



Press release

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Ahead of Brexit: German family businesses need legal certainty

With just one year to go till Brexit, family businesses and their owners still lack certainty regarding the legal consequences of the UK's departure from the EU. On 22 and 23 March, the European Council intends to set the course for further negotiations between the European Commission and the British government on the nature of future trade relations between the two sides. At the moment, everything is pointing towards a hard Brexit.

"The negotiations on future trade relations with the UK should not blind us to the need for national policies," says Prof. Rainer Kirchdörfer, Executive Board member of the Foundation for Family Businesses. "Policy-makers are thus called upon at least to pass measures in good time to protect German family businesses against the negative impact of Brexit."

Specifically, family businesses need a statutory regulation that continues to take account of jobs created in the United Kingdom in connection with exemptions applicable to some business assets under inheritance and gift tax. Under the law as it stands, relief from inheritance tax depends on whether company jobs are protected in the long term – and these include jobs in other EU Member States. Brexit has created legal uncertainty in this area – uncertainty that was neither intended by German policy-makers nor in line with current inheritance law.

What is more, owners of German family businesses who live in the UK require legal clarification that Brexit alone will not result in the imposition of exit taxation. A change in status from EU Member State to third country must not come at the expense of family business owners living in that particular country. Background information: In the event that a limited company relocates to a third country (outside the EU), the hidden reserves present in its shares must be released and taxed as profit. The notion behind this is that the shares are being sold.

This form of taxation can have serious consequences for owners of family businesses. Unless they returned to Germany, shareholders living in the UK would be forced either to withdraw money from the company or to divest their shares. As Kirchdörfer warns: "Family businesses and their shareholders need legal certainty now. They must not be made to suffer because of Brexit. The federal government and parliament should lose no time in eliminating this uncertainty, at the very least by passing laws to eliminate any hardship that may arise."

Over 90 percent of all companies in Germany are family-owned. The purpose of the Foundation for Family Businesses, a non-profit organisation, is to preserve the country's family-business landscape. The foundation is the most important promoter



of scientific research in this field and first port of call for politicians and the media in matters related to economic policy, legislation and taxation.

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