Implementing the Community Lisbon Programme: small and medium-sized enterprises SMEs policy for growth and employment

2006/2138(INI) - 14/03/2006 - Document attached to the procedure

The European Commission presents this communication on the transfer of businesses in the context of the implementation of the Lisbon Community Programme for growth and jobs. One third of EU entrepreneurs, mainly those running family enterprises, will withdraw within the next ten years. Around 690,000 businesses providing 2.8 million jobs are concerned each year. Up to 25% of the transferable businesses do not find a successor. Business transfers are complex and all too often they go wrong - not because the business as such is not viable but just because of problems in the transfer phase. The Commission calls upon Member States to ensure that tax systems are transfer-friendly provide adequate financial conditions, to raise awareness, consider soft factors and support mentoring and to organise transparent markets for business transfers.

In its **communication** of **July 1994** the European Commission identified four typical problems of transfers: a) ensuring continuity of partnerships and sole proprietorships; b) preparation of transfers by adopting the most appropriate legal form; c) encourage transfers to third parties and d) help family transfers with appropriate tax measures. In **December 1994** the Commission published a **recommendation on the transfer of small and medium sized enterprises**in which it invited Member States to encourage initiatives to increase awareness, information and training in order to ensure a timely preparation of business transfers; provide a financial environment conducive to business transfers; provide legal possibilities to restructure a business to prepare a transfer; establish legal principles that ensure continuity of partnerships and sole proprietorships in the event of the death of one of the partners or the owner; help the survival of businesses with appropriate inheritance and gift taxes; facilitate the transfer of a business to third parties by appropriate tax rules.

In **1998** the Commission encouraged Member States in a **second communication** to increase their efforts, in particular through legislative and administrative simplification, effective tax reductions and easier access to financial support for the takeover of a business.In **2000** a group of experts nominated by Member States found that less than half of the 1994 recommendations had resulted in concrete measures. The group recommended increased efforts to create market places for transfers to third parties, the development of better training tools and more research on transfer issues.A **further project** in **2002/03** confirmed the insufficient implementation of the recommendations, emphasised that business transfers should receive the same political attention as start-ups, recommended facilitating transfers to third parties and asked for more measures to encourage a timely planning of transfers.

The Commission points out that where progress is insufficient, the following recommendations reinforce the ones of 1994; others reflect changes in the economic environment during the last decade.

1. Give political attention to both business transfers and start-ups

Especially since transferred businesses, on average, have a higher success rate and create more employment than start-ups the succession in or acquisition of an existing enterprise should consistently be promoted as an alternative to starting up. In each case where start-ups are promoted it should be considered if the same initiative will also be applicable to transfers. In some countries initiating more start-ups might currently appear more urgent, but conditions that help the continuation of businesses are also a stimulus for the entrepreneurial initiative.

2. Provide adequate financial conditions

The promotion of succession concerns in particular financing business transfers. Start-up facilities, loans and guarantees should be available not only for creating a new business but also for taking over existing ones. The size of the instruments should take into account that business transfers often require more financing than start-ups. Given the growing importance of transfers to third parties the guarantees for equity or quasiequity fund investments in SMEs should include investments by local or regional funds which provide seed capital and/or capital in the start-up phase, as well as mezzanine finance, in order to reduce the difficulties which SMEs face due to of their financial structure, and those arising

from business transfers (in this sense see art 18:2 of the proposed programme for innovation and competitiveness currently under discussion by the European Parliament and the Council).

3. Raise awareness, consider soft factors and support mentoring

Member States should organise or support activities (e.g. organised by chambers of commerce) to make business owners aware of the need for a timely preparation. Member States should especially consider direct approaches such as personal mails to business owners above a certain age. Moreover, important interlocutors of small businesses (as tax advisers, accountants, banks etc.) should be included in awareness raising campaigns. As requested by the European Parliament the Commission will consider to launch the pilot project "Transfer of expertise through mentoring in SMEs" to improve the management of human capital by laying down principles for a European training and mentoring scheme involving the transfer of knowledge and core competencies essential for business transfers.

4. Organise transparent markets for business transfers

To facilitate transfers to third parties the match making between potential buyers and sellers should be helped by establishing and supporting impartial services for the concerned parties. Such services have to go beyond the mere establishments of databases for transferable businesses and to include a comprehensive mediation service to guarantee ordered and well structured transfers in the spirit of partnership. The 2004 MAP-project "Fostering transparent market places for the transfer of businesses" examines good practices of existing buyer-seller-contact systems for transferring SMEs to third parties. **5. Ensure that tax systems are transfer-friendly**

It is recommended that (partial) income tax exemptions for the gains from the sale of a business are considered if the owner is approaching retirement age as well as special reliefs for proceeds that are re-invested into another business or used to finance the retirement of the business owner. More needs to be done to encourage the sale of businesses to employees. In particular, tax exemptions for investments by employees into their own companies (e.g. tax favoured savings plans, share plans and stock option plans) have been used successfully by some countries.

6. Create appropriate structures to broadly implement the recommendations

Only the Member States, their national, regional and local administrations and business support organisations can create the conditions for successful business transfers. Apart from reforms of laws and regulations, implementing a supporting infrastructure to reach the hundred thousands of businesses across Europe which will be facing a transfer over the next years will be equally important. This includes the distribution of information to administrators and support providers, training the trainers, the development of teaching material, tool kits and many related activities.