

Transfers of family businesses and their economic challenges

1

**Malta and the work it
has undertaken**

DR. NADINE LIA

The Journey Began...

2

José Manuel Durão Barroso, Former President of the European Commission

- *“Family firms are crucially important for Europe. They make a significant contribution to Europe's GNP and employment, and tend to be great innovators, with a longer-term vision. They also tend to be firmly rooted in their regional and national culture, displaying the sort of European values that we all share.”*

EC Guidebook

- **Creation of a transfer-friendly regulation framework:** *To help the transfer of businesses means having the right regulatory framework. The European Commission dealt with this area in its recommendation on the transfer of small and medium-sized enterprises. It invited the Member States to improve their legal and fiscal environment for business transfers. Some progress has already been made in implementing the recommendation, but there is still work to be done.*

Mizura 120 ta' 2013

- **Se jiġi indirizzat L-Att tan-Negożju tal-Familja.** *Il-liġi se tagħti definizzjoni ċara ta' x'inhu negożju tal-familja u min huma l-membri tal-familja u se tincentiva t-trasferiment tan-negożju bejn membri tal-istess familja. Kull negożju tal-familja rreġistrat taħt dan il-Att se jkun eligibbli sabiex japplika għal numru ta' benefiċċji.*

Family Businesses in Malta

3



- More than any other Member State, Malta's economy depends on its SMEs which have so far weathered the economic crisis well.
- Around 98% of all businesses are micro, small and medium sized enterprise with the vast majority of them being family run businesses.
- 95% of these SMES are classified as micro enterprises having less than 10 employees and provide about 80% of all jobs in the business economy and create 71% of the overall value added.
- For both variables, this is about 14 percentage points more than the EU average.

Family Businesses in Malta

4

- 
- The background of the slide features the flag of Malta, which is white on the left and red on the right, with a blue cross in the center. The flag is set against a blue sky background.
- Last year more than 80% of family businesses in Malta reported an increased turnover over the past 12 months.
 - 60% of family businesses surveyed generating an average of 24% of turnover from overseas markets, and as many as 52% of family businesses recognised the importance of establishing new entrepreneurial ventures.
 - In the past 3 years Malta has doubled its economic growth, reduced unemployment to the lowest figures in history, registered the highest investment rates and lowest deficit and national debt figures.

Creating the Family Business Act

5

- **Pre Consultation**

Direct consultation with over 40 stakeholders and public consultation with the general public

- **Committee**

Public and private sector stakeholders meeting weekly for a period of a year

- **Further Consultations**

Audit and Legal firms Firms; Review of local and international legislation; EU Commission DG Enterprise and Industry; Meetings with local and foreign family businesses; University of Malta Faculties of Law, FEMA, Sociology and foreign Universities.

- **Draft Bill**

White Paper – Public Consultation, Review of Bill, Attorney General, Cabinet, State Aid Monitoring Board, Parliament.

Surveys

6

Quantitative

- National Statistics Office commissioned to specifically to gather key data on family businesses from amongst its business register.
- 2,500 businesses in Malta were targeted.
- First recorded official statistics in the EU on family businesses.
- Most family businesses employ between 2-5 family members.
- Nearly 83% would opt to transfer the business to the next generation
- The major challenges faced were:
 - Taxation issues;
 - Financial problems;
 - Succession challenges and risks;
 - Family governance arising from conflict and retirement uncertainty.

Qualitative

- Ministry for Economy cooperation agreement on SMEs with the Department of Sociology at the University of Malta.
- Researcher carried out direct interviews with micro, small, medium and large family businesses.
- The researcher provided qualitative data and served as a basis for the NSO survey which they assisted in developing.
- Research themes:
 - Continuity and succession planning;
 - Structure – general, management and ownership;
 - Gender and maternity;
 - Difficulties accessing the field;
 - Episodes when the family aspect featured strongly;
 - Strengths and weaknesses of being involved in a family business.

EASME COSME Statistics for Family Businesses

- Malta was one of the few member states who won EU funds on the basis of the official legal definition of a family business Malta has adopted.
- This will make Malta one of the very few EU Member States to have obtained official statistics on family businesses, and the first to have been able to carry out a survey based on legislation.
- Final report indicates that nearly a third of respondents are already fully classified according to the legislation

Main objectives of the legislation

7

To create a legal definition of family businesses.

To encourage the regulation and governance of family businesses;

To encourage the transfer of the family business from one generation to the next during their lifetime;

To encourage and assist family businesses to enhance their internal organisation and structure with the aim of effectively operating the businesses towards succession.

Incentives

8

Governance

- **Loan guarantee** – Enhanced capping on maximum guarantee
- **Micro invest** – Enhanced tax credit
- **Positive consideration of lease renewal** of industrial government leased premises
- **Educational and Training** – of family business owners and their employees
- **Advisory** – Funding for Legal, accountancy and notarial advice relating to business succession
- **Mediation through Arbitration** – for the establishment of the fair value of the family business
- **Investment Aid 2014-2020** – Waivering of the condition that assets are to be bought by unrelated third parties – now applicable to family businesses allowing them greater access to investment aid

Fiscal

The Family Business Act

Reduced stamp duty on the value of the immovable property

Exemptions of stamp duty on a capped value of shares

Budget 2017

Parents transferring their family business to their children during 2017 will benefit from a reduced stamp duty of 5% to 1.5%

Official Launching

9

2

[CAP. 565.

FAMILY BUSINESS

CHAPTER 565

FAMILY BUSINESS ACT

To encourage the regulation of family businesses, their governance and the transfer of the family business from one generation to the next; to encourage and assist family businesses to enhance their internal organisation and structure with the aim of effectively operating the business and working towards a successful succession of the family business; and for other matters consequential or ancillary thereto.

1st January, 2017*

ACT XLVIII of 2016.



FAMILY
BUSINESS OFFICE



Foreign Family Businesses

10

- Established in Malta whereby a business has a:

“Head office, agency, or branch or part of a business and includes any permanent presence of that business carried out in Malta”

- This allows foreign businesses to have access and applicability to the legislation and further enhances Malta’s identity as an International Finance Centre

Why Malta ?

No
wealth
tax

Cheapest &
swift test

Low
income
tax

OECD

EU
member

Schengen

Common
Law
Jurisdiction

Euro Med
North
African
Relations

Political
Stability

6/7 tax
rebate

Commission
approved

Common
wealth

Multi
Lingual

Onshore

Pro
business

Excellent
climate

70 +
double
tax
treaties

Euro
zone

IFC

Citizenship
& visa
program

60 +
bank
licenses

Patek Philippe

12

“You don’t own it. You’re just watching it, guarding it, nurturing it, to hand it over to the next generation in as good a condition as possible.”

Thank you for your attention

13

DR. NADINE LIA

EMAIL: NADINE.LIA@GOV.MT

TEL: 00356 2220 9524

WEB: WWW.ECONOMY.GOV.MT