and the possible impacts of them all.

Krister Andersson, head of Tax Policy Department at the Confederation of Swedish Enterprise, began by talking about how the ageing population in the EU is resulting in hundreds of thousands of transfers of ownership every year. On average, the inheritance tax rate has gone down from five to three per cent over five years in the EU. It has been repealed entirely in countries including Austria, Sweden and Slovakia. The wealth tax has been abolished in almost all European countries. The one holdout in the EU is France, along with the EEA countries of Norway and Switzerland.

Krister Andersson emphasised that virtually everyone now understands just how detrimental the wealth tax is.

Comparatively speaking, Sweden is in a good position. No taxes on inheritances, gifts and wealth put us on the front line, along with Austria. These improvements have been made by both social democratic and centre-right governments in Sweden.

The main impact achieved in Sweden is that business owners no longer have to spend time on tax planning and can instead focus entirely on business considerations and other truly important issues related to the transfer of ownership.

The situation is different in Germany. After several years of uncertainty, the politicians have finally decided the rules but they are complex, convoluted and driving costs up through high, progressive taxes and an expanded tax base. Or as Thomas von Cölln, Corporate Tax Manager at PricewaterhouseCoopers in Germany put it: "raise the rate and raise the base."

Companies in France have made recommendations to the government, but policymakers have turned a deaf ear to the business community's ideas. The result is an extremely arcane regulatory system that is constantly changing, according to Olivier Mellerio, who led the inquiry and is the 14th generation owner of a family business.

Death tax, what we call inheritance tax in Sweden, is a big issue in the United States. Dick Patten, president of the American Family Business Institute, said the tax could have serious repercussions, especially on employment. Fifty-seven per cent of all American companies are family businesses and they are at risk of being bought out by Wall Street. One and a half million jobs are at stake according to Mr Patten, because listed companies are immune to death tax. The situation is reminiscent of how things were in Sweden before the tax reforms.

It was noted in the discussion that inheritance, gift and wealth taxes are now pushing capital out of Germany to Austria.

Dick Patten, Olivier Mellerio, Krister Andersson and Thomas von Cölln discussed differences in national tax systems.

Myriad aspects of transfer of ownership

The conference on transfer of ownership gave participants the opportunity to find out about research and current practice from various points of departure. The related discussions in parallel sessions shed light on transfer of ownership from several angles, including how the transition to new roles occurs in companies, what the social and psychological scope looks like for the new generation, the financial perspective and the impacts on growth. Conference reports, presentations and conclusions will be summarised in the next newsletter.

Taxes affect transfers of ownership

State Secretary Jöran Hägglund of the Swedish Ministry of Enterprise, Energy and Communications, noted that many of Sweden's 950,000 companies are affected by transfers of ownership. The transfers require extensive preparation and the government has tasked Almi with writing special handbooks to support companies through these processes. Mr Hägglund also stressed that legislation aimed at strengthening growth opportunities for small business is at least equally important. Simplifying rules and regulations is crucial and the government has implemented 170 separate measures in recent years.

Only four per cent of companies traded on the Oslo Stock Exchange are privately owned, which is a very low level. Paul Chr. Rieber, chairman of the Confederation of Norwegian Enterprise, NHO, believes that Norwegian policymakers have yet to understand the importance of private business. Private ownership is at risk of further evisceration due to the high costs of transfers of ownership in terms of taxes, legal expenses and other advisory services. Norway levies tax on inheritance, gifts and wealth and has a high stamp tax. Tax regulations are leading to over-investment in real estate. NHO has allied with nine other organisations to achieve radical changes to the Norwegian tax system.

Family business enjoys a relatively good situation in the United Kingdom, but Grant Gordon, director-general of the British Institute for Family Business, indicated that there is substantial risk that many transfers of ownership might fail. The main reason is lack of planning and a planned transfer process. Although taxes are not seen as a significant barrier, since they were reformed back in the 1980s, the new generation's waning interest in taking over is one restriction. According to government policy, the tax policy should facilitate family business.

Krister Andersson, tax expert with the Confederation of Swedish Enterprise, listens to business executive Rune Andersson.

From the perspective of his experience as an executive with many large Swedish corporations and later as a successful entrepreneur, Rune Andersson of Mellby Gård testified as to how the former system of taxes on ownership eventually lost all legitimacy in Sweden. He also believes that the proposals to reinstate the wealth tax currently being discussed by the social democrats are based on a degressive model. Small fortunes would be taxed more severely than large ones, which would be assigned a considerably lower tax rate. In his view, the corporate tax has never affected business decisions, which are based on entirely different factors and values.

Krister Andersson, chair Tax Policy Group at Business Europe, stated that due to the increase in the tax base, the reform of ownership taxes has not entailed any significant reductions in the public treasury.

Conference moderator Pernilla Ström closed the discussion by suggesting that one solution for our neighbours to the west, our Norwegian friends, would be to move to Sweden.

According to Paul-Chr. Rieber, Norway should immediately follow the good example set by Sweden.

Future needs and closing remarks

European Family Business/GEEF, an umbrella organisation for associations representing family enterprise in twelve countries, is working to put issues related to family business high on the EU agenda. GEEF Chairman Philip Aminoff described how risk is associated with equity share in companies, especially in times of crisis. Family businesses generally have a significantly higher share of equity than venture capital firms and are thus better equipped to weather the storms. Governments should thus implement measures to increase returns on equity. GEEF has compiled a set of recommendations for policymakers:

- Avoid taxes that punish access to capital
- Make long-term capital ownership as profitable as other long-term savings like bonds, real estate and life assurance policies

It must become more attractive to save in companies through capital build-up, which leads to stable companies and simplifies transfers of ownership over several generations. The current system favours faceless, impersonal ownership, which is something policymakers must change.

The Confederation of Swedish Enterprise was one of the main arrangers of the conference and Urban Bäckström, CEO of the organisation, closed the conference by noting the extremely interesting talks and discussions that had been held and thanked the speakers and participants for making them possible and for making the conference such a success.

Mr Bäckström provided an overview of the impact of family business and entrepreneurship on economic development. He used examples from famous economists like Adam Smith and Joseph Schumpeter to describe how capitalism and private ownership have survived various economic trends and have become critical to development in countries like China and India.

When asked about the future of the conference, Magnus Larsson expressed hopes that the discussion of transfer of ownership in private businesses will continue in some form. Mr Larsson closed by stating that family businesses and SMEs are only getting more important, and awareness of that fact is rising in the political arena.

Philip Aminoff, chairman of European Family Business/GEEF.

Magnus Larsson, business owner and chairman of the SME Committee, Confederation of Swedish Enterprise.

Transfer of ownership in family businesses and the abolition of taxes in Sweden

Commissioned by the Confederation of Swedish Enterprise, the Centre for Family Enterprise and Ownership has studied the impacts of the repealed inheritance and gift taxes on transfer of ownership in family business. Dr Marcela Ramirez-Pasillas, now with the Instituto Technologico y de Estudios Superiores de Monterrey in Mexico, reported the findings of the study, which was based on phone interviews and in-depth studies of five companies. One clear finding was that transfers of ownership could be carried out in a more focused manner once the tax issues were eliminated. Although the repealed taxes did not make other aspects less important, more energy could be devoted to the generational change process. The need to plan and discuss issues within the family remains and will perhaps become even more salient under the current tax structure. The study shows that it takes three to twelve years to implement a generational change. A financially stable and gradual shift, to the advantage of the different family generations, can be achieved by transferring a portion of ownership assets as non-taxable gifts.

Marcella Ramirez-Pasillas

Reports and papers presented at the conference are available for download from www.ownershiptransfer2010.org.