



Private Enterprise

# Global family business tax monitor

**Charting a path for the future**

**October 2020**

KPMG International

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# Foreword



*Transferring a business that has been a lifetime passion can be an incredibly stressful event. If the goal is to transition ownership and management to the next generation, there are specific challenges, not least of which is understanding and managing the tax impact. Planning early, putting a governance structure in place and working with a skilled advisor to help navigate the inevitable changes and complexities along the way can make the difference in ensuring the needs and desires of the family are met.”*

**Jonathan Lavender**  
Global Head,  
KPMG Private  
Enterprise,  
KPMG International,  
Partner,  
KPMG in Israel



Welcome to the *KPMG Private Enterprise Global Family Business Tax Monitor for 2020*. For this edition, we surveyed 54 countries to examine the tax implications for the transfer of a family business, from one generation to the next, by inheritance and lifetime gift. This report provides a unique comparison of the tax regimes in the different jurisdictions and also explores key factors impacting family business transfers.

The theme of this year's report is "Charting a path for the future," a task which has been made more challenging than ever with the continuing impact of the COVID-19 virus. Unfortunately, any hopes that the virus would be short-lived and cause just a short-term blip in economic activity have been dispelled. It is now apparent that the virus will have long-term implications for economies, society and businesses large and small. Industries will be transformed, for better and worse, as a result of the virus and there will be lasting changes to everything from consumer behavior to supply chains.

Another critical outcome to come in coping with the disruptions caused by the virus will likely be the continued pressure on government finances to fund programs and provide assistance. As government's role expands, the need for additional tax revenues will likely increase as well. There can be little doubt that family wealth will be one of the places taxing authorities around the world look in searching for ways to raise revenue. Over the next 10 years, it is estimated that more than US\$15 trillion will pass from one generation to the next.<sup>1</sup> Governments will surely eye that as a potential source in replenishing their coffers.

Even before the impact of the coronavirus, family businesses were feeling the

pressure governments are under to find additional tax revenues. The political pressure to raise taxes more generally on wealth has been rising.

It highlights the need for business families to plan and prepare now for looming changes in taxation and other dynamics around the globe that could impact the transfers of their business.

There are crises that cannot be fully imagined, much less adequately planned for. It is likely that many businesses, including family businesses, will have to work hard to survive and many will be significantly altered as a result of the coronavirus.

For every business family in the world, change and uncertainty is increasing dramatically in 2020.

Demographics are also at play in the changing dynamics for business families. The baby boomer business owners are reaching retirement age and a new generation is waiting to take the business reins.

Our report reveals changes in tax legislation that will impact succession of family businesses are imminent or being contemplated in a number of jurisdictions. Even when family businesses are eligible to claim favorable exemptions and deductions, the regulations are typically complex, often with onerous requirements that can be difficult to navigate. There can also be significant local differences with tax treatment and requirements with specific rules for states and provinces.

All told, families face a complex and rapidly evolving tax landscape that is not easy to navigate.

<sup>1</sup> <https://www.wealthx.com/report/wealth-transfer-report-2019>

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Taxes are of course just part of the equation for families in planning to transition their businesses. They also need to gauge the interest and capacity of the next generation, and subsequent generations, to carry on the business. One certainty is that millennial and Gen X offspring will bring a wealth of different experiences, education, ideas and talent to the table.

As family businesses plan for an uncertain future, it is worth taking a minute to appreciate all that they bring to the economy and society. Family-owned businesses account for roughly two-thirds of businesses globally and as many as 90 percent and more of businesses in individual countries. They also account for the majority of employment in most countries. The importance of the family business is amplified in a time of crisis as we are experiencing now.

Yet, despite the value they bring in so many ways, statistics show that only about 30 percent of family-owned businesses survive into the second generation, while just a small fraction, 12 percent, are still operating into the third generation. There are exceptions, such as Germany, where the strong family business culture has contributed to greater longevity of family-owned entities, but viewed globally, multi-generational family businesses are not the norm.

With the massive amount of capital invested in family businesses set to change hands in coming years, this is an opportunity to consider what that can mean for society and local economies. With the right kinds of incentives, family businesses can help to boost local and national economies, enabling them to invest and employ more local residents.

For family business owners thinking about the futures of their businesses, we say now is the time to chart your path and prepare.



**Jonathan Lavender**

Global Head,  
KPMG Private Enterprise,  
KPMG International,  
Partner,  
KPMG in Israel



**Tom McGinness**

Global Leader,  
KPMG Private Enterprise Family  
Business,  
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**Olaf Leurs**

Tax Partner,  
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KPMG in the Netherlands

# What's new?

## At a glance: key provisions and potential developments



### Australia

Gifts or other familial transfers (other than by inheritance pursuant to death) are treated the same as sales at market value; basically the same as any 'normal' sale of capital assets.



### Belgium

A company must meet specific qualifications in terms of share ownership and maintenance of capital post-transfer to qualify as a family business and receive favorable tax rates on transfer.



### Brazil

Transfer of assets by means of gift or inheritance is generally only subject to state gift and inheritance tax (ITCMD), which is set at a maximum 8 percent rate. A proposal made to the Federal Senate, which may be approved at any time, could raise the maximum for ITCMD to 20 percent.



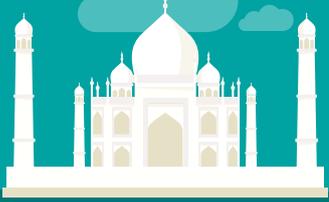
### France

A share agreement (Pacte Dutreuil) between parent and child is necessary in order to benefit from an exemption of 75 percent of the value of the transferred shares. Exemption to EUR100,000 every 15 years for intra-family gifts.



### Germany

Family business valued to EUR26 million can qualify for a tax exemption of 85 or 100 percent. The exemption decreases by 1 percent every additional EUR750,000, becoming zero at EUR90 million and above. A tax exemption for gifts to children amounting to EUR400,000 is granted every 10 years.



### India

India discontinued its Estate Duty Tax in 1985. However, there has been undercurrent of a potential re-introduction since the past few years.



### Israel

Inheritance is generally not subject to tax; gifts are subject to capital gains tax, however with an exemption if the recipient is an Israeli resident. Modifications to the tax law have been made with respect to tax-exempt structures, providing families with greater flexibility in structuring the family business.



### Ireland

The tax-free threshold for inheritances or gifts from parents to children was increased from EUR320,000 to EUR335,000. Family businesses may qualify for additional relief depending on the age of the parent/business owner, as well as the extent and duration of the children's involvement in the business.



### Italy

The Italian tax regime favors family succession planning, with minimal or no tax for intrafamilial transfers of the family business by inheritance or gift.



## Mexico

Family business transmission by inheritance or gift are tax exempt, however it is important to consider that in certain states for real estate that is part of the business it can be mandatory to pay “Capital Transfer Tax” and/or “Real Estate Acquisition Tax.”



## The Netherlands

Exemptions only apply for business assets that have been part of the business at least 5 years before a gift transfer, one year in case of death, and shares must be held and the business continued for at least 5 years after the transfer. Income tax is not actually exempted, but is deferred to the next generation. There is political pressure to reduce the current 83 percent exemption for gift and inheritance tax.



## Russia

There are no inheritance taxes, real estate transfer tax (RETT) wealth taxes, intrafamily gifts and inheritance are also not subject to personal income tax. Specific tax planning opportunities may be considered depending on the successor’s future plans for the business.



## South Africa

Tax liabilities for family business transmission by inheritance or gift can be excessive, depending on the value of the business. Despite changes in the South African tax legislation regarding the use of trusts as vehicles to hold family assets, it is evident that the non-tax benefits of trusts still hold true.



## Spain

Terms of taxation vary greatly among the various autonomous regions. There is currently no schedule or program to unify the inheritance and gift tax treatment. The new government plans to introduce legislative amendments that may increase tax rates, such as increasing the personal income tax (PIT) on capital gains, from 23 percent to 27 percent.



## South Korea

A reform plan for the transfer of family business will shorten the post-management period from 10 years to 7 years and the obligation to maintain the industry, employment and assets will be eased. The plan is intended to expand use of the family-operated business deduction system, to encourage succession and incentivize employment and investment.



## UK

A document published by the Office of Tax Simplification in July 2019 proposed a number of changes that would affect business property relief, potentially exempt transfers and obtaining a capital gains uplift upon death. Because of the inheritance tax (IHT) exemption, there is flexibility for planning with family business shares to use trust or company structures to hold their interests in the businesses for the purposes of succession planning for future generations.



## US

The exclusion for taxable gifts and estates was raised to USD10 million, with an annual inflation adjustment, beginning in 2017, but with a 2026 sunset provision. In 2019 the Internal Revenue Service (IRS) issued regulations clarifying how the tax would be administered, so that if a gift is made with the increased exclusion and the gifter then dies after the exclusion is reduced, there will be no clawback or recapture of taxes calculated with the higher exclusion.

# Family business global tax perspective



*Now is the time for families to review their business structure so that if there are regulatory or tax changes, which we expect, they are prepared to be as flexible as possible in the event of reliefs being withdrawn or other changes. It is also a time to ensure effective governance is in place across the family and the business. This starts with a family constitution that sets forth their shared purpose and vision for the business as well as sets parameters for family roles and how decisions are made.*”

## **Tom McGinness**

Global Leader,  
KPMG Private Enterprise  
Family Business,  
Partner,  
KPMG Private Enterprise in the UK



It is not an overstatement to say that family business is the foundation of the global economy. Family-owned enterprises account for two-thirds or more of businesses globally, contributing 70 to 90 percent of annual global GDP and 50 to 80 percent of employment.<sup>2</sup>

Each of these family businesses faces a unique set of challenges. One of the most difficult is what happens to the business when the head or heads of the family business pass away or decide to retire. It was already a burning question for the aging baby boomer generation of business owners and has become even more urgent with the impact of COVID-19.

As families confront the inevitable decisions about what will become of the family business, taxation is a major factor to consider. It can influence how the business should be passed to the next generation, if it should be passed at all or if a sale of the business to a third party makes more financial sense.

The *2020 KPMG Private Enterprise Global family business tax monitor* highlights the wide discrepancies in tax treatment of family businesses around the world and reflects the planning challenges every family faces in trying to manage the tax burden associated with transferring a business.

## **Tax burdens vary widely by jurisdiction**

Perhaps the most consistent theme in the various tax treatments applied by different jurisdictions to family business transmission is that the treatment is wildly inconsistent. It is difficult to draw broad conclusions regionally or according to other factors such as the size of the country, much less to make global assumptions.

Generally speaking, larger, older economies tend to have tax regimes with higher tax rates and more complicated requirements for exemptions. But that is not universally the case. There are emerging economies with significant and complex tax rules as well.

<sup>2</sup> De Massis A., Frattini F., Majocchi A., Piscitello L. (2018). Family firms in the global economy: Toward a deeper understanding of internationalization determinants, processes and outcomes. *Global Strategy Journal*, citing Family Firm Institute

Of the 54 countries surveyed for the report, 14 have a specific inheritance tax that applies for the intra-family transmission of a family business valued at EUR10 million, 15 including the US, which applies a wealth tax for family business inheritance. Sixteen countries have a gift tax that applies for lifetime transfers of a EUR10 million business.

Of the top 10 countries surveyed with the largest GDPs, there are four (China, India, Italy and Russia) that have no gift or inheritance tax applicable to the transfer of a family business. The other six (the US, Germany, UK, France, Brazil and Canada) have taxes that apply both to lifetime transfers and transfers on death. The US, Germany, France and Brazil all have both gift and inheritance or wealth taxes that apply. The UK maintains an inheritance tax and applies capital gains tax to certain lifetime transfers, with reliefs available for some gifts, while Canada has a personal income tax on capital gains for both inheritance and lifetime transfers.

The US has one of the highest tax rates globally for transfer of a family business, valued at EUR10 million, either by gift or inheritance, before exemptions. After exemptions, family business taxation becomes much more competitive in the US and lower than a number of jurisdictions. The more advantageous tax treatment after exemptions depends to some extent on the size of the business.

Elsewhere in the Americas, Canada offers a tax burden only about half of the US tax before exemptions for the transfer of a EUR10 million family business, but with the transfer taxed as personal income, after exemptions the US maintains a significant advantage. However, it must be noted that US family businesses are presently

benefiting from a US\$10 million (indexed for inflation) exemption availability, that will sunset after 2025. It remains to be seen if the US will maintain the exemption or if this tax advantage will be lost.

In Europe, the largest economies don't necessarily have the highest taxes for transfer of a family business. France, UK, Netherlands, Spain and Ireland are shown to have the highest tax for transfer on death before exemptions. That group, minus the UK, also ranks highest for taxes on gift transfers. However, the effective tax rates drop dramatically for all of the countries after exemptions, with the UK dropping effectively to zero. But, as with the US, potential changes are on the horizon for the UK that may reduce or eliminate exemptions.

France is a good example of the benefits family businesses can realize with proper planning to take advantage of available allowances. While the tax rate is quite high — 45 to 50 percent — a number of allowances and incentives are offered that can reduce the effective tax rate to 15 to 25 percent.

Notably, Italy, the world's eighth-largest economy, has among the lowest tax burdens in Europe for business transfers, with zero tax realized for the business cases presented in our report. The tax liability in Germany also drops to zero after exemptions for intra-family transfer of a EUR10 million business by inheritance or by gift, reflecting the country's strong family business culture. However, larger family businesses do not receive the same favorable treatment. For transfer of a EUR100 million business, whether by inheritance or gift, Germany has one of the highest tax burdens in Europe, even after exemptions.



*The transition of management control to the next generation should be discussed openly, so that the company can be managed in a stable manner after inheritance. Advanced planning is also needed to take advantage of available allowances for gift and inheritance taxes.*



**Jueun Kang**

Manager,  
KPMG in South Korea

“

*Tax liabilities in South Africa can be excessive, depending on the value of the family business. As such, proper planning and structuring of the investment in the family business should be considered in light of the tax implications to optimally manage the tax burden. Despite changes in the tax legislation regarding the use of trusts as vehicles to hold family assets, the non-tax benefits of trusts still hold true.”*

**Alan Barr**

Partner,  
KPMG Private Enterprise  
in South Africa



In Asia-Pacific, South Korea stands out for having the highest tax rate in the region and one of the highest in the world for transfer of a family business. For a transfer on death of a EUR10 million business, the tax can be reduced to zero with the KRW 20 billion (approximately EUR14.2 million) exemption if the heir has been in the family business for at least 10 years. That relief would not apply for a larger, EUR100 million business.

There have been no changes to China's tax policy with respect to the succession of family business; currently, China does not impose any gift or inheritance tax.

Australia also does not presently have a separate wealth or gift tax.

In Africa, South Africa has extremely high tax rates for the transfer of a family business with very limited exemption or deductions to reduce the tax burden compared with what other jurisdictions have. By contrast, Nigeria has no gift or inheritance tax; there can be an applicable levy for registering a business that is transferred to a new family member.



## Case study 1

# Family business succession — EUR10 million

Erik Jackson owned his family business, Jackson Networks, for over 10 years. He invested EUR1 million to establish the company and has worked hard over the years to build it. The current balance sheet is shown below. The business is now valued at EUR10 million on an arm's-length, third-party basis (which includes EUR5 million of goodwill). All assets in the company are used for the purposes of the business.

### Jackson Networks balance sheet as at date of transfer

Manufacturing facility (real estate):	EUR3,000,000
Inventory:	EUR2,000,000
Trade debtors:	EUR2,000,000
Cash (used in the business):	EUR1,000,000
<b>Total assets:</b>	<b>EUR8,000,000</b>
Share capital:	EUR1,000,000
Distributable reserves:	EUR4,000,000
Bank debt:	EUR3,000,000
<b>Total liabilities:</b>	<b>EUR8,000,000</b>

Erik's spouse Jennifer died in 2012 and he had one daughter, Lianne, who is 35 years old.

What are the tax implications:

1. If Erik unfortunately passes away in early 2020 and in his will he had requested the business be passed to Lianne, who intends to continue the business for the next 10 years or so?
2. If Erik, who is getting older and wishes to retire, gifts Jackson Networks to his daughter Lianne, who intends to continue the business for at least the next 10 years or so? The gift is not related to any employment of Lianne in the business.

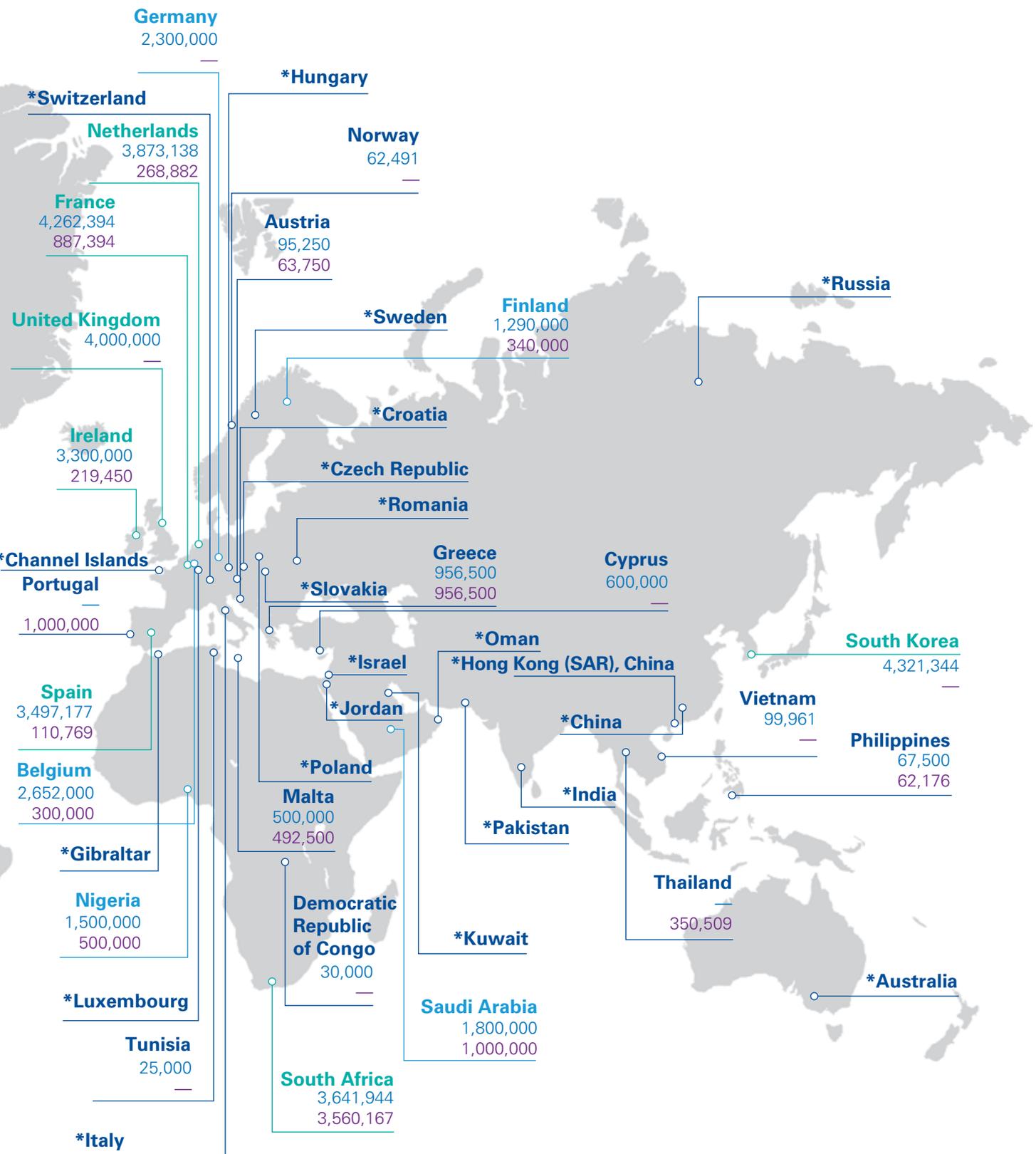
The results for 54 countries, regions and jurisdictions covered in this survey, before and after available exemptions, are summarized in the following pages in figures 1a, 1b, 1c, 1d, 1e and 1f. Key highlights and takeaways from the results are summarized on page 50.

**Figure 1a:** Country/region/jurisdiction comparison of tax treatment pre- and post-application of exemptions and reliefs on a family business transfer through inheritance.

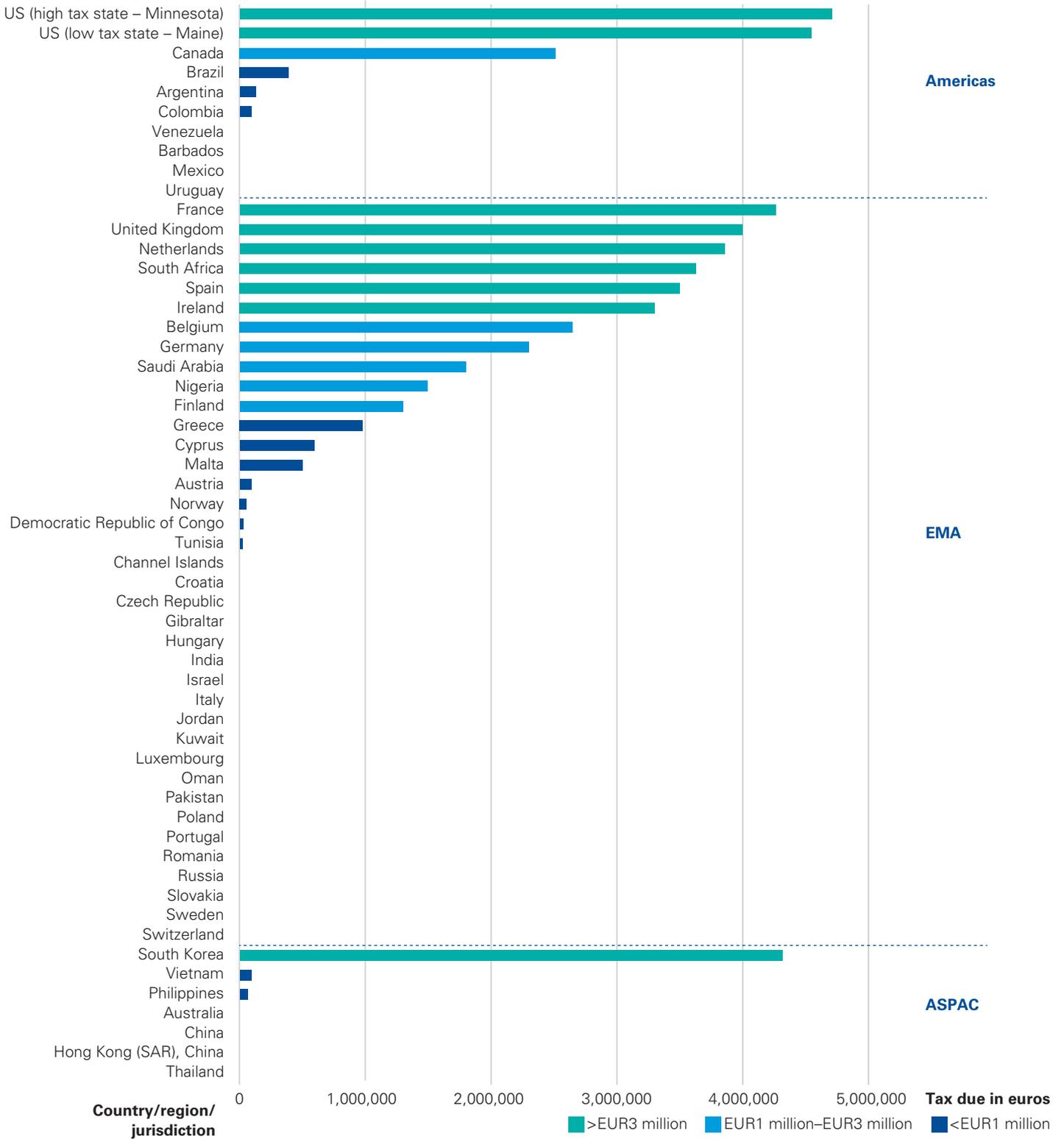
This figure shows an overview of tax levied across the 54 countries, regions and jurisdictions surveyed on a family business transfer through inheritance of EUR10 million, before and after applying any available exemptions and reliefs.



\*This country/jurisdiction applies no taxes on a family business transfer on inheritance.

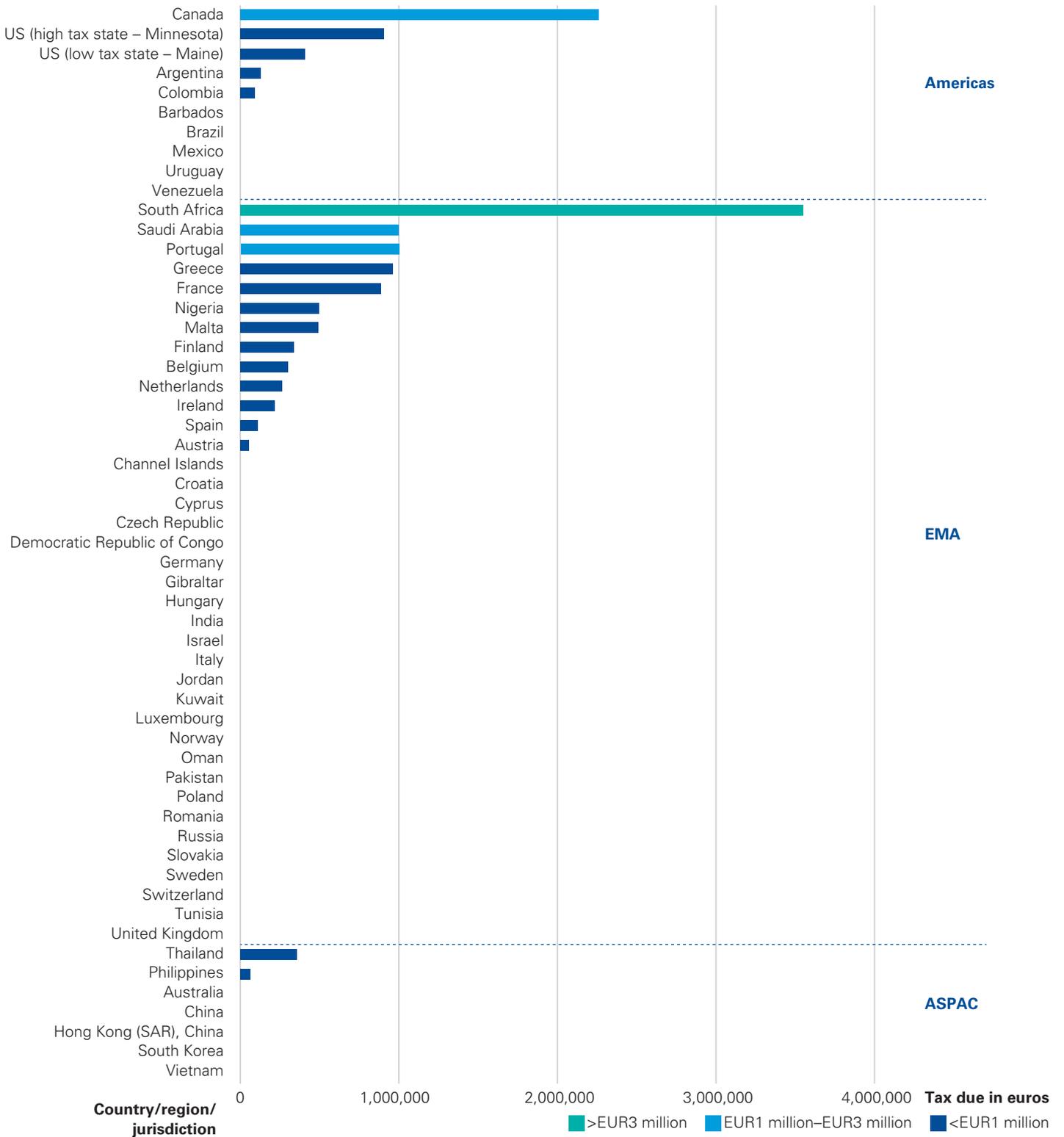


**Family business transfer through inheritance**  
**Figure 1b: tax due before exemptions**



# Family business transfer through inheritance

Figure 1c: tax due after exemptions

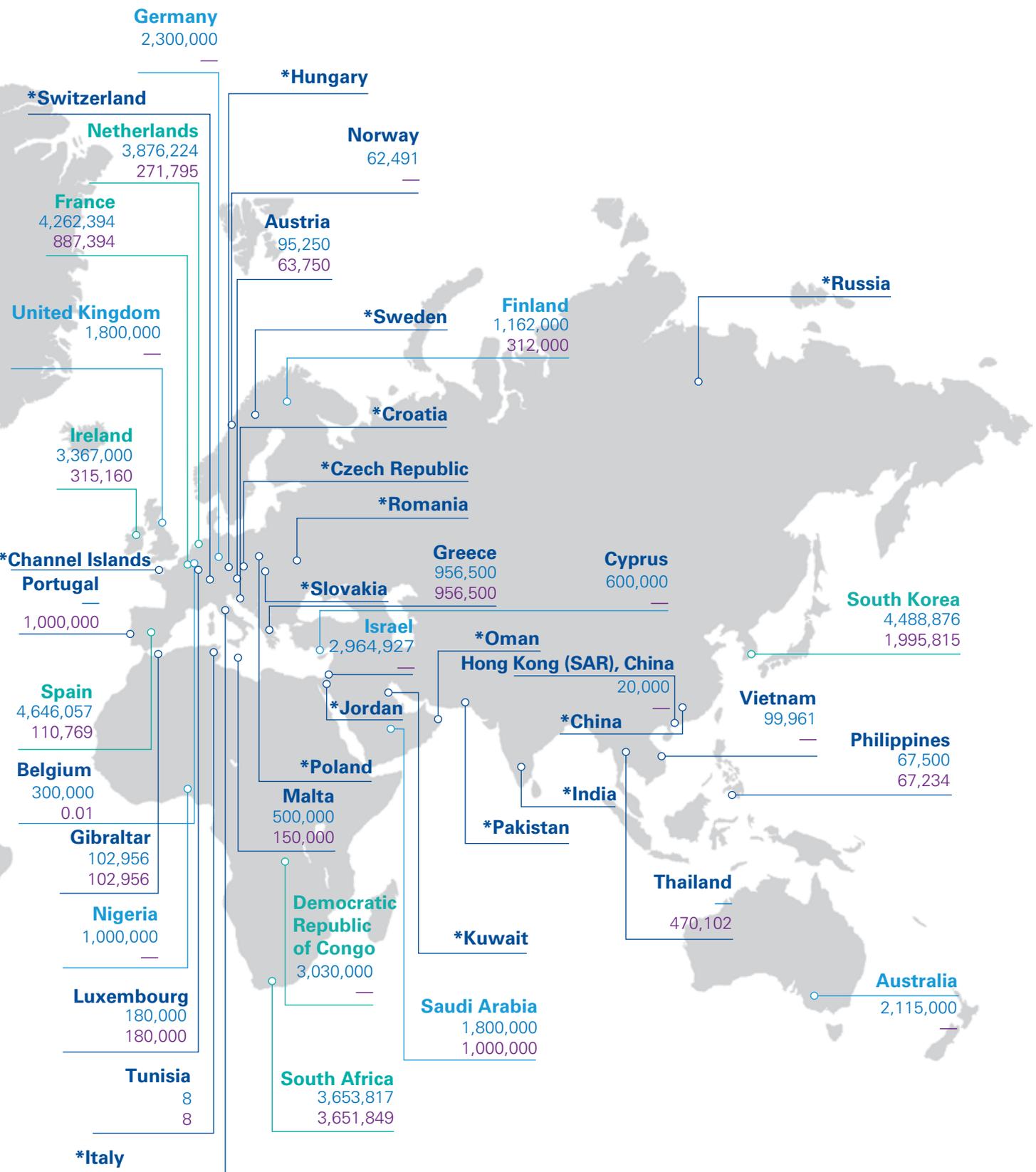


**Figure 1d:** Country/region/jurisdiction comparison of tax treatment pre- and post-application of exemptions and reliefs on a family business transfer on retirement.

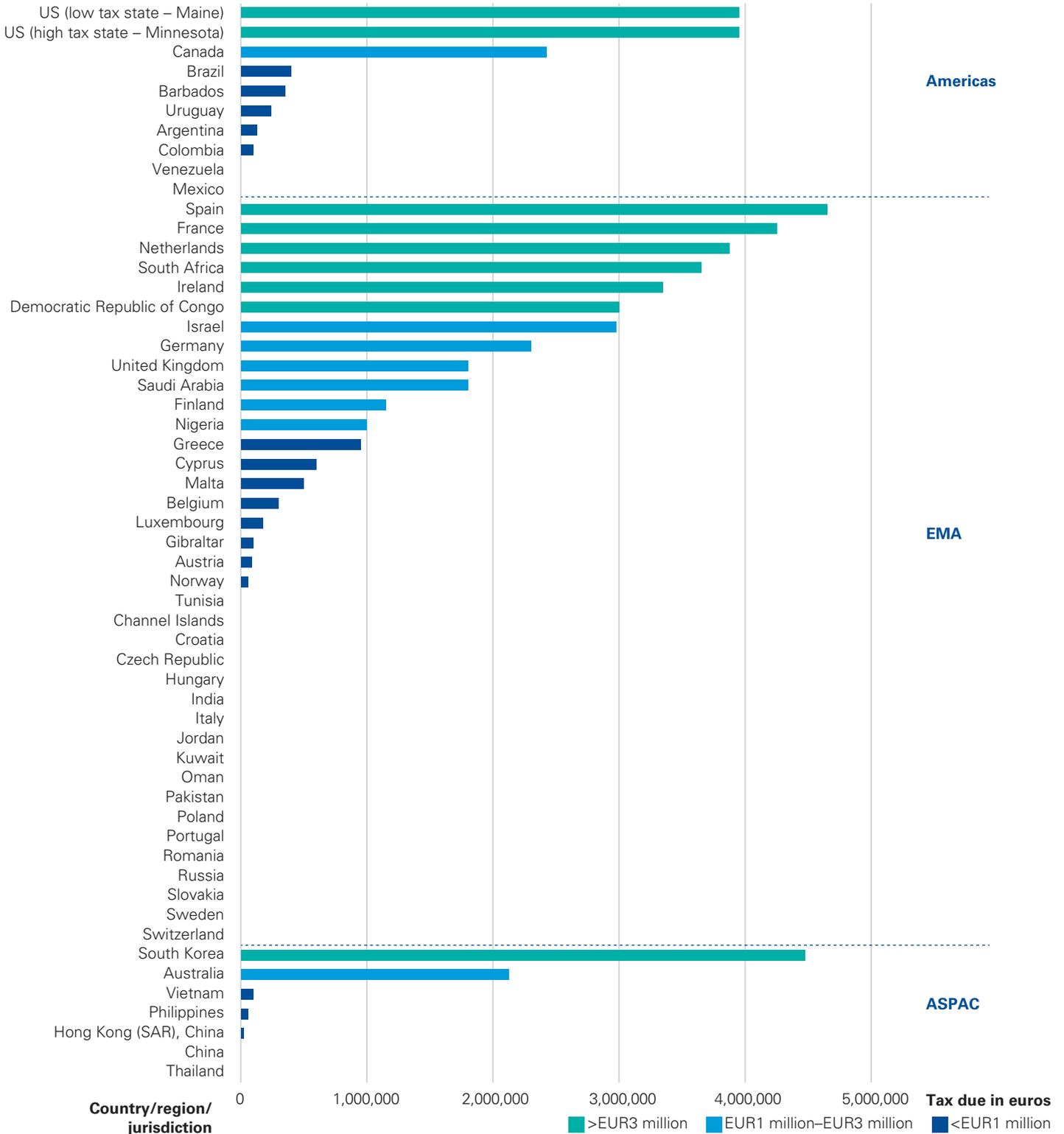
This figure shows an overview of tax levied across the 54 countries, regions and jurisdictions surveyed on a family business transfer on retirement of EUR10 million, before and after applying any available exemptions and reliefs.



\*This country/jurisdiction applies no taxes on a family business transfer on retirement.

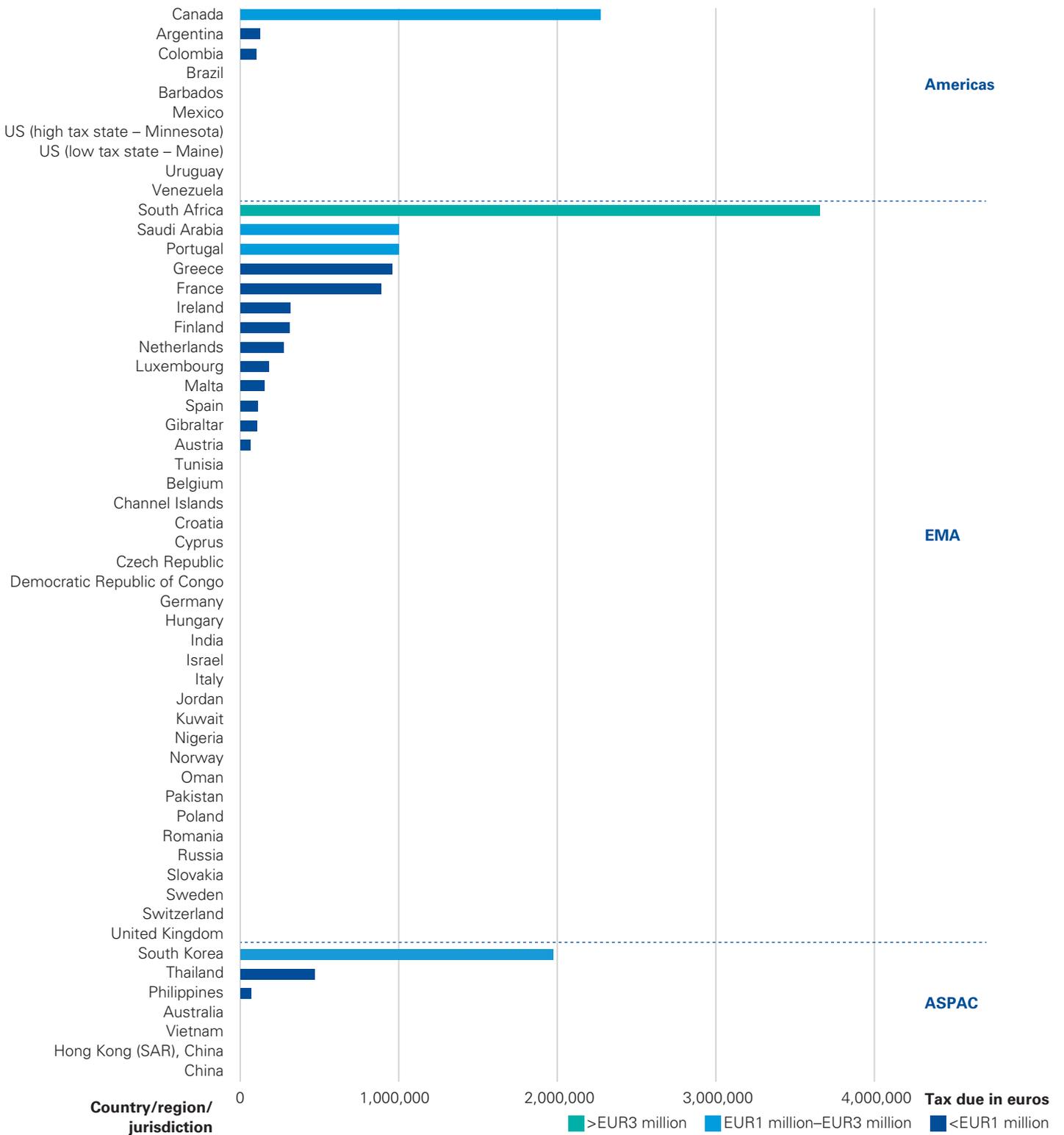


**Family business transfer on retirement**  
**Figure 1e: tax due before exemptions**



## Family business transfer on retirement

Figure 1f: tax due after exemptions



## Case study 2

# Family business succession — EUR100 million

Erik Jackson owned his family business, Jackson Networks, for over 10 years. He invested EUR10 million to establish the company and has worked hard over the years to build it. The current balance sheet is shown below. The business is now valued at EUR100 million on an arm's-length, third-party basis (which includes EUR50 million of goodwill). All assets in the company are used for the purposes of the business.

### Jackson Networks balance sheet as at date of transfer

Manufacturing facility (real estate):	EUR30,000,000
Inventory:	EUR20,000,000
Trade debtors:	EUR20,000,000
Cash (used in the business):	EUR10,000,000
<b>Total assets:</b>	<b>EUR80,000,000</b>
Share capital:	EUR10,000,000
Distributable reserves:	EUR40,000,000
Bank debt:	EUR30,000,000
<b>Total liabilities:</b>	<b>EUR80,000,000</b>

Erik's spouse Jennifer died in 2012 and he had one daughter, Lianne, who is 35 years old.

What are the tax implications:

1. If Erik unfortunately passes away in early 2020 and in his will he had requested the business be passed to Lianne, who intends to continue the business for the next 10 years or so?
2. If Erik, who is getting older and wishes to retire, gifts Jackson Networks to his daughter Lianne, who intends to continue the business for at least the next 10 years or so? The gift is not related to any employment of Lianne in the business.

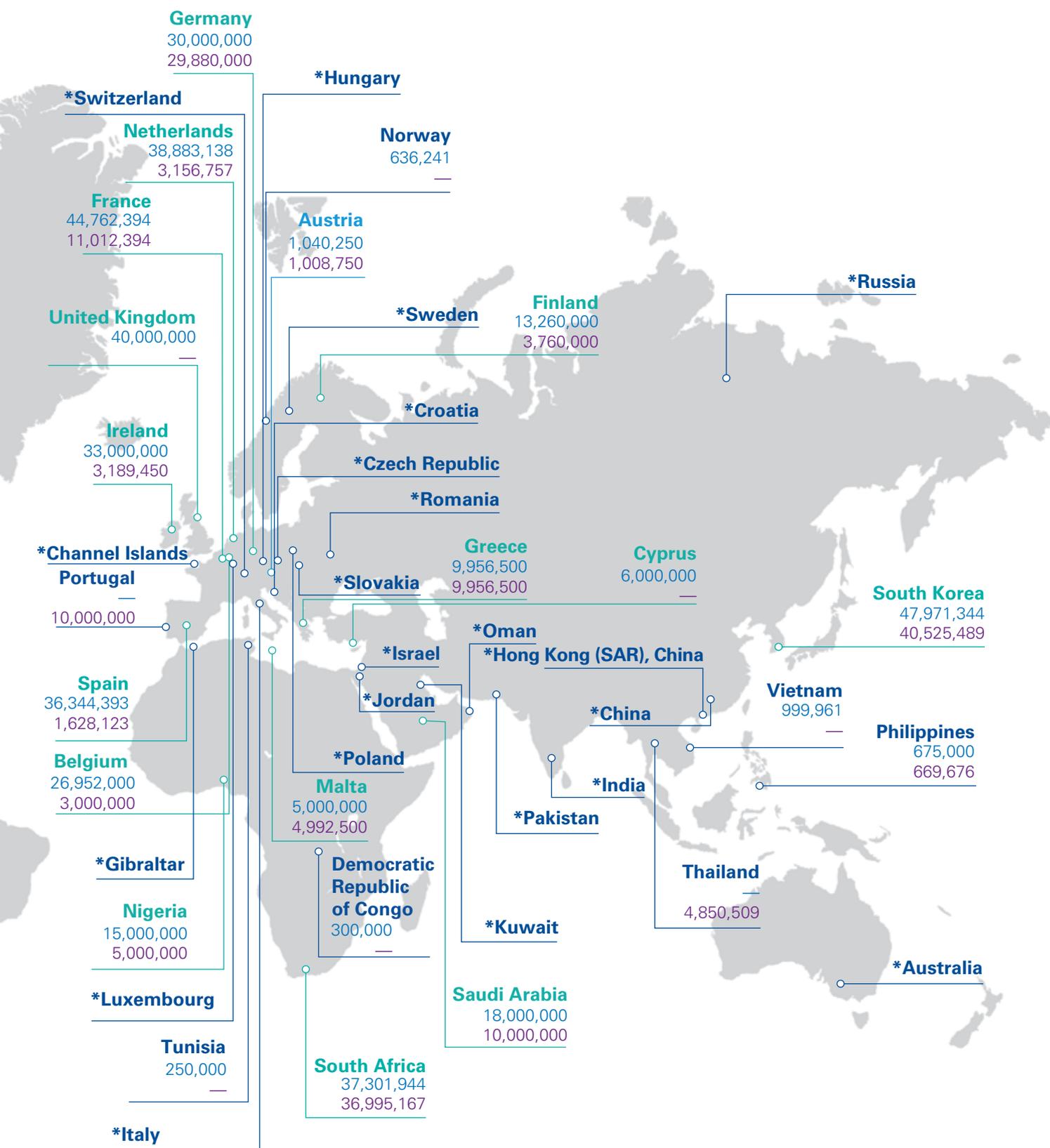
The results for 54 countries, regions and jurisdictions covered in this survey, before and after available exemptions, are summarized in the following pages in figures 2a, 2b, 2c, 2d, 2e and 2f. Key highlights and takeaways from the results are summarized on page 50.

**Figure 2a:** Country/region/jurisdiction comparison of tax treatment pre- and post-application of exemptions and reliefs on a family business transfer through inheritance.

This figure shows an overview of tax levied across the 54 countries, regions and jurisdictions surveyed on a family business transfer through inheritance of EUR100 million, before and after applying any available exemptions and reliefs.

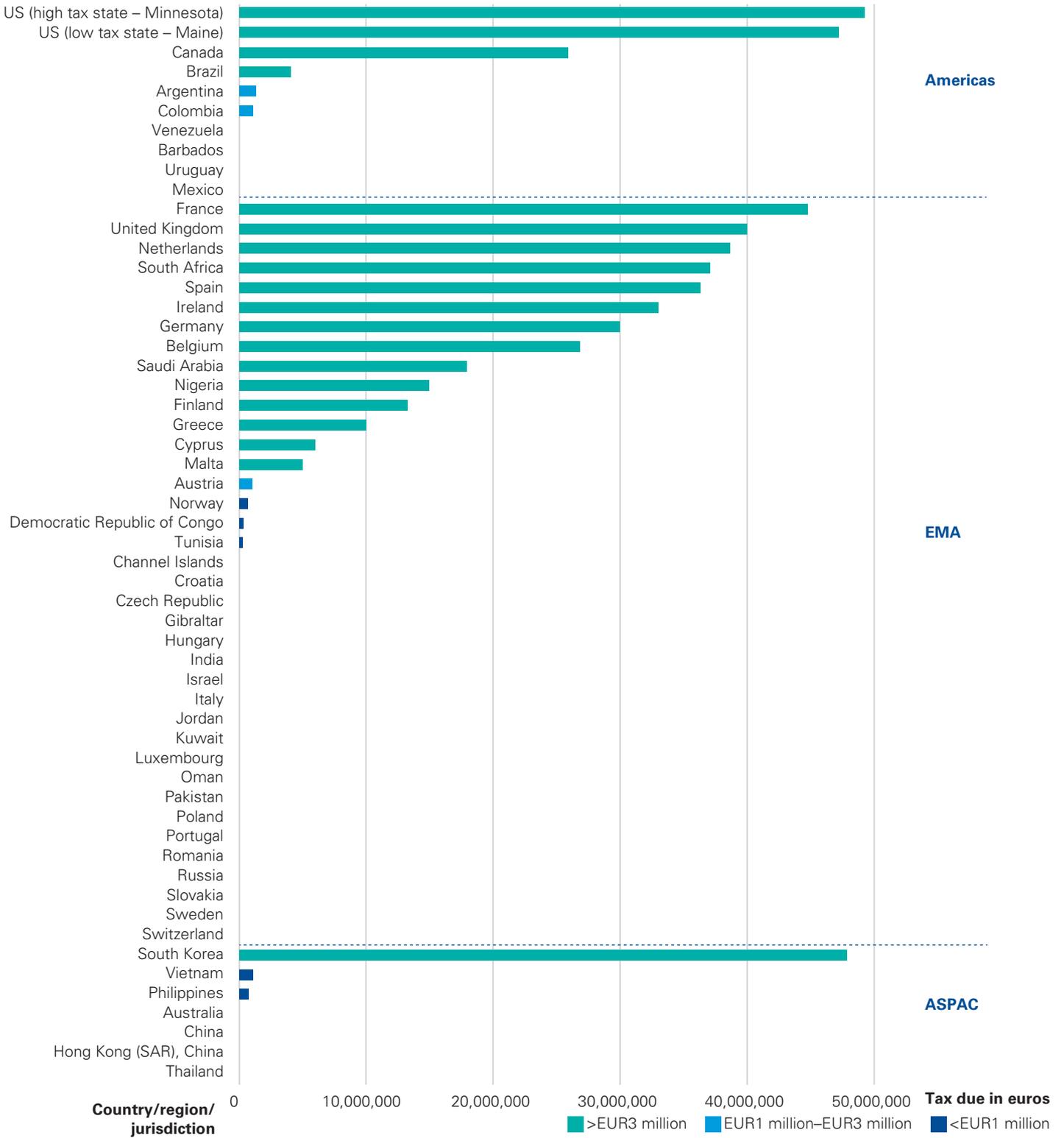


\*This country/jurisdiction applies no taxes on a family business transfer on inheritance.

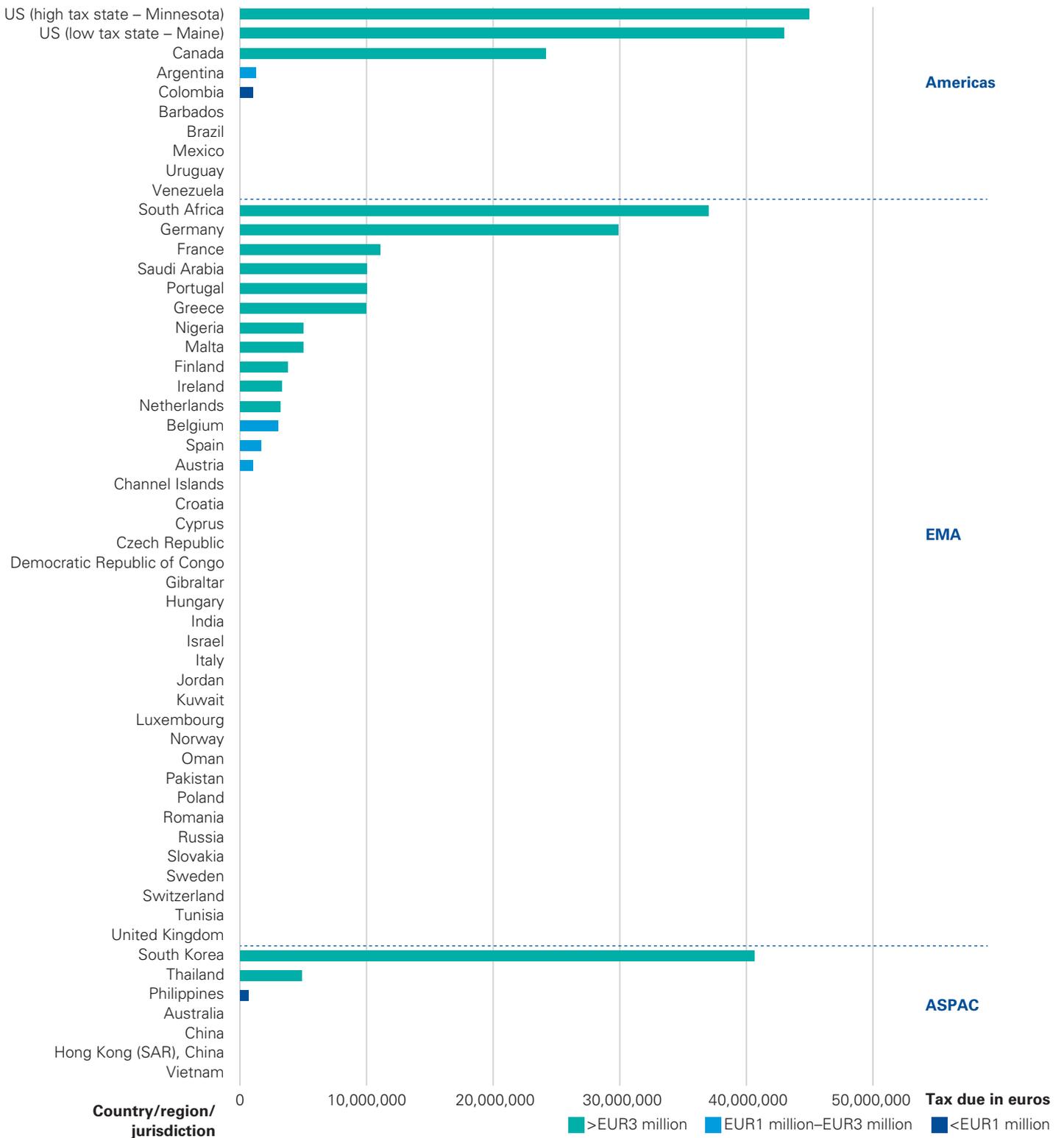


## Family business transfer through inheritance

Figure 2b: tax due before exemptions

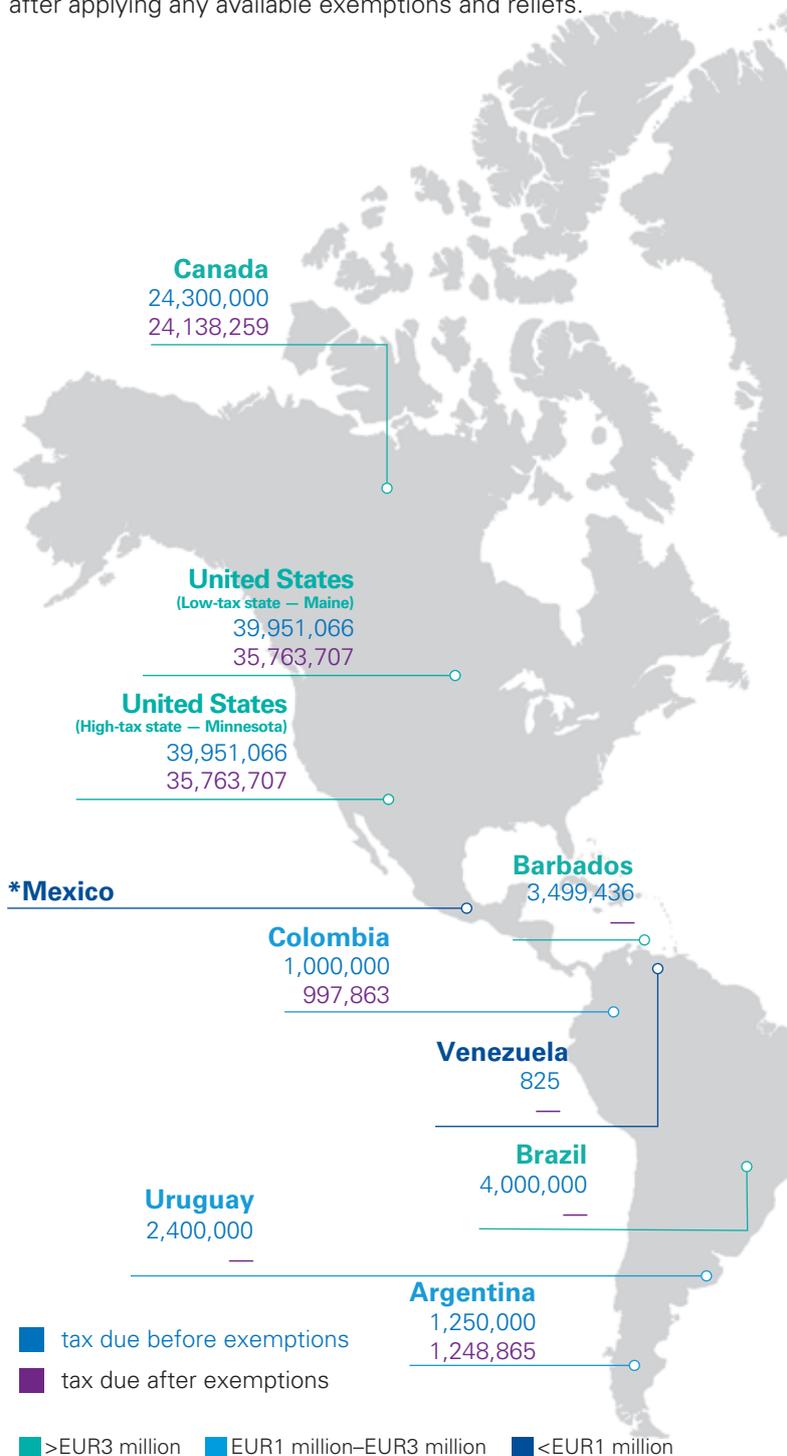


**Family business transfer through inheritance**  
**Figure 2c: tax due after exemptions**

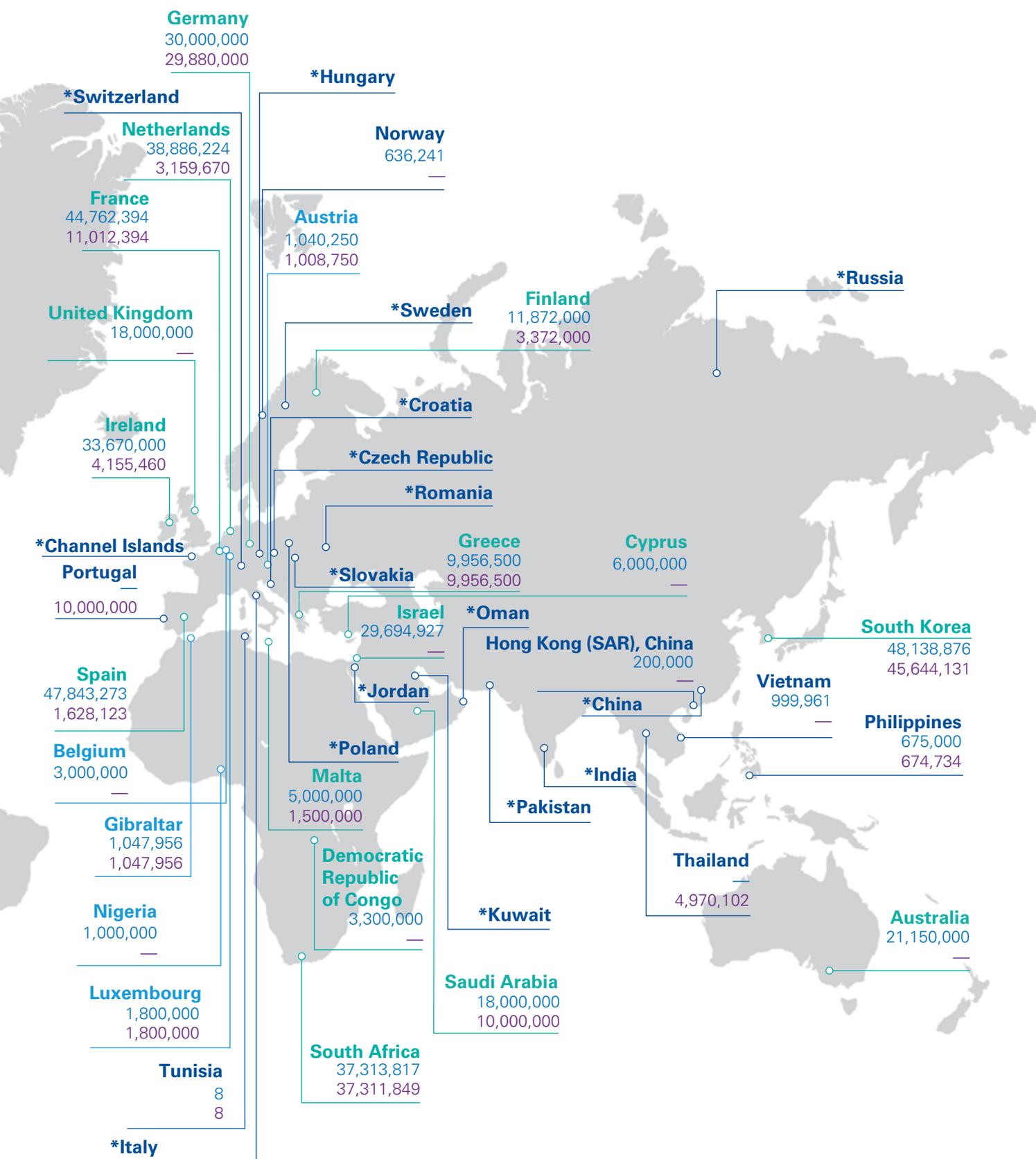


**Figure 2d:** Country/region/jurisdiction comparison of tax treatment pre- and post-application of exemptions and reliefs on a family business transfer on retirement.

This figure shows an overview of tax levied across the 54 countries, regions and jurisdictions surveyed on a family business transfer on retirement of EUR100 million, before and after applying any available exemptions and reliefs.

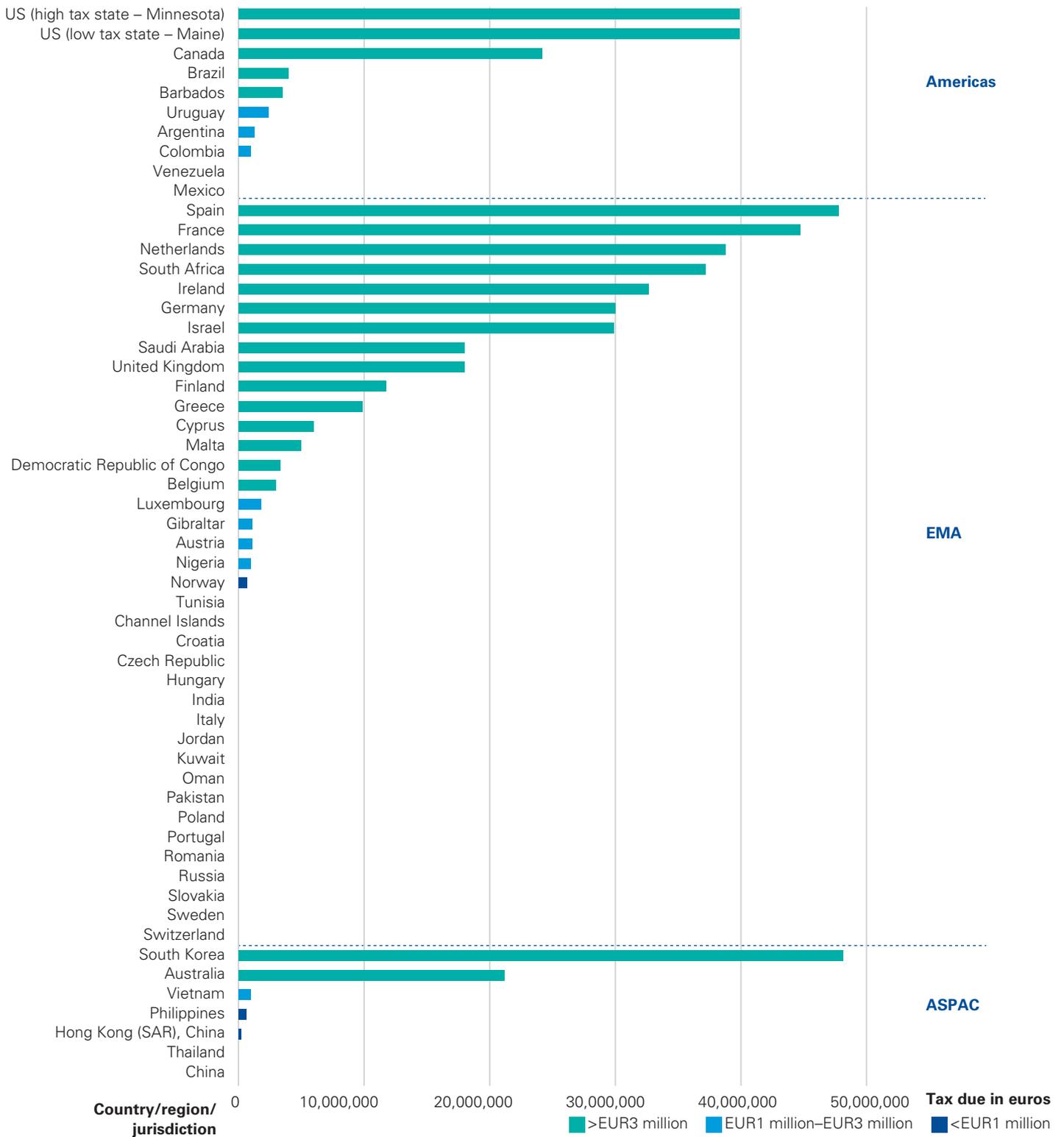


\*This country/jurisdiction applies no taxes on a family business transfer on retirement.



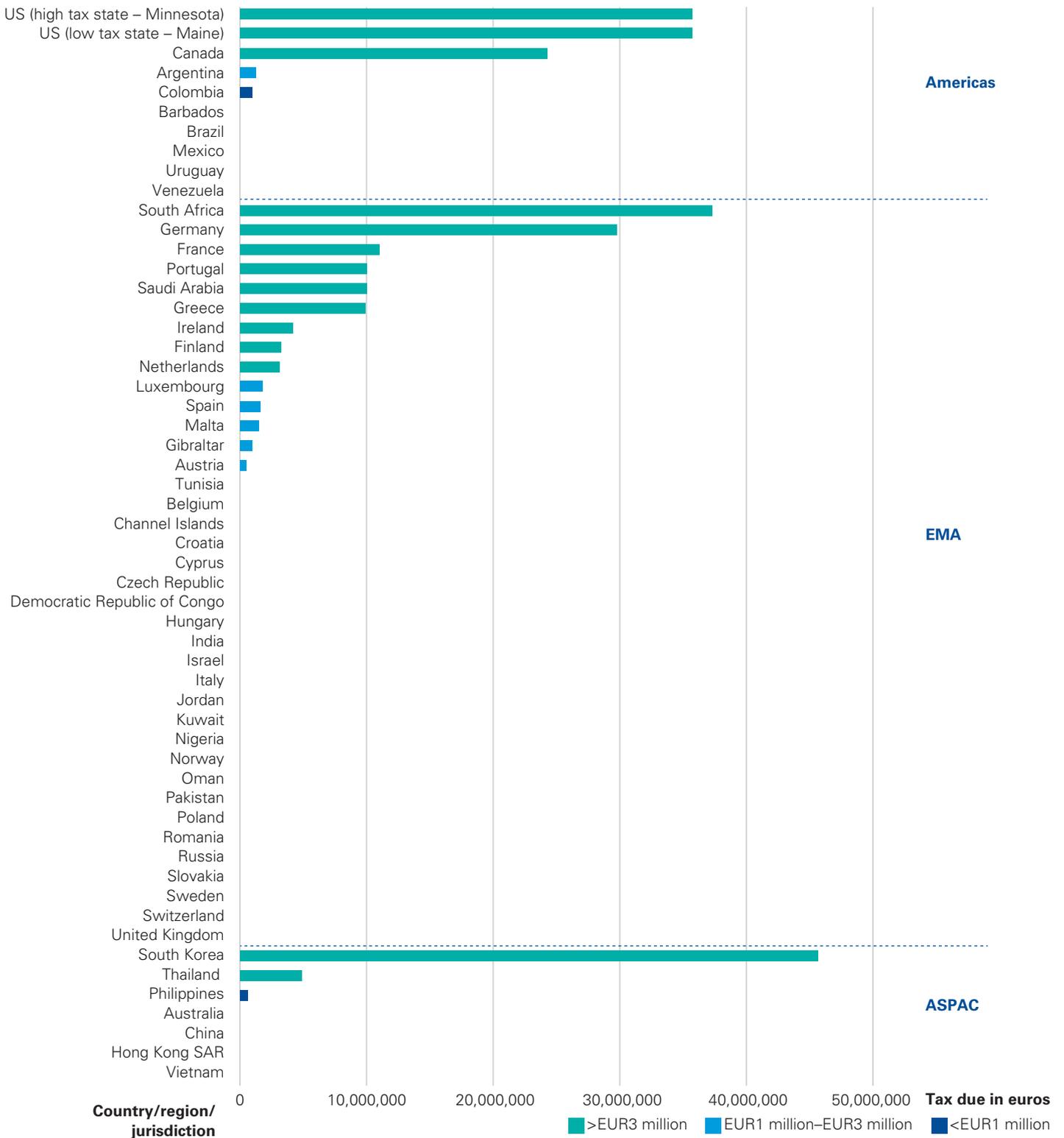
## Family business transfer on retirement

Figure 2e: tax due before exemptions



## Family business transfer on retirement

Figure 2f: tax due after exemptions



# Change is in the air for family business



*A clear outcome of the pandemic is that there will be significant change for family wealth and business. There will be changes in tax policy and in the ways society and families perceive wealth and its purpose. Families are being forced to confront difficult issues as never before and have the opportunity to position their businesses to not only survive, but thrive in the future.*”

## **Greg Limb**

Global Head,  
Family Office and  
Private Client,  
KPMG International



There have been recent changes in tax legislation and rules prior to COVID-19 that will impact family businesses, both from the standpoint of clarifying existing policy and changing tax obligations. Looking out, there are further changes on the horizon in the near and longer term that family businesses need to be prepared for.

In the US, an important clarification was made to tax legislation with the Internal Revenue Service's (IRS) 2019 ruling on application of the increased exclusion for taxable gifts and estates. *The Tax Cuts and Jobs Act* of 2017 had increased the exclusion for taxable gifts and estates to US\$10 million, with an annual inflation adjustment. With the adjustment, the exemption for an individual in 2020 is US\$11.58 million.

The exclusion is extremely important for US family business leaders planning lifetime business transfers, as before the exclusion, the US has one of the highest tax rates.

However, the increased exclusion came with a 2026 sunset provision and family business owners were concerned that should the exclusion be reduced in the future, there could be a clawback for gifts made between 2017 and 2025. The IRS has now clarified how the tax would be

administered, so that if a gift is made with the increased exclusion and the gifter then passes away after the exclusion is reduced, there will be no clawback or recapture of taxes calculated with the higher exclusion.

While concerns of a clawback have been addressed, the sunset provision remains, giving US families a limited window to take advantage of the increased exclusion. And that window may be closing faster than previously anticipated. With the US presidential election taking place in November 2020, there are concerns that, following the election, the 2026 timeframe for expiration of the higher exclusion could be accelerated or the exclusion could simply be eliminated.

November 2020 could be a key juncture for the UK as well, with the government presenting its new budget. Concerns have previously been raised by a document published by the Office of Tax Simplification in July 2019, proposing a number of changes that would affect business property relief (BPR), potentially exempt transfers and obtaining a capital gains uplift upon death. The fall budget announcement could crystallize these proposed changes. The current tax regime in the UK is quite favorable as long as the family complies with conditions

of BPR and removing the relief could have unintended consequences, with families potentially looking to exit the business rather than incur the tax for an intergenerational transfer.

In Asia-Pacific, South Korea has drawn particular attention for its inheritance tax, which can rise to as high as 65 percent, the highest in the world.<sup>3</sup> The South Korea tax regime does offer some deductions for lifetime transfers and inheritance, which can reduce the tax burden somewhat.

Some accommodation is also planned to ease requirements for transfer of a family business. For the transfer of family business, the post-management period will be shortened from 10 years to 7 years and the obligation to maintain the industry, employment and assets will be eased. The reform plan is designed to enhance effectiveness by considering that the use of the family-run deduction system, which was introduced to prevent the contraction of employment and investment, was understated.

By contrast, Australia doesn't have a separate inheritance or gift tax; family business transfers are treated like a sale at market value and taxed in the same manner as any other transfer or sale of capital goods. There is no exemption available for income taxes. Overall,

Australia tends to have more taxes on transfers of capital generally as compared with other ASPAC countries.

In Latin America, there are also potential changes on the horizon.

Brazil has historically benefited from a low tax rate, but that may be on the verge of changing. Federal tax reform is anticipated perhaps as early as 2021. Under consideration is the reintroduction of a dividend tax. While it is likely that the corporate tax rate will be reduced, proposals indicate that some deductions will be eliminated, effectively increasing the corporate rate. Estate and gift taxes in Brazil are applied at the state level and range to a maximum of 8 percent. The state of Sao Paulo, most notably, is discussing doubling its inheritance tax from 4 to 8 percent.

In Mexico, a proposal was introduced to reform the country's *Income Tax Law* to include a provision for taxing inheritance and lifetime gifts when they exceed MXN10 million. The proposal has not advanced to date, but it bears watching.

Recently, it was announced that the political party with a majority in Congress intends to present a new initiative to tax inheritances and donations. The details are still unknown.



*Brazil has a low tax rate, but this may change with tax reform high on the agenda for 2020. A huge problem for family businesses is the complexity of a tax system and the time and cost Brazilian companies have to incur to be compliant. At the end of the day, a large multinational generally has more resources and is better able to cope with complexity, compared to a family-held company.*

**Fabio Wagner**

Director, Tax Legal Services,  
KPMG Private Enterprise  
in Brazil



**IRS clarifies US tax exclusion**

*The US Tax Cuts and Jobs Act increased the exclusion for taxable gifts and estates to US\$10 million with an annual inflation adjustment beginning in 2017. However, the increased exclusion came with a 2026 sunset provision and family business owners were concerned that should the exclusion be reduced in the future, there could be a clawback for gifts made between 2017 and 2025. In 2019, the IRS issued regulations clarifying how the tax would be administered, so that if a gift is made with the increased exclusion and the gifter then dies after the exclusion is reduced, there will be no clawback or recapture of taxes calculated with the higher exclusion.*



*The current US tax law is almost certainly a short-term planning opportunity because of the sunset provision for the increased exemption. For a family business on the cusp of a transition, the enhanced exemption fits well with transferring ownership as well as leadership, if that's part of the succession plan. For families at an earlier stage of planning, it could pay to transfer some ownership to the next generation, if not necessarily leadership, to take advantage of the higher exemption and minimize future tax liability.*

**Tracey Spivey**

Partner, Tax,  
KPMG Private Enterprise in the US



<sup>3</sup> "Burdensome inheritance — Korea's death tax effectively heaviest in OECD; hundreds of firms go up for sale due to estate taxes"; The Korea Herald, 24 April, 2019

# Complexity creates challenges



*The complexity of the tax system in Canada has risen dramatically and business owners are finding it extremely challenging to navigate. Family businesses are at their best when they are innovating, creating jobs and stimulating business activity. The complexity impacts the ability for a private business owner to do that. It can lead to inefficiencies where business owners are unable to focus on the big picture objective, which is ultimately growing the business. ”*

**Dino Infanti**

Partner, National Leader Tax,  
KPMG Private Enterprise  
in Canada



A common complaint of families in planning for transitioning businesses and private businesses more broadly, is the complexity of complying with tax provisions and the associated cost and time commitments.

In Canada, for example, business owners are finding it extremely challenging to navigate the increased complexity of the tax system. The result in Canada is that family businesses often find that transferring the business within the family can be more costly from an income tax perspective than an arms-length sale.

Similarly, family businesses in Australia find the tax regime incredibly complex.

Family businesses can be subject to income tax, a goods and services tax and multiple employment taxes, among others. Moreover, taxes vary from state to state. Overall, it is a very complex system with considerable onus to comply. For the transmission of family businesses, depending on the business structure, it can result in very different outcomes.

In China, while there is not a specific inheritance or gift tax, there can be a complex set of taxes when families are transferring assets. For families planning an intergenerational transfer of assets, the tax complexities can be significant, though depending on the type of asset, there can be exemptions that apply.



*In Australia, there is a systemic bias that favors families to hold on to wealth until death, rather than having a lifetime ownership transition to next generation. Even if the family wants to transfer the operational reins of the business, sometimes it can be difficult to align at the ownership level because of the potentially significant tax costs in transferring during lifetime. ”*

**Brent Murphy**

Partner,  
KPMG Private Enterprise  
Australia





# Early planning and preparation is key



*One of the main challenges facing family business owners is to establish a plan at an early age, covering key elements, such as the anticipated plan for the transmission, among others, legally and fiscally aligned with their compliance obligations. ”*

**Ricardo Arellano**

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**Planning steps for business families**

1. *Think ahead for a period of 10 years.*
2. *Have a valid, up-to-date will.*
3. *Establish family governance, including family constitution and council.*
4. *Understand inheritance tax exposure and lifetime gift advantages.*
5. *Review the business balance sheet with tax implications.*
6. *Plan for transitioning the business with regular check-ups.*

No matter the jurisdiction, early and ongoing planning and preparation are critical for the continued success of a family business.

A good starting point for family business owners is to think ahead for a period of 10 years and what could potentially happen if there is not a plan for transitioning the business. Planning for

successfully transitioning a business to the next generation is not something that can be accomplished overnight. It's a psychological process and legal process as well as an implementation exercise. Discussing with family and establishing robust family governance is extremely important. With all that is on the line with the family business, planning well in advance is the key.

There are basics that need to be followed as a matter of course. To start, family business owners need to have done thorough estate planning, including a valid, up-to-date will that takes into account all of the business assets, ownership structure and transfer intent, as well as applicable tax considerations.

Establishing family governance is an extremely important step in the process. Putting a process in place to formalize rules, responsibilities and accountability is a must, especially when an operating family business is at stake. However, according to the [KPMG Private Enterprise European Family Business Barometer](#), the vast majority

of family businesses surveyed have not adopted foundational governance structures. Only 12 percent reported having a family constitution in place, while just 26 and 24 percent said they have a shareholder agreement or formal board of directors respectively.<sup>4</sup> Many families have followed more informal processes and follow norms established over many years. But formalizing these policies and procedures can be essential as the family and business evolves.

Families need to be aware of potential inheritance tax exposure on death, consider life insurance as appropriate and review potential advantages of making lifetime transfers and gifts.

The business balance sheet needs to be reviewed to identify where cash balances and other assets such as real estate could lead to the company being viewed as an investment rather than operating business and potentially impact the availability of tax reliefs. There can also be flexibility gained in planning for transfer of family business shares to use trust, foundation or other structures to hold interests in the businesses for the purposes of succession planning for future generations.

As a general rule, regulations along with tax and legal considerations are very complex, adding to the imperative of thinking in advance and having a plan. There can be a number of opportunities for family businesses to receive exemptions and get tax relief, if the business transition is planned carefully and the considerations for transfer are taken into account at an early stage. With the growth of the business such planning becomes ever more critical, as the larger

the business and the larger the transfer, the more expensive it can be.

Determining the proper inheritance tax can require calculating the ratio of productive business assets and non-exempt assets so that the correct exemption can be calculated. No business situation is static. Circumstances and the state of the family business, and the family itself, undoubtedly will change. Especially as the time for family business succession grows closer, it is important to do ongoing planning, with regular check-ups on the state of the business, to see at which time might be, or to what extent it might be transferred exempt.

### **The importance of planning**

*As an example of the importance of planning, the transfer by inheritance of a family business in Germany valued between EUR1 million and EUR26 million can qualify for a tax exemption of 85 percent or even 100 percent, but only if certain conditions are met as of the reporting date:*

- *salaries cannot fall within a 7-year period to less than seven times the payroll total of the 3 years prior to inheritance*
- *no more than 20 percent of administrative assets are held on the reporting date*
- *shares are not sold for a 7-year period after transfer.*



*There can be many opportunities for families in Germany to receive tax relief for business succession — if the transfer is started at a very early point and planned carefully. The inheritance tax law requires calculating the ratio of productive business assets and the non-exempt assets. Obviously, situations can change, so family businesses need ongoing planning and regular check-ups, to see at which time and to what extent the business can be transferred exempt.”*

### **Kay Kloepping**

Partner,  
KPMG Private Enterprise  
in Germany



<sup>4</sup> <https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/11/european-family-business-barometer.pdf>

# COVID-19 is accelerating family business planning



*For families that are confident in the sustainability of their business and have strong balance sheets, this time could present a golden opportunity. For some larger families, this could be a chance to make a strategic acquisition inexpensively. For others, low interest rates and asset valuations could make it a perfect time to transition all or part of the business to the next generation.”*

**Bradley Sprong**

Partner,  
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The COVID-19 pandemic has caused considerable uncertainty across the business landscape. Depending on the sector, many businesses have been in survival mode, hunkering down and waiting for conditions to improve. The winners and losers depend to a great extent on the business they are in. Sectors such as travel and hospitality have been especially hard hit, while businesses in sectors including healthcare and technology have fared much better. Digital business models are thriving as traditional brick and mortar stores struggle. Many forward-looking businesses are seizing the opportunity to reinvent themselves, identifying new markets, products and ways to serve customers to prevail through the pandemic and beyond.

For the family business sector as a whole, the coronavirus has become an accelerator for confronting difficult planning and decisions that may have been deferred before. One of the most notable areas for discussion is around succession.

The pandemic has squeezed the decision-making cycle for families. Traditionally, families have tended to be very deliberative and reflective, taking their time in making decisions

with respect to their businesses. But in the new reality, businesses are quickly realizing that they need to act more quickly and become more agile. There is a new sense of urgency about how they prepare for the future.

Around the world, families with businesses and other wealth to manage are increasingly expecting government policy changes in most jurisdictions and the change is expected to come in the form of increased taxes. For families already contemplating transferring assets, these proposed changes have put them on high alert. And for families that may have been postponing some difficult planning and decisions, COVID-19 and the prospect of potentially much higher taxes has moved wealth planning up to the front burner.

Depending on the sector they are in, the pandemic has created a burning platform for family businesses, with an acute sense of urgency about how to protect the business and the family's wealth for the future. In jurisdictions such as the US and UK, where changes in tax policy are seen as likely within the next year, the time for decisions on transfer or sale of all or part of the business has been condensed from years to potentially a matter of months.



# Transferring the family business to the next generation



*The deferral and exemption of taxes that can apply when a family business is transferred in the Netherlands have been under scrutiny and will likely be changed in coming years. Family business wealth could be taxed more like passive investment wealth. With most business valuations lower as a result of COVID-19, this could be a particularly good time for families to explore transferring the business to the next generation.*”

## **Olaf Leurs**

Tax Partner,  
KPMG Meijburg & Co,  
KPMG in the Netherlands



The accelerated planning cycle family business can also encompass a need to more rapidly prepare the next generation to assume control. This can include mentoring, coaching and training the younger generation to prepare them for taking on executive roles in the business, assuming they have the appetite for following in their family elders’ footsteps.

As the older generation prepares for succession and transferring the family business to the next generation, the X factor they face is the willingness and the readiness of the younger generation to assume ownership and leadership of the business.

Where it may have once been assumed that the next generation would automatically take over the existing family business from their parents, that presumption is changing.

There are a number of factors that are impacting the transfer of the family business.

One of the challenges is that the founders are living longer and don’t necessarily want to relinquish control of the business as early perhaps as they did in previous generations. Where the next generation wants to take over the business, this can create family tension between the founder who may be hanging onto the business longer and the millennial child or children who are keen to get moving with business because they don’t expect to be there when they are 70–75.

Next generation millennials who stand to inherit the business may also be less inclined to just want to carry on the original core business. They may be more interested in diversifying into what they consider to be more innovative businesses such as technology. In many instances, the millennial generation is better educated and has acquired a more global perspective. They may be less interested in the safe, secure employment of the family business

and more excited by the prospect of launching their own business. There is an increasing number of family business owners who would prefer investing in new startups rather than being tied solely to carrying on the traditional family activities.

Or, they may be interested in selling parts of the business to create liquidity so they can invest in other things, which might fit their value set more, such as setting up a charitable foundation or investing in sustainable, green endeavors.

Where millennials do, in fact, take over the family business, the evidence suggests that family businesses run by millennials and Gen Xers actually achieve superior performance and create a better environment for success.<sup>5</sup>

Millennials are also interested in creating the right change of culture and behavior and recognize that the future prosperity of business may depend on attracting non-family executives into the business. Increasingly, we are seeing the next chief executive might be non-family. From a governance perspective, there is an increasing trend to appoint non-executive directors to the board to bring a different skill set and help manage risks in the business.

The future success of the family business is also dependent, to some extent, on good governance within the family. Millennials tend to be more focused on family governance, with a greater appreciation for governance tools such as family constitutions and councils as methods of defining roles and improving collaboration among family members.

“

*It is most important that family business owners have an executed will providing clarity on their intentions for the succession of their business. They should also encourage the involvement of their children, heirs in running the business or building their awareness of the operations of the business. If the next generation is not engaged in the business or unaware of how to run it, the result could be poor management and the eventual demise of the business.”*

**Tayo Ogungbenro**

Partner,  
KPMG Private Enterprise  
in Nigeria



“

*Governance has moved well up the agenda for family businesses in Belgium. There is greater recognition that well-considered governance is absolutely essential to the long-term success of the business, starting with having a family charter or constitution. The younger generation is also much more open to bringing external expertise to the family business boardroom to get fresh thinking on innovative ways of doing business.”*

**Thomas Zwaenepoel**

Partner,  
KPMG Private Enterprise in Belgium



<sup>5</sup> STEP 2019 Global Family Business Survey

# The war for talent



*The modification of the wealth tax in France as of 2018 is very good for family businesses. The new regulations make governance of family-owned companies much easier than in the past. Now, the next generation can just hold shares without taking control of the business and not have to pay tax on the shares. Multiple generations can now be integrated in the family business to prepare for the transmission, which wouldn't have been the case in the past.*”

## Vincent Berger

Partner,  
KPMG Private Enterprise  
in France



Finding skilled talent is a challenge for every business. For family businesses, it is becoming even more critical. In fact, 63 percent of family businesses surveyed for the [KPMG Private Enterprise European Family Business Barometer](#) identified the war for talent as their top business concern.<sup>6</sup>

As family businesses increasingly turn to non-family members to manage important aspects of business and help deliver business strategy, the need for talent will continue to accelerate. In the current climate of global economic uncertainty, families need to be open to bringing in people with different skill sets and experience to help them navigate that uncertainty.

COVID-19 has reinforced that families with businesses need to expect the unexpected. It is important for families to think about the skills needed to manage through not just day-to-day challenges, but seismic changes. Resiliency and the ability to manage risks are more important traits to have than ever.

The millennial generation, in particular, recognizes that the future prosperity of the family business may depend on attracting non-family executives into management roles. Increasingly, families are open to the next chief executive coming from outside the family. From a governance perspective, there is similarly an increasing trend to appoint non-executive directors to the board to bring different skill sets and help to better manage risks in the business.

A key challenge for family businesses as they look to bring in non-family members who become key, critical executives to the success of business, is how they are compensated. Compensation will be key to keep them engaged and ensure that you can retain them. Increasingly, those key executives want some equity so they can participate in the appreciation of the business. That has historically been a challenge, with families reluctant to dilute the family's interest for the benefit of non-family executives and employees.

<sup>6</sup> <https://home.kpmg/xx/en/home/insights/2019/11/european-family-business-barometer-succession-top-of-mind-eighth-edition.html>



# The emergence of the family office



*An increasing trend in China and even more so in Hong Kong (SAR), China, is establishing a family office to operate the family business and manage assets. Family members often don't have the knowledge to work through governance, legal, tax and succession issues and, therefore are looking for outside expertise. Especially for families that have assets in multiple countries, the family office model can help them to better understand and manage the complex rules they are subject to around the world. ”*

**Karmen Yeung**

Partner,  
KPMG Private Enterprise  
China



Managing the intertwined workings of a family business with the family's wider interests and assets, along with the needs and desires of individual family members, is a complex proposition. The task becomes even more difficult and time-consuming with the array of regulatory, geographical and demographic changes facing business families.

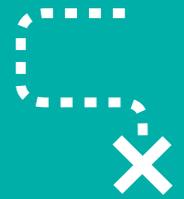
Fewer families are situated in a single country; they are increasingly spread out across borders and the operations of their businesses are carried out more cross-border as well. While the domain of tax policy continues to be a domestic affair, managing across jurisdictions with increased cooperation among tax authorities multiplies the complexity. Keeping track of the tax regimes, how they interact across borders and overlaying this with family participation in the business and geographies at play requires specialist knowledge and

resources. On top of this, there are the demographic dynamics discussed previously, with millennials expanding their involvement and often transforming the family business, the need to educate future generations about the business family and the need to formalize governance policies.

In order to manage all of this complexity, many families are formalizing the current support systems they have in place to deal with the myriad issues. In the market, these support systems are often known as family offices. Just as each family is unique, the requirements they have for their family office are unique too, from objectives, through to structuring, location and formality. As family office structures gain more attention, many family businesses are considering how they might use such structures to help chart their path for the future, a trend that we expect to continue in the coming years.



# Charting a path for the future



Business families have a lot to think about and plan for as they chart a path for the future. Keeping the business thriving across generations has never been easy and it is a particularly daunting challenge in today's environment.

The COVID-19 pandemic is causing a lot of families to take stock and think about the larger purpose of their business and their wealth. Families are increasingly reflecting on their values and what their business needs to look like to reflect those values. They are thinking more about their legacy and the broader societal impact of their business and wealth. Family businesses already tend to have a strong sense of community. Today, more are considering their role in addressing wider societal issues of diversity, inequality, sustainability and education.

It is important that families be encouraged and supported in their efforts. The contributions of family businesses to economic growth, employment and innovation are

needed more than ever. With countries facing a prolonged recovery from the coronavirus health crisis and the resulting economic slowdown, the family business approach of looking forward and prioritizing long-term success over short-term gains should be especially valued.

We hope that this report has reinforced that long-term family business sustainability and success requires early and ongoing planning, especially as families begin to think about transferring the business to the next generation. As we have seen, tax regulations in most jurisdictions are highly complex and continuously changing. Failing to meet the requirements for available exemptions can make a transfer prohibitively expensive, perhaps forcing liquidation rather than keeping the business in the family.

Of course, managing the tax liability is just one aspect of successfully transferring the family business. The long-term success depends on many factors, led by having a well-

conceived governance structure. We would reemphasize the importance of every business family putting in place a family constitution and a family council so that roles, management parameters and decision-making processes are clearly defined. These foundations, together with thorough, ongoing planning will better enable the sustainability of the business through inevitable family as well as legislative and regulatory changes.

At KPMG Private Enterprise, we work with hundreds of family businesses to help ensure they are on track to achieving both their short and long-term objectives for the business, including the efficient, effective transfer to future generations. We would welcome the opportunity to discuss your business family's unique situation and how we may be able to assist.



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# Country/region/jurisdiction summary notes

## Argentina



### No tax applicable in most provinces

- There is no inheritance or gift tax in Argentina, except in Buenos Aires Province (it not includes City of Buenos Aires) and Entre Rios.
- Inheritance and gift tax rates vary by province and exemption thresholds apply.

## Australia



### Full exemption on death; partial exemption on lifetime transfers

- No inheritance, gift, or estate taxes are imposed.
- Transfer of an asset through inheritance on death is generally exempted from income tax; however, income tax may be imposed where the asset passes on death to a tax exempt entity or a person/entity that is not a resident of Australia for income tax purposes.
- Lifetime gifts are subject to income tax. A partial exemption is generally available in respect of non-depreciating capital assets provided that the donor held the asset for at least 12 months and/or for business purposes before the gift.
- State-based stamp duties/transfer duties generally do not apply to asset transfers through inheritance. Lifetime transfers of some asset classes are subject to state-based stamp duty/transfer duty.

## Austria



### Minimal tax due

- Inheritance tax and gift tax were abolished in 2008.
- Lifetime gifts are subject to a reporting requirement (with exemptions for gifts to any individual with a cumulative fair market value of EUR15,000 over 5 years and to close relatives up to a fair market value of EUR50,000 per year).
- Real estate transfer tax (RETT) applies to lifetime gifts and transfers on death of directly held land and, in certain cases, shares in a company holding land.
- As of 1 January 2016, RETT is chargeable on the fair market value of such transfers, with transfers between close relatives benefiting from gradually increasing rates of up to 3.5 percent.

## Barbados



### Minimal tax due

- Barbados has no inheritance tax or gift tax.
- Stamp duty is payable on the value of property transferred through lifetime gifts and on death.
- Property transfer tax is payable on lifetime transfers; transfers via testamentary disposition are exempt.

## Belgium



### Reduced tax rates and partial exemptions available on inheritance; full exemption available on lifetime transfers

- New inheritance legislation with effect from 1 September 2018 may affect the succession of family businesses.
- Inheritance tax and gift tax rates depend on whether the donor/deceased is domiciled in Flemish, Walloon or Brussels region. Our comments and analysis cover the Flemish region.
- A lifetime gift of shares in a family business is exempt from gift tax, regardless of the recipient.
- On death, transfers of family-owned business shares to children, spouses or co-habitors benefit from a reduced inheritance tax rate of 3 percent (compared to 7 percent for transfers to others). The inheritance tax rates for family business transfers are lower than the rates for other asset transfers and are not progressive.
- To qualify for the family business rates, the donor/deceased and their family must fully own the shares that represent at least 50 percent of the voting rights of the company (30 percent in some cases) when the transfer occurs. For the sake of completeness it should be mentioned in this context that the introduction of multiple voting rights, results in additional opportunities in the context of estate planning here.
- Additionally, the company must carry on an industrial, artisanal or agricultural activity, perform a real economic activity, have its place of effective management in the European Economic Area, and continue to meet these requirements (and not decrease its capital) for 3 years after the transfer.
- Where the activity of rent of (residential and commercial) property was in the past not sufficient to be considered as a real economic activity, the Flemish tax authorities recently changed her opinion on this point and considered the rent of professional real estate as a real economic activity in some of her recent decisions.

## Brazil



### No exemptions available

- Lifetime transfers and transfers on death are taxed under state law, rather than federal law. Our comments and analysis cover the state of Sao Pãulo.
- Inheritance tax and gift tax are charged respectively to transfers on death and during lifetime.
- If the asset has increased in value since the date of gift/transfer on death, capital gains tax may be imposed upon the disposal of such asset. Each situation should be analyzed on a case by case basis.

## Canada



### Partial exemptions available

- Canada does not impose inheritance tax or gift tax.
- Canada taxes the 'deemed gain' that accrues from the time of acquisition until the property is gifted or transferred on death.
- A lifetime enhanced capital gains exemption of CAD883,384 (indexed for inflation) is available for dispositions and deemed dispositions of qualified small business corporation shares.
- To qualify for this exemption, there are two tests that must be met:
  - i) at the date of the transaction more than 90 percent of the fair market value of the company's assets must be used in an active business or trade
  - ii) for the 24 months prior to the transaction, more than 50 percent of the company's assets must have been used in an active business or trade.

## Channel Islands



### No tax applicable

- Channel Islands does not impose inheritance tax or gift tax.
- No other tax applies in this scenario.

## China



### No tax applicable

- China has no inheritance or gift tax.
- No other tax applies in this scenario.

## Colombia



### Partial exemptions available

- Income tax applies on transfers on death at the rate of 10 percent of the base cost of the share capital, with adjustments to the shares' acquisition value as allowed by statute (e.g. accounting for inflation adjustment).
- Income tax applies on gifts at the rate of 10 percent of the base cost of the share capital, also with any allowable adjustments.

## Croatia



### No tax applicable

- Croatia imposes inheritance and gift tax on transfers by individuals or legal entities of cash, shares in a joint stock company or movables (where the market value exceeds HRK50,000) and that property is inherited, received as a gift, otherwise received or transferred without consideration.
- Exemptions are available for immediate relatives in vertical line (e.g. spouses and children).
- Croatia does not impose inheritance and gift tax on shares in a limited company.

## Cyprus



### Full exemptions available

- Cyprus has no inheritance or gift tax.
- Capital gains tax at 20 percent is imposed on the seller on sales of immovable property and sales of private company shares involving immovable property located in Cyprus.
- Gifts of Cyprus-located immovable property from parents to their children are exempt from capital gains tax.

## Czech Republic



### Full exemptions available

- The Czech Republic abolished its inheritance tax and gift tax in 2014.
- Lifetime gifts and gifts on death are treated as income and subject to income tax.
- Gifts on death are income tax-exempt, regardless of the recipient.
- Lifetime gifts are subject to income tax at 15 percent but exempt for close relatives.

## Democratic Republic of the Congo



### Minimal tax due

- The Democratic Republic of the Congo has no inheritance tax or gift tax.
- Real estate transfer tax applies to lifetime transfers and transfers on death.

## Finland



### Partial exemptions available for lifetime transfers and transfers on death

- Inheritance tax and gift tax apply, with exemptions.
- Inheritance or gift tax rates depend on the value of the estate/gift and the closeness of the relationship between the deceased/donor and the beneficiary/donee.
- Inheritance tax and gift tax rates are progressive. For inheritance tax, a maximum rate of 19 percent applies for transfers to near relatives with values exceeding EUR1 million. For gift tax, a maximum rate of 17 percent applies for transfers to near relatives with values exceeding EUR1 million.
- The exemptions are only available where the company's profits are taxed in Finland as business income and the recipient is a director of the business.
- Where the exemptions do not apply, the transfer is subject to gift tax or inheritance tax on its full market value (calculated according to the methods of the Finnish tax authorities).

## France



### Partial exemptions available

- Inheritance tax and gift tax apply to transfers on death and lifetime transfers respectively.
- A 75 percent exemption is allowed for transfers on death and lifetime transfers of business shares and business assets (regardless of the donor and recipient), as long as the shares (10 percent of financial rights and 20 percent of voting rights if listed company, 17 percent and 34 percent of those same rights if non-listed company) were held for 2 years before the transfer (an agreement mentioning engagement to securities conservation must be signed) and continue to be held for 4 years after the transfer.
- At least one beneficiary or another shareholder who signed the agreement above must run the business for 3 years after the transfer.
- For lifetime transfers, donors under age 70 benefit from an additional 50 percent exemption.
- If shares in a holding company are transferred to benefit from favorable tax measures, the holding company should be a 'managing holding company' that actively participates in group strategy, controls its subsidiaries and can provide services to the group.

## Germany



### Full exemptions available

- Inheritance tax and gift tax apply to transfers on death and lifetime transfers respectively.
- Exemptions of up to 100 percent are allowed for 'favorable business assets', with several exceptions.
- A 100 percent/85 percent exemption is allowed for transfers on death and lifetime transfers of business shares (regardless of the donor and recipient), subject to conditions.
- Small businesses can apply simplified exemption rules.
- For large business transfers, the exemption is reduced on a straight-line basis for transfer values between EUR26 million and EUR90 million, and eliminated for transfers valued over EUR90 million. Optionally, the tax due is reduced to 50 percent of the 'available wealth' of the successor/donee, defined as all wealth except 'exempted business assets'.
- If no exemption applies, transfers on death and lifetime transfers between parents and children are subject to gift tax and inheritance tax at graduated rates of up to 30 percent, depending on the value transferred.

## Gibraltar



### Minimal tax due

- Gibraltar does not impose inheritance tax or gift tax.
- Lifetime gifts of real estate are subject to stamp duty.

## Greece



### No exemptions but reduced tax rates and tax-free bracket available

- Inheritance tax and gift tax are charged respectively to transfers on death and during lifetime.
- Tax rates for both inheritance tax and gift tax depend on the proximity of the relationship between the deceased/donor and the beneficiary/donee and the value of the estate/gift received.
- There is a small tax-free bracket for 'first degree' relatives (i.e. spouses, co-habitators, children, grandchildren and parents) and the tax rates for this class of beneficiaries/donees are reduced as compared to more distant relatives and non-related parties.
- Specific rules govern the calculation of business values for transfers on death or lifetime gifts.
- The figures reflect the assumption that none of the lifetime donations/inheritance tax relief has been used previously.

## Hong Kong (SAR), China



### Minimal tax due

- Hong Kong (SAR) does not impose inheritance tax, estate duty or gift tax.
- Stamp duty is imposed on assignments / leases of Hong Kong (SAR) immovable properties, transfer of Hong Kong (SAR) stocks and issue of Hong Kong (SAR) bearer instruments.

## Hungary



### Full exemptions available

- Inheritance tax and gift tax apply to transfers on death and lifetime transfers respectively.
- Exemptions are allowed for direct descendants and siblings.

## India



### Full exemption on inheritance; partial exemption on lifetime transfers

- Transfers on death are not subject to inheritance tax.
- Wealth tax was repealed as of the financial year 2015–2016.
- India does not impose gift tax on donors if the gift is given to qualifying relatives. However, gifts are taxed as income in the hands of other recipients who are not qualifying relatives if the value of gifts exceed INR50,000.
- Stamp duty applies to any instruments of transfer (e.g. immovable property, securities). Generally, there is no stamp duty exemption on transfers of property among blood relatives unless specifically exempted by a particular state.

## Ireland



### Partial exemptions available on lifetime transfers and transfers on death

- Inheritance tax and gift tax applies to transfers on death and lifetime transfers. Where the shares qualify for business property relief, 90 percent of the value transferred is ignored for gift and inheritance tax.
- The first EUR335,000 (during lifetime or on death) from a child's parents is free of gift and inheritance tax.
- Lifetime transfers are also subject to real estate transfer tax (stamp duty) and capital gains tax.
- The transferor may be exempt from capital gains tax if the transfer meets the conditions for retirement relief which includes, among others, that the transferor be at least aged 55. To the extent retirement relief does not fully exempt the gain (deemed or actual), the balance is subject to tax at 33 percent.
- Where retirement relief does not apply, entrepreneur relief may allow a reduced capital gains tax rate of 10 percent on disposals of qualifying assets. Qualifying gains are subject to a lifetime limit of EUR1 million, with any excess taxed at 33 percent.
- Typically clients seek specific advice well in advance of the proposed transfer date to ensure that all opportunities are maximized and all of the conditions of the gift/inheritance tax and capital gains tax reliefs are met.

## Israel



### No tax on death; full exemption available on lifetime transfers

- Israel has no inheritance tax.
- No tax will apply on gifts to relatives and in some cases on gifts to another individual. Both cases exclude foreign residents.

## Italy



### Full exemptions available

- Inheritance tax and gift tax were reintroduced in 2006.
- Transfers on death and lifetime gifts of company shares to a spouse or direct descendant are exempt, as long as the recipient continues or controls the business for at least 5 years and a declaration is issued in this regard.
- In other cases, inheritance tax or gift tax of 4 percent applies on the value of the business exceeding EUR1 million. Inheritance/gift tax rates increase to up to 8 percent where the beneficiary is not a spouse or direct descendant.
- Transfers of real estate are subject to real estate transfer tax at 3 percent unless specific exemptions apply (including the family exemption noted above).

## Jordan



### Full exemptions available on inheritance; limited exemptions available on lifetime gifts

- Jordan has no inheritance tax or gift tax.
- Lifetime gifts are subject to income tax on their market value. Each individual is allowed an annual exemption at various levels depending on their marital status, spouse's income and tax residency.

## Kuwait



### No tax applicable

- Kuwait has no inheritance tax or gift tax.
- No other tax applies in this scenario.

## Luxembourg



### Full exemptions available on inheritance

- For the year 2020, Estates exempt from inheritance tax include, among others, everything that is amassed or acquired in direct line (i.e. direct descending line or direct ascending line). The exemption is, however, limited to the legal part of the inheritance. In casu, as the Dad has only one child, the legal part of the inheritance corresponds to 100 percent. Therefore, the family business transfer are entirely free from inheritance tax.
- For the year 2020, gift tax rates in direct line range from 1.8 percent to 2.4 percent depending on whether it constitutes an advance on the inheritance. In casu, the gift tax will be 1.8 percent, as it constitutes as advance on the inheritance.

## Malta



### Partial exemptions available

- Malta does not impose inheritance tax or gift tax.
- Malta imposes income tax on the donor on a 'deemed capital gain' on a lifetime gift, but gifts are exempt when made to the spouse, direct descendant or ascendant or their spouse. Where the donor has no descendants, lifetime gifts to siblings and their descendants qualify for exemption.
- Duty on documents and transfers (for transfers made during lifetime and on death) is payable by the recipient at 2 percent or 5 percent. The 5 percent rate applies if immovable property is being transferred (or if the shares being transferred are in a company in which 75 percent or more of the assets excluding all current assets other than immovable property are either immovable property or rights over immovable property).
- For duty on documents and transfers purposes, when an individual transfers shares (in a family business which carries on a business) to qualifying family members in terms of the Family Business Act, no account shall be taken of the first EUR 150,000 of the value of the shares.
- Up to 31 December 2020, a temporary tax incentive encourages family business transfers to next generation by reducing the duty charged on transfers of family business shares to descendants to 1.5 percent.

## Mexico



### Full and partial exemptions available

- While inheritance tax and gift are due for transfers on death and lifetime transfers respectively, the transfer is fully exempt where the transfer is declared to the tax authorities and the recipient fully complies in declaring their other income.
- Certain states impose an additional “Capital Transfer Tax” when transfer shares or “Real Estate Acquisition Tax” when acquiring Real Estate on lifetime transfers and transfers of death. The figures shown in this analysis assume residence in a state where this tax does not apply.
- Capital gains tax is imposed where the recipient of a transfer on death later sells the shares, with the gain calculated based on the deceased’s original acquisition value and date.

## Netherlands



### Partial exemptions available

- Inheritance tax and gift tax exemptions apply to transfers of enterprises on death and lifetime transfers respectively. The exemptions only apply to the value of an active business.
- Business transfers that qualify are 100 percent exempt from inheritance tax or gift tax on values up to EUR1,102,209 and 83 percent exempt on any excess, subject to complex conditions. For example, together with the active business condition, the business must be continued for at least 5 years, when certain conditions are met.
- Personal income tax also applies on both lifetime gifts and transfers on death but is deferred to the next generation where the transfer qualifies for the business transfer exemption.

## Nigeria



### No tax applicable

- Nigeria has no inheritance tax or gift tax.
- No other tax applies in this situation.

## Norway



### Partial exemptions available

- Norway does not impose inheritance tax or gift tax.
- An annual wealth tax is imposed on the owner of shares as at 31 December each year, with each resident able to claim a basic exemption amount. The analysis in this publication includes this tax as a cost arising on transfers on death and lifetime gifts.
- The analysis uses the wealth tax rate and exemption amount for income year 2019.
- The value used to determine the amount of wealth tax due is the value of the Norwegian private (not listed on the stock exchange) shares as at 1 January (i.e. the start of the income year).

## Oman



### No tax applicable

- Oman has no inheritance tax or gift tax.
- No other tax applies in this scenario.

## Pakistan



### Minimal tax due

- Pakistan does not impose inheritance tax or gift tax.
- Stamp duty applies on the issued value of the shares.

## Philippines



### Partial exemptions available

- Inheritance tax and gift tax apply to transfers on death and lifetime transfers respectively.
- Documentary stamp tax also applies to these transfers.

## Poland



### Full exemptions available

- Poland imposes both inheritance tax and gift tax.
- Transfers during lifetime and on death to spouses, descendants and ascendants are exempt from inheritance tax or gift tax if declared to the respective tax office within 6 months.
- If the recipient of a lifetime gift takes on the company's full debt (compared to the standard practice of the donor/recipient sharing joint and several liability for the company's debts), a civil law transactions tax of 2 percent or 1 percent is generally due on the value of the debt.

## Portugal



### Full exemptions available

- Portugal abolished inheritance tax and gift tax in 2004.
- A base stamp duty of 10 percent is charged on transfers on death and free of charge lifetime transfers. For onerous transfers or donations of immovable property (including such property held by a company), an additional stamp duty charge of 0.8 percent apply on the property's value.
- Provided the recipients are spouses, descendants and ascendants, transfers on death and free of charge lifetime transfers are exempt from the base stamp duty. Where the asset transferred is immovable property (including such property held by a company), the additional stamp duty is imposed on onerous transfers and donations.

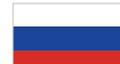
## Romania



### No tax applicable

- Romania has no inheritance tax or gift tax.
- Transfer of shares through inheritance or donation does not give rise to a taxable event.
- Donations must be notarized.
- No other tax applies in this scenario.

## Russia



### No tax applicable

- Russia has no inheritance tax or gift tax for transfers on death and lifetime transfers.
- Inheritance is subject to only a state duty on entry into the inheritance.
- No other tax applies in this scenario.

## Saudi Arabia



### No tax applicable

- Saudi Arabia has no inheritance tax or gift tax.
- No other tax applies in this scenario.

## Slovakia



### No tax applicable

- Slovakia abolished its inheritance and gift taxes in 2004.
- No other tax applies in this scenario.
- Where the gift or transfer is not a true gift but connected to an entrepreneurial or dependent activity of the individuals, the transfer may be reclassified as income and taxed accordingly.

## South Africa



### Partial exemptions available

- Transfers on death are subject to estate duty and personal income tax (automatic partial exemption applies).
- Lifetime transfers are subject to donation tax and personal income tax (automatic partial exemption applies).
- An additional 0.25 percent securities transfer tax is payable by the company on the transfer.
- The most recent update since the 2018 Global Tax Monitor, is the promulgation of the increase to the Estate Duty and Donations Tax rates: 20 percent for the portion of a dutiable estate/donation of less than R30 million and 25 percent for the portion of a dutiable estate/donation in excess of R30 million.
- The South African Revenue Service has committed to enhancing the resources available to its unit focused on high net worth taxpayers who have complex tax arrangements (including trusts).

## South Korea



### Partial exemptions available for lifetime transfers and transfers on death

- Inheritance tax and gift tax are applied by federal law.
- Inheritance tax and gift tax rates are progressive, minimum of 10 percent and up to 50 percent. If transfer value is over 3 billion won, 50 percent rate are applied.
- Inherited or gifted assets taxed by full market value that calculated by Korea Inheritance and gift tax.
- Deduction limit for the inheritance of family business depends on amount of periods that inheritee run the family business (10~19 years: 20 billion won, 20~29 years: 30 billion won, 30 or more: 50 billion won).
- Family business inheritance must meet certain prerequisites in order to get exemptions such as annual sales, asset size or type of business.
- Heir can get deduction that is maximum of 0.2 billion won plus personal allowance and blanket deduction of 0.5 billion won.
- If standard for assessment (tax base) is below 0.5 million won, there is no taxation.

## Spain



### Partial exemptions available

- For transfers on death, inheritance tax is due. A low, general reduction is allowed for descendants and ascendants receiving the family business share or assets. To qualify for the reduction:
  - A minimum shareholding provision is required (5 percent individually, or 20 percent jointly with family Group)
  - Managing duties are required
  - The remuneration for such managing duties should represent more than 50 percent of the total annual employment, professional or economic activity income.
- There is also a substantial reduction for transfers of family business assets on death, subject to a 5-year holding period for the recipient and a prohibition against acts during that period that could significantly diminish the shares' value.
- For lifetime transfers, gift tax (recipient's liability) and personal income tax (donor liability) are due. Personal income tax does not apply if cash, (rather than assets), is gifted.
- A 95 percent reduction for gift tax and a complete exemption to personal income tax are available where the 'family business lifetime gift exemption' conditions are met. To qualify for the exemption:
  - The donor must be over age 65 and no longer work in the management of the business.
  - The business must be exempt from wealth tax (which includes a minimum shareholding provision) and continue to be exempt for 5 to 10 years (depending on the autonomous region).
  - Any acts that might significantly diminish the shares' value during those 5 to 10 years are prohibited.
- Advice should be sought as to whether an autonomous region within Spain has altered these provisions.

## Sweden



### No tax applicable

- Sweden has no inheritance tax or gift tax.
- No other tax applies in this scenario.

## Switzerland



### Full exemptions apply

- Inheritance tax and gift tax are governed by the respective cantons in Switzerland. The majority of the cantons fully exempt lifetime transfers and transfers on death between parents and children.
- While the respective rules differ significantly between cantons, we have analyzed the scenario on the assumption it occurred in Zurich.
- Please note that the cantons of Appenzell Innerrhoden, Lucerne, Neuchâtel, Solothurn and Vaud levy inheritance tax on transfers to children.
- Specific advice should always be sought in the relevant canton.

## Thailand



### Partial exemption available

- Thailand introduced the Inheritance Tax Act in August 2016.
- In order to counter possible avoidance of the new Inheritance Tax, a gift tax was also introduced under Personal Income Tax in the Thai Revenue Code.
- Gift tax is part of Personal Income Tax and the taxpayer should opt to pay at 5 percent as a final tax, otherwise it will be taxed at the taxpayer's marginal tax rate.

## Tunisia



### Minimal tax due

- Tunisia has no inheritance tax or gift tax.
- Registration duty on inheritance ranging between 2.5 percent and 35 percent (depending on the family relations) plus 1 percent for registration in the real estate agency (only for immovable property) is imposed on moveable and immovable property, subject to exemption where certain conditions are met.
- Donations between ascendants and descendants, as well as between spouses are subject to fixed registration duties of TND 25 per document.

## United Kingdom



### Full exemption on death; partial exemption or full deferral on lifetime transfers

- Inheritance tax applies to transfers on death.
- Transfers of shares held by the donor for 2 years prior to transfer, and qualifying for business property relief are exempt. The level of cash in the company may restrict the exemption. Additionally, each individual has an exempt allowance for use on death or during their lifetime (for lifetime gifts, the allowance is on a 7-year rolling basis).
- For lifetime transfers to individuals, inheritance tax does not apply if the donor survives for 7 years following the transfer. However, the donor is deemed to receive market value for a gift and is subject to capital gains tax on that value.
- Capital gains tax on lifetime transfer can either be fully deferred (with the recipient taking on the donor's base cost, subject to conditions) or reduced to 10 percent under Entrepreneurs' Relief (subject to a maximum lifetime gain of £1 million British pounds (GBP), with each individual given an annual allowance of GBP12,300 from 6 April 2020).
- Lifetime gifts of shares to individual in a business the individual also works in may be taxed as income (at a maximum income tax rate of 45 percent). Gifts between family members due to family relations (and not employment) are exempt.
- Specific advice should be sought as the reliefs carry complex conditions.

## United States



### High-tax state (Minnesota)

#### Partial exemptions available for transfers on death and lifetime transfers

- Residents of a high-tax state such as Minnesota are subject to both state taxes and federal taxes.
- For transfers made within 3 years of death, Minnesota imposes an estate tax.
- Minnesota does not impose gift tax on lifetime transfers. But at least one other high-tax state, Connecticut, does impose a gift tax.
- Each individual is entitled to federal and state exemptions for lifetime transfers and transfers on death.
- Specific advice should be sought from the relevant state.

### Low-tax state (Maine)

#### Partial exemptions available for transfers on death and lifetime transfers

- Residents of low-tax states are generally subject to federal tax only, although some low-tax states also impose low levels of estate tax.
- This analysis assumes residence in a low-tax state that imposes both state taxes and federal taxes.
- Each individual is entitled to federal and state exemptions for lifetime transfers and transfers on death.
- Specific advice should be sought from the relevant state.

## Uruguay



### No exemptions available

- Uruguay has no inheritance tax.
- Personal income tax applies to lifetime transfers.

## Venezuela



### No exemptions available

Lifetime transfers and transfers on death are subject to inheritance tax:

- Lifetime transfers can be done in two ways:
  1. If the lifetime transfers is done when the person is living, it could count as a donation, as the transfer of all goods is made without receiving any consideration of money or any payment for the goods. If this is done, it could be taxable by the donations and inheritance law.
  2. If the transfer of goods is done through a sale, it could be taxable by the income tax law and be subject to fees from the Commercial Register.
- Transfers on death are subject to inheritance tax.

Lifetime transfers and transfers on death of real estate are also subject to real estate transfer tax. If the real estate transfer is done while the person is alive, the above options apply. If the real estate transfer is done on death, it is subject to inheritance tax.

The following assets are excluded from the amount of the tax base of the inheritance:

- The main dwelling that has served as a permanent seat in the deceased's home and is transmitted with these purposes to ancestors, descendants, spouses, and parents and children by adoption.

## Vietnam



### No exemptions are available

- Vietnam has no inheritance tax or gift tax.
- Personal income tax is imposed on transfers in lifetime and death.
- There are no personal income tax exemptions for transfers of shares or businesses.

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