



2024 Manifesto

Taking the long-term view

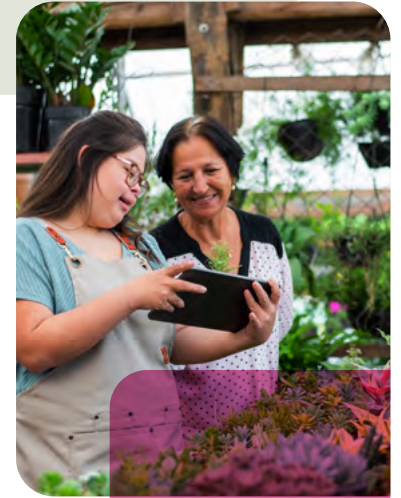
Policies to unleash the potential
of UK family businesses




Neil Davy, Chief Executive Officer

We live in a time of extraordinary social, economic and political change. The unprecedented disruption and uncertainty of the past few years have had a profound impact on business, leading to a short-term approach to decision making from policymakers, and an erosion in business confidence from the business community.

Unlocking the Family Business model



All too often, conversations around what is good for business focus too much on the large, listed companies and corporations, whose challenges and day-to-day experiences differ significantly from our ordinary, everyday family businesses which make an enormous contribution to wider society.

We believe that this has all too often been to the detriment of our great British family businesses and our national spirit of entrepreneurialism.

But it doesn't have to be this way.

In the UK, we are sitting on an enormous resource of entrepreneurialism in the form of our family business sector. Family businesses make up 90 per cent of the UK's total private sector firms, employing 14 million people and contributing over £200 billion through tax receipts each year alone.

This is not just an economic resource, but a model which can be learned from, adopted, and applied elsewhere too.

Rooted in their local communities, family businesses plan for the long-term with an approach that, not only puts people at the heart of their business, but makes investment decisions that have the interests of the next generation in mind.

At a time when public trust in business needs rebuilding, there is no better model to learn from than the family business model.

This manifesto represents our offer to policymakers, informed by the UK's family business community and their experience of doing business. This covers what we see as the big challenges of today and tomorrow.

If implemented, these recommendations will unleash the enormous potential of the family business sector to support economic growth through responsible business practices that benefit the family business, their workforce, and society at large.

Now is the time to tackle these big challenges head on, with family businesses at the heart of a policy agenda that builds and sustains economic and social prosperity for generations to come.

Our vision for an unleashed family business sector focuses on three key areas:

1. PEOPLE

Family businesses are nothing without the people who drive them forward every single day. Policymakers and business must come together to help family firms to get the best out of their people through investing in skills and opportunities for local communities.

2. GROWTH

The people in family firms - backed by a clear government agenda - can help to deliver growth in our family firms, enabling them to invest for the long term to create sustainable businesses and jobs.

3. OWNERSHIP AND SUCCESSION

Promoting family ownership and ensuring a smooth transition from one generation to the next can ensure existing family businesses continue for the next century while also building new companies for the future.



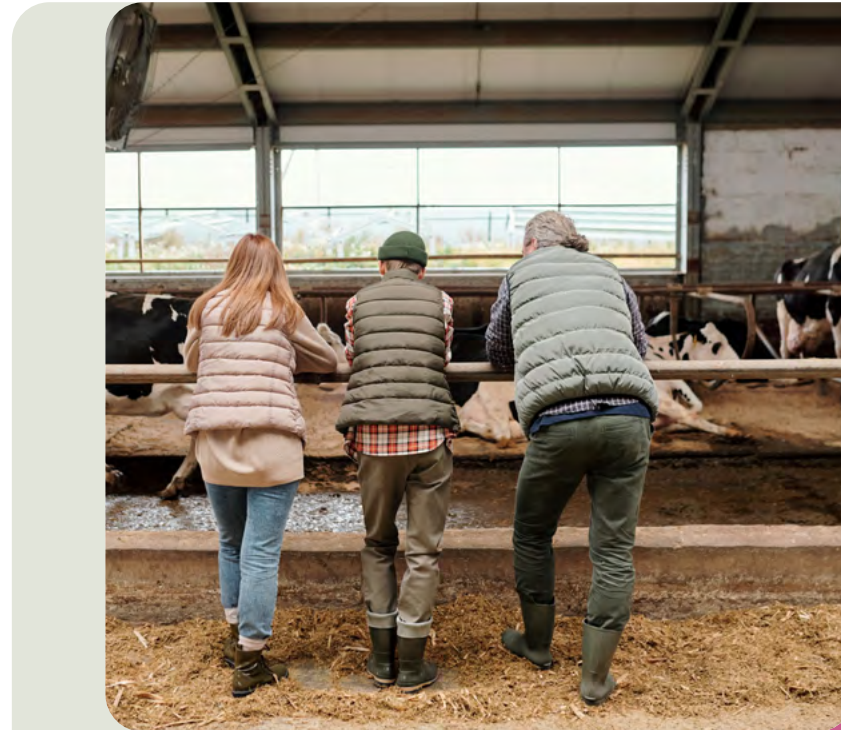
Family Business UK is a growing body of family businesses working to create a more prosperous and sustainable future for generations to come. We are a not-for-profit organisation advocating for the model of family business and celebrating the positive impact the sector has in the UK.

The family business sector in the UK

Family businesses are the backbone of the UK economy and the bedrock of our communities. For generations, family businesses have put people at the heart of business. They offer a model of sustainable and responsible business that others can learn from, be part of, work with, and even adopt.

The family business sector in the UK makes up 90 per cent of all private sector firms and employs almost 14 million people.

In 2020, family businesses contributed an estimated £575 billion to GVA; equivalent to 51% of all private sector employment in the UK. From micro start-ups to worldwide brands, the innovation, agility and resourcefulness of family-owned firms is second-to-none.



By their very nature, family businesses take a long-term view, building on long-term stewardship of people and resources. Their commitment to passing a healthy business on to the next generation is embedded within their corporate DNA.

As the owners and stewards of their business, they have greater freedom to experiment, innovate, and invest in their people and communities.



In the UK,
90%
of all private
firms are family
businesses.



That's
4.8
million
businesses.

While the majority of family firms in the UK are small or micro businesses, around half of all mid-sized business and one in five large businesses are family owned.

Alongside the large number of growing entrepreneurial first-generation family business, many family firms have been operating for hundreds of years and their adaptability and longevity are testament to their long-term outlook, ability to innovate, and resilience.

Family businesses are motivated by a desire to pass the business on to the next generation in a stronger state than they themselves inherited it. They feel a sense of responsibility, not only to future generations of their own family, but to their employees and the community in which they are rooted and operate.

Family businesses employ
13.9 million people,
generate **£1.7 trillion**
in turnover, and
contribute **£575 billion**
gross value added (GVA)
to UK GDP.

Family
businesses
contribute
£225
billion
to the UK
Exchequer
through tax
receipts, which
is over a quarter
(27%) of the
government's
total receipts.

PEOPLE

Supporting investment in skills and opportunities



Key to unlocking the true potential of the family business sector is creating a culture of continuous improvement within the business, enabling people to fulfil their potential, attracting and retaining talent, growing the business and providing more opportunities for jobs and employment.

Yet when we speak to family firms there is almost unanimous agreement that more needs to be done to unlock the potential of the UK's workforce and grow the economy. To solve this most pressing issue – delivering growth for the long term – there needs to be a plan that ensures our businesses get the best out of people and we equip the workforce with the skills needed for the future, and opportunities to grow their businesses.

Recommendation:

To support long-term investment in skills, the next government should replace the current skills and apprenticeship regime with a *Future Skills Fund*.

We hear from family businesses all the time that current initiatives, such as the *Apprenticeship Levy*, are not working. They are too complicated, inflexible and burdensome.

Family businesses want to train young people and upskill their workforces, but administrative complexities discourage businesses from taking on apprentices. Money that could be used for training is instead returned to the Exchequer without being touched.

Furthermore, funds allocated for training in one of the home nations cannot be spent in another, and training courses from providers are often poor quality and do not meet the present-day needs of businesses.

Quite simply, the current system acts as a burden. It is holding back the immense potential of family businesses by failing to equip future workforces with the skills, training and support they need, where they need it.

To deliver a skills regime that is fit for the future, we need an overhaul of the employee training landscape by refocusing the *Apprenticeship Levy* and making the skills landscape work for businesses and individuals. The current skills and apprenticeship system needs to be revamped and replaced with a more holistic *Future Skills Fund*.

This fund, rather than just an *Apprenticeship Levy*, would provide greater flexibility on how money can be used to encompass apprenticeship support, training and development for existing employees. This would allow businesses to use the allocated funding on a wider range of training options and opportunities.

Transitioning to a *Future Skills Fund* would also give businesses greater flexibility and opportunity to use funding for the skills and technical expertise they need. It would better equip local schools and colleges to provide training and skills relevant to the needs of local employers and communities.

The *Future Skills Fund* would provide a better deal for employers and employees in the following ways:

- **Providing greater flexibility in the use of the Fund to support life-long learners and apprentices to study, for example through support of transport or living costs.**
- **Removing barriers between the nations of the UK to ensure money can be spent where it is most needed, not necessarily where it is paid.**
- **Giving businesses a greater say in the development of the local skills landscape.**
- **Supporting career-long skills development and learning, including when re-entering the workforce after a period of absence.**

PEOPLE

In summary, policymakers can support investment in skills by:

- **Replacing the *Apprenticeship Levy* with a *Future Skills Fund*.**
- **Allow more flexibility on how businesses use the fund for skills.**
- **Remove barriers on spending between home nations.**
- **Encourage upskilling and career-long learning.**

GROWTH

Supporting long-term, sustainable growth in family firms



Recommendation:

Commit to developing a *Long-term Industrial Strategy* and publish a *Business Tax Roadmap*.

Family businesses exemplify patient capital, by deploying resource and investing for growth over the long term.

Family businesses have a unique ownership model which promotes long-term stewardship, balancing the management

of resources in the short, medium and long term. Without losing sight of immediate priorities, they are prepared to sacrifice short-term financial gains, instead deploying resources in pursuit of longer-term goals and objectives.

A parallel exists with the German Mittelstand, (the German SME sector which accounts for 20 per cent of the workforce, 40 per cent of total gross investment, and 30 per cent of

exports) where profit maximisation is not the exclusive objective, but where investment and long-term growth are generally prioritised.

Business confidence and investment have been challenged in recent years due to cumulative events such as the pandemic, the energy crisis and soaring inflation. This has been compounded by frequent regulatory and tax changes, which have left businesses dealing with constant change. For family businesses a lack of certainty and stability means they are unable to plan and take operational and financial decisions that can allow them to invest for the long term as part of a multi-decade strategy.

Family businesses across all areas of the UK need the government to set out an ambitious long-term strategic plan that creates, not only a suitable economic environment for growth, but one that will give family businesses the confidence and financial capability they need to invest in people, technology and green solutions to achieve sustainable long-term growth.

Therefore, to give long term confidence and certainty to family businesses the next government must commit to developing a Long-term Industrial Strategy and publish a Business Tax Roadmap.

Recommendation:

The government must commit to making the new Full Expensing rules for capital investment permanent.

One area where a quick decision could be made to provide stability is in the tax rules on capital investment.

As part of any long-term plan for tax, the right incentives must be in place to enable businesses to make the capital investment needed to grow and expand.

The cost of entry for investment needs to be lowered, both in people and capital expenditure. This should include incentivising investment through targeted allowances for green technologies. We propose making permanent the Full Expensing regime introduced following the ending of the Super Deduction, providing a tangible incentive to deliver large-scale investment for the long term.

Recommendation:

Create an equal playing field for debt vs equity financing.

One of the fundamental obstacles to the growth of family businesses is the availability of finance, enabling them to raise the capital to invest in innovation within the workplace.

As part of their focus on long-term sustainability, family firms reinvest profits back into their businesses rather than loading themselves with debt to finance investment. The UK tax system actively discriminates against businesses that finance activity through profit retention or rights issues. Current policy is skewed and makes debt finance significantly more attractive than other forms of financing.

To support measures to rebalance the economy and allow businesses to make the conscious decision to invest for growth (rather than mitigate their tax exposure), this system must be reviewed. At a time when we need businesses to be investing in strategic initiatives and priorities (such as getting to net zero), the government must pull all the levers at their disposal to remove barriers to investment and create a system that supports the family business model.



Recommendation:

The government must commit to developing a stand-alone growth and support strategy for mid-sized businesses, addressing their unique challenges and opportunities.

An agenda for growth must be nationwide and driven from all parts of the UK. Mid-sized family firms across the UK have a vital role to play in the UK achieving the government's growth agenda. However, these businesses are often overlooked by policymakers who tend to focus on either very large companies or start-ups.

There are over 18,000 mid-sized family businesses in the UK – representing half of all mid-sized companies – that have the potential to generate strong levels of sustained growth. In the North East and North West alone – two major areas of focus for UK regeneration – there are nearly 500 and 1,800 businesses, respectively.

Similar to the Mittlestand, the UK's mid-sized sector businesses hold huge potential and need to be harnessed to build a stronger economy at both a national and regional level.

The UK needs a strategy which addresses the needs of these mid-sized businesses and supports their growth. Empowering these businesses and supporting investment would see significant economic and employment benefits in their communities.

Supporting mid-sized business growth is an opportunity to transform the business landscape in the UK by enabling these firms to expand from being regional players to national businesses to UK businesses competing internationally.

Recommendation:

Raise the eligibility threshold for EIS to 499 employees

To realise this opportunity, however, these businesses need support – which is currently missing. Some of our smaller family firms – those with just a few hundred employees – are missing out on funding opportunities through the Enterprise Investment Scheme (EIS).

To stimulate additional long-term investment in mid-sized businesses, policymakers should look to extend the EIS threshold. The scheme, which is currently applicable for companies which have less than 250 full-time employees, provides several investment benefits and helps private companies raise equity finance by offering a range of tax incentives to their investors.

To support investment for mid-sized companies, the government should raise the eligibility threshold for EIS to 499 employees (the same level as for knowledge-intensive companies) and increase the investment limit.

GROWTH

In summary, policymakers can support long-term family business growth by:

- **Developing a Long-term Industrial Strategy and publishing a Business Tax Roadmap.**
- **Making the new Full Expensing rules for capital investment permanent.**
- **Reviewing the disparity in the tax treatment of debt and equity financing.**
- **Developing a stand-alone growth and support strategy for mid-sized businesses.**
- **Raising the eligibility threshold for EIS to 499 employees (the same level as for knowledge-intensive companies) and increasing the investment limit.**

OWNERSHIP AND SUCCESSION

Promoting family ownership and ensuring a smooth transition from one generation to the next

For family businesses, stable ownership and effective succession are two factors vital to ensuring their long-term success.

Ownership of a business within a family helps to create a legacy within a community. According to the polling company Censuswide, family businesses are seen as the leading model for companies prioritising investment in their local communities compared to other business models, such as PLCs venture capital firms and private equity-backed companies.

The majority of the British public would also prefer to work for a family business – compared to other business models. This is driven in part by their focus on hiring and training local people, working with other providers in the region, and investing locally to ensure their roots are firmly embedded in every aspect of the community for not years or decades but generations. When the time comes, it's essential for there be a smooth transition from one generation to the next.



Recommendation:

Support and promote good succession planning.

While some family firms are hundreds of years old, having been passed down successive generations, there have also been hundreds of thousands of new family businesses created since 2010. These first-generation businesses haven't yet experienced the succession process.

Research shows that only a minority of business owners have a succession plan in place for their business. Non-existent, or poor succession planning can spell the end of a family business. Conversely, effective succession, well planned and managed, represents an exciting growth opportunity for the next generation of business owners, leaders, employers and employees.

If we're going to support first-generation family firms in successfully transitioning to the next generation, the government must ensure that publicly funded business support programmes, like Help to Grow, offer guidance and support to those wanting to pass their business on to their next generation.

Recommendation:

Maintain Business Property Relief (BPR) in full.

Stability and certainty around Inheritance Tax and Business Property Relief (BPR) (now called Business Relief but still commonly referred to as BPR) is critical to the ability of family businesses to deliver on their long-term growth ambitions.

Families build their businesses over the long term. They scale, innovate and create jobs over generations. To do that, they need long term certainty over the ownership of the business, and how the tax system relates to that.

BPR is a positive example of how tax reliefs can support business growth. Since its introduction in 1976, BPR has given business owners the confidence to focus their efforts on building their businesses and competing globally, while also providing further incentive for families to grow their businesses.

Without BPR, each time ownership of a business is passed from one generation to another, family business owners would be hit with significant inheritance tax bills, which can jeopardise not only the long-term future of the firm, but also the immediate viability of its existence as a family business.

If this relief ceased to exist, family businesses would be forced into selling, liquidating, or being burdened with huge debts while trying to continue trading. This would put them at an enormous disadvantage compared to their non-family business counterparts and would in essence represent a tax on the family business model.

BPR therefore enables family businesses to compete on a level playing field compared to their non-family-owned counterparts. If UK family businesses are to be able to successfully transition from one generation to the next, the government must commit to maintaining Business Property Relief (BPR) in full.



Recommendation:

To support smoother succession planning, the government should bring Gift Holdover Relief (GHR) qualifying criteria into alignment with the existing BPR rules.

Not all transfers of family business occur at death, however. Some business owners will plan and phase their departure from the company, often passing part of the business ownership to the next generation when they retire. This is a sensible and efficient part of planning management and ownership succession in a business.

For transfers made before death, business owners may be eligible for GHR from Capital Gains Tax (CGT).

Both GHR and BPR protect family firms from the danger of having to sell a business to pay a personal tax bill when no cash disposal is intended or planned. It also ensures family

businesses do not have to hold cash aside for future tax bills and can instead continue to reinvest profit into the business.

However, to qualify for these reliefs, firms must pass different trading tests to BPR, creating unnecessary confusion and challenges for family businesses. These act as a barrier to delivering an efficient transfer during an owner's lifetime.

Ultimately, a smooth transition between generations is best for the family, the business, and the employees. It allows families to focus on what matters most: creating and sustaining good jobs and employment, investing in their communities; taking action on the big issues such as climate change and net zero, and securing capital and investing for the long term.

Recommendation:

Initiate a review of the rules around joint ventures and Inheritance Tax reliefs to ensure they encourage investment decisions that support economic growth.

Since BPR was first introduced, the use of joint ventures, particularly for export or international ventures, has increased significantly. Yet despite this, BPR legislation has not been updated to reflect the common business practices associated with operating joint ventures. In some cases, where family businesses form joint ventures, they run the risk of jeopardising their BPR eligibility.

This provides a significant barrier for family businesses launching joint ventures, and addressing this issue would go some way to helping and incentivising family firms to make long term plans for growth and expansion.



Joint ventures provide an attractive route to new markets for businesses who are looking for local partners who can provide resources and expertise, particularly when undertaking international expansion, as a means to reduce the initial risk.

If we are to support businesses to work together, expand to new markets and compete internationally, the government should initiate a review of the rules around joint ventures and Inheritance Tax reliefs to ensure they encourage investment decisions that support economic growth.

OWNERSHIP AND SUCCESSION

In summary, policymakers can support successful family business succession by:

- **Including succession planning as a module in Help To Grow and other government-backed support schemes.**
- **Committing to maintain Business Property Relief (BPR) in full.**
- **Updating the rules for BPR to support businesses with joint ventures.**
- **Bring Gift Holdover Relief (GHR) eligibility into alignment with BPR to enable a smooth transition in ownership between generations.**

Summary

The government has a clear opportunity to unlock the potential of the family business sector in the UK. In doing so, it will help stimulate and sustain economic growth and prosperity and build healthy communities.

PEOPLE

- Replace the Apprenticeship Levy with a Future Skills Fund.
- Allow more flexibility on how businesses use the fund for skills.
- Remove barriers on spending between home nations.
- Encourage upskilling and career-long learning.

GROWTH

- Develop a Long-term Industrial Strategy, and publish a Business Tax Roadmap.
- Make the new Full Expensing rules for capital investment permanent.
- Review the disparity in the tax treatment of debt and equity financing.
- Develop a stand-alone growth and support strategy for mid-sized businesses.
- Raise the eligibility threshold for EIS to 499 employees (the same level as for knowledge-intensive companies) and increase the investment limit.

OWNERSHIP AND SUCCESSION

- Include succession planning as a module in Help To Grow and other government-backed support schemes.
- Commit to maintain Business Property Relief (BPR) in full.
- Update the rules for BPR to support businesses with joint ventures.
- Bring Gift Holdover Relief (GHR) eligibility into alignment with BPR to enable a smooth transition in ownership between generations.



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