KPMG Enterprise

Global family business tax monitor

Plan for the future — Comparing the impact of tax regimes on family business

May 2018

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Foreword

A thriving family business sector contributes to a vibrant economy. Tax-efficient transfers between generations leave wealth in the hands of entrepreneurial families to invest in profit-producing activities — and that can help stimulate job creation and innovation across generations."

Jonathan Lavender
Co-chair KPMG Enterprise Family Business &
Global Chairman, KPMG Enterprise

For business families around the world, KPMG Enterprise's global family business tax monitor delivers information and insights on the taxes and reliefs available when transferring the family business to the next generation, both on retirement and through inheritance. Since the first edition in 2014, covering 23 European countries, the monitor has now grown to span 65 countries, regions and jurisdictions.

In this edition, KPMG Enterprise and KPMG International member firms in each jurisdiction that was covered provided a snapshot of the domestic tax rules governing family business transfers (details can be found in the country summary notes at the end of this report). KPMG Enterprise and KPMG International advisers from member firms also provided their detailed analysis of the outcomes of two case studies: one in which a family business is transferred on the owner's death, and a second in which the transfer happens during the owner's lifetime.

The variations among regimes across the globe are striking — and somewhat surprising in view of the general global trend toward tax rule harmonization. Since the first tax monitor was published, the globalization of tax has accelerated and tax rules have started showing signs of converging, especially for value-added taxes and the taxation of transactions across borders.

Increasingly, governments are looking beyond their borders, cooperating to share best practices, and working to ensure their tax systems operate efficiently and interact appropriately with those of other countries.

The same trend is not as prevalent where the taxation of family business transfers is concerned. As the case studies in this report show, there are significant disparities between regimes on whether:

— **the donor or recipient is subject to tax**

— **a specific tax relief is available and what conditions must be met to gain that tax relief**

— **taxes are applied on inheritances and family gifts directly, or through other taxes and charges such as capital gains taxes and stamp duties.**

This report also aims to provide an understanding of the tax differences and their varying impacts on the smooth, successful transition of family businesses from one generation to the next. There are also insights into trends that are expected to alter the tax landscape for family business transfers in the years to come. Finally, you will find key succession planning points that business families should consider, regardless of where in the world they are located.

We trust that business families will find this report useful while preparing for the future of your family enterprise.

Jonathan Lavender
Co-chair KPMG Enterprise
Family Business &
Global Chairman,
KPMG Enterprise

Greg Limb
Head, International Private Wealth
KPMG Enterprise in the UK

Tom McGinness
Co-chair KPMG Enterprise
Family Business,
Partner
KPMG Enterprise in the UK

Olaf Leurs
Head of KPMG Enterprise
EMA & Family Business,
Meijburg & Co
KPMG in the Netherlands

"As always, business families should ensure the succession goals of all family members are understood and respected. Where the younger generation wishes to redirect some of the family's capital to make investments with social impact, alternative (often) tax-efficient structures such as charitable foundations could be considered to achieve these ends."

Tom McGinness
Co-chair, KPMG Enterprise Family Business
Partner, KPMG Enterprise in the UK

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What's new?

At a glance: recent changes and potential developments

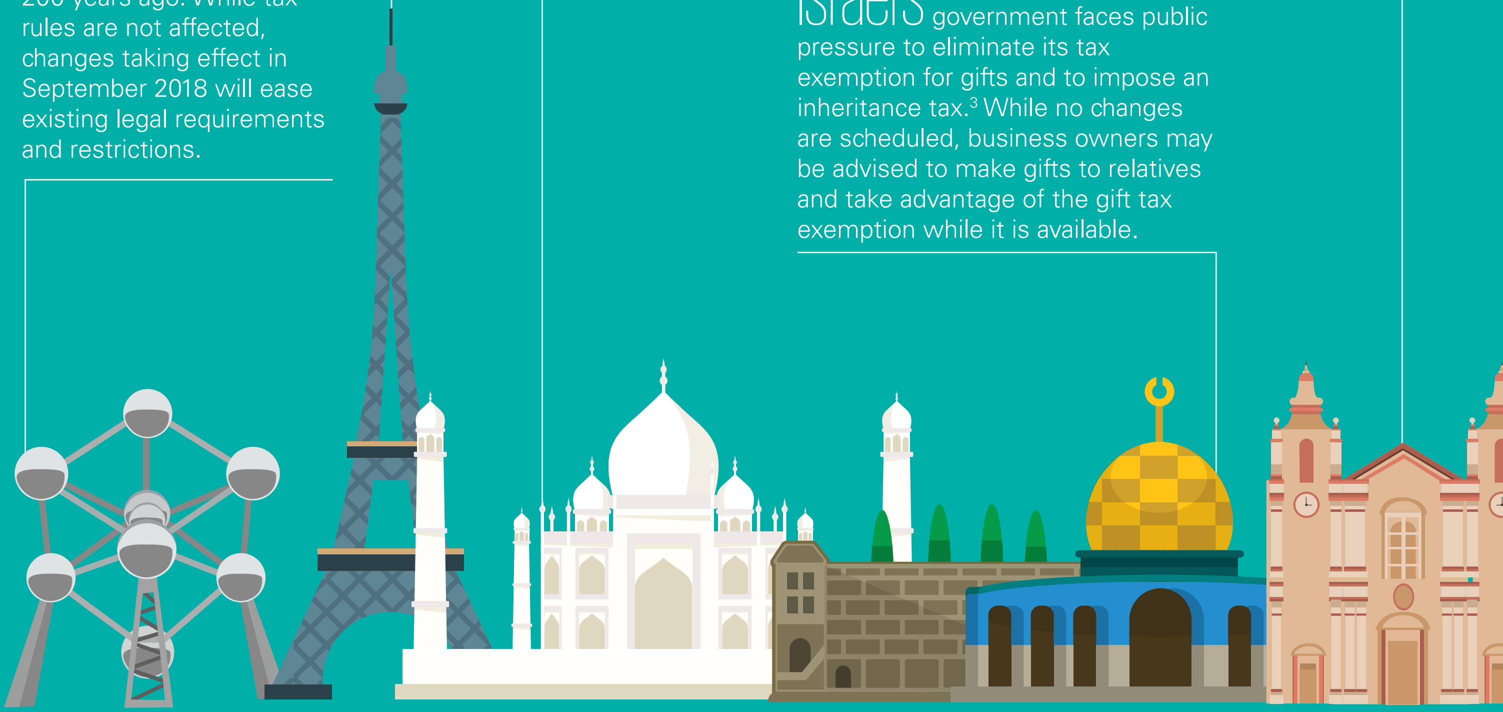
Malta introduced a temporary tax incentive to encourage family business transfers to the next generation. The relief reduced (to 1.5 percent) the duty charged on the transfer of family business shares to the owners' descendants between 1 April 2017 and 30 September 2018.

France is considering simplifying the conditions for accessing its exemptions for family businesses transferred[1] on death or gift.

In **India**, the possibility that the government may introduce estate duty or adopt a form of inheritance tax[2] has led several larger family businesses to consider the use of trust structures.

Belgium is updating its inheritance laws for the first time since they were laid down by Napoleon over 200 years ago. While tax rules are not affected, changes taking effect in September 2018 will ease existing legal requirements and restrictions.

Israel's government faces public pressure to eliminate its tax exemption for gifts and to impose an inheritance tax.[3] While no changes are scheduled, business owners may be advised to make gifts to relatives and take advantage of the gift tax exemption while it is available.



[1] "La loi Le Maire pourrait comprendre une reforme des pactes Dutreil-transmission," *L'Agefi*, 25 January 2018 http://www.agefi.fr/corporate/actualites/quotidien/20180125/loi-maire-pourrait-comprendre-reforme-pactes-238174.

[2] See, for example, "Inheritance tax may be reintroduced in India", *Financial Express*, 9 October 2017.

[3] See, for example, "Threatened with Estate Tax, Israel's Rich are Taking Precautions", *Haaretz*, 27 March 2015.

Family businesses in Belgium should review existing plans with a view to taking advantage of the new flexibility that will soon be allowed in their succession options, but at the same time, take into account the revised position of the tax authorities regarding gifts."

Tom Zwaenepoel
Partner,
KPMG in Belgium

The **United Kingdom's** inheritance tax has not changed substantially in 34 years. The UK's Office of Tax Simplification is reviewing the inheritance tax system to make tax filings, payments and other compliance simpler.[5] More broadly, the review is to look at how the UK's inheritance and gift taxes interact and whether the current framework distorts business transfer decisions.

The **United States'** tax reform legislation increased the lifetime exemption amount to USD11.18 million (for 2018; indexed for inflation). The change became effective for transfers of assets occurring in tax years beginning after 31 December 2017 but expires 31 December 2025. As discussed later in this report, the reform allows owners to transfer more assets tax-free on death or through lifetime gifts, greatly expanding the succession options of business families.

A **South Africa** government commission is looking into introducing a wealth tax,[4] but its enactment is uncertain in view of the country's already onerous capital gains tax and estate duty provisions.

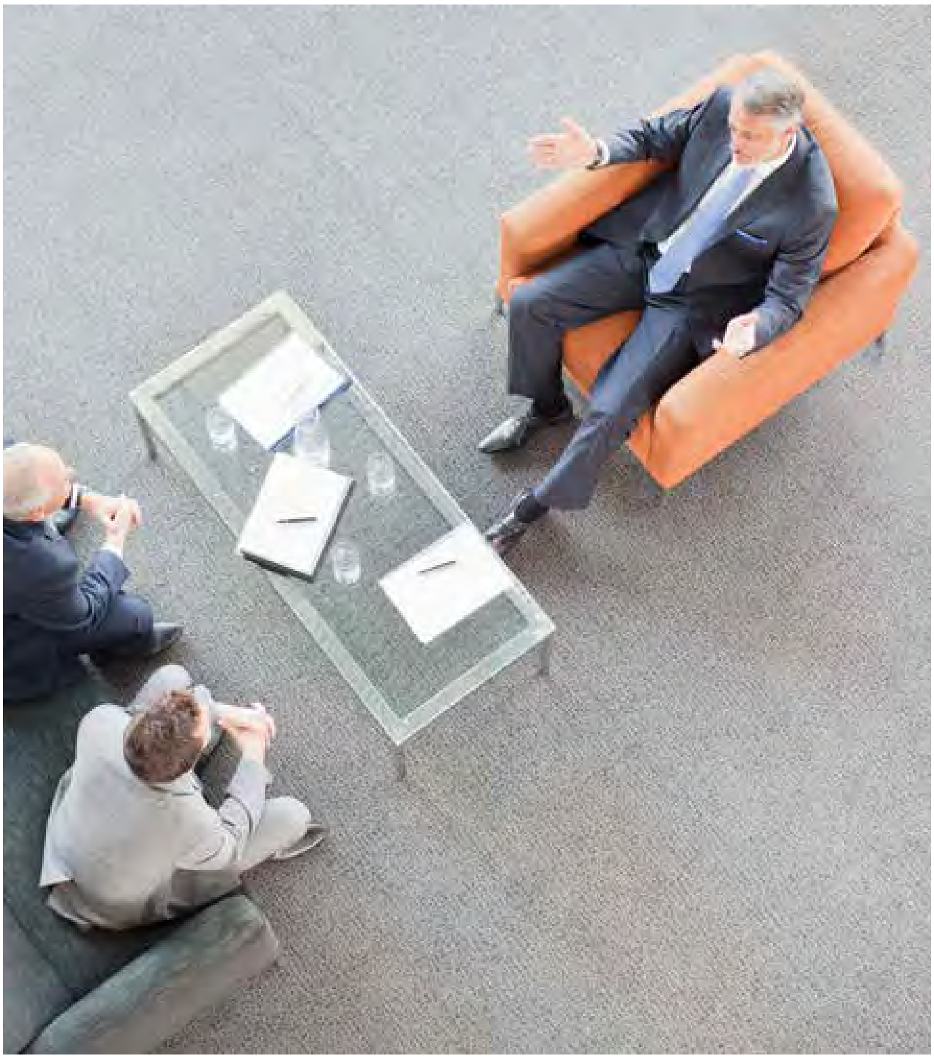
Thailand introduced a new inheritance tax in August 2016. To curb potential avoidance of the new tax, the country also added gift tax provisions to its personal income tax regime.

Philippines introduced a tax reform effective from 1 January 2018 that simplifies taxes on donation and succession by replacing graduated tax rates for lifetime gifts to family members and estate tax with a flat donor's/estate tax rate of 6 percent.

Taiwan's inheritance and gift tax changed from a flat 10 percent rate to progressive rates of 10–20 percent as of 12 May 2017.

[4] "Feasibility of a Wealth Tax in South Africa," *The Davis Tax Committee*, March 2018.
[5] "Chancellor letter to Office of Tax Simplification commissioning inheritance tax review", *Chancellor of the Exchequer*, 19 January 2018.

Behind the **numbers**



"There is a learning curve to family business succession, with the family members involved in each intergenerational transfer benefiting from the experiences and mistakes of previous transfers. Generally, it's the first transfer from the founder that poses the most risk. Transfers from the second and third generation tend to be better planned and structured."

Karmen Yeung
Partner,
KPMG China

Culture underpins tax policy choices

For business families, the tax treatment for transfers across various countries seems to have limited consistency, especially as families become more globally mobile. As family members increasingly span multiple locations and jurisdictions, disparity in the tax treatment of transfers can cause confusion. Why do some countries give special tax preferences, while others tax intra-family business transfers the same as other transactions?

Throughout time, different views have prevailed on how wealth is best created and distributed, and tax legislation tends to reflect those views.[6] Some cultures tend to favor the accumulation of capital within families, seeing wealth preserved and grown through the generations to the benefit of the broader economy. Other cultures put stock in entrepreneurialism, prizing self-reliance and the creation of new wealth through new opportunities.

Dynastic wealth brings stability and experience, while entrepreneurialism brings innovation and change. Healthy economies need a mix of both.

Nevertheless, the results of the two case studies analyzed in this report suggest that the tax policies of most countries tend to reflect the values of their historical roots. The older cultures of **Western Europe** and the **Middle East** tend to support family transfers of wealth with special concessions that allow for reinvestment and growth. By contrast, newer cultures, like **Australia** and the **United States (US)**, have seen the growth and succession of family businesses more recently. These countries tend to demand a higher tax take, effectively redistributing that wealth across society more broadly.

Of course, these are broad generalizations. Region by region and country by country, there is considerable variation and change as cultures continue to evolve.

For example, after a history as one of the highest taxing jurisdictions for family business transfers, the US has substantially increased its estate and gift tax concessions for families, albeit temporarily, as discussed later in this report.

Meanwhile, the tax system in the **United Kingdom (UK)** favors transfers through inheritance, reflecting longstanding beliefs in the benefits of businesses passing generationally. Family business transfers on death in the UK are exempt without limit (subject to conditions). Lifetime gifts are also allowed relief, but it is more complicated to obtain. As noted earlier in this report, the UK government is reviewing its inheritance and gift tax regimes and could perhaps seek to level the playing field for both types of transfers.

German tax policy for succession centers on the view that private wealth should bear tax and that tax relief should be available for transfers of active businesses only. In 2014, the German constitutional court found the country's inheritance tax exemptions were providing disproportionate benefits to the wealthy and were thus unconstitutional.[7]

As a result, the German rules were changed in 2016 in order to focus on smaller family business transfers, and a special regulation was introduced to deny relief to larger businesses. Under complex new rules, the exemption is now denied on transfers over EUR90 million, unless the family can prove it does not have the private resources to pay the substantial tax that arises.

In **Belgium**, a heavy burden on inheritances traditionally has been seen as bad for business, and Belgian tax

[6] OECD (2018), *The Role and Design of Net Wealth Taxes in the OECD*, OECD Tax Policy Studies, No. 26, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264290303-en.

[7] "Germany changes inheritance tax to protect family business," *Financial Times*, 22 September 2016.

In view of the detrimental impact of the taxes in Brazil, a growing chorus of family business associations and others are calling on the government to ease the tax burden. Among other things, it has been suggested that moving estate and gift taxation from the state level to the federal level would help ease some of the complexity arising from differing state tax rates. However, reforming the estate and gift tax regime does not appear to be on the Brazilian government's list of priorities."

Valter Shimidu
Partner,
KPMG Enterprise in Brazil

policy supports transfers both on death and during lifetime. However, sentiment among Belgian voters appears to indicate a perceived lack of fairness of tax breaks on family wealth transfers.[8] For now, prevailing sentiments often support the preservation of wealth within families, and Belgian tax policy supports transfers on death with reduced inheritance tax rates for family business transfers and a complete exemption for lifetime transfers.

By contrast, the **Netherlands** is a more egalitarian culture that champions equal treatment for all. Taxes on wealth and inheritance are well accepted. Before 2001, however, taxes on succession were so high that many family businesses relocated to Belgium, Germany or other tax-favorable countries, or were sold.

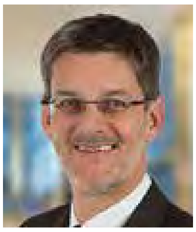
To stem the tide, the Netherlands adopted an exemption in 2001 that has the potential to greatly reduce taxes on business transfers during lifetime or on death, although not to zero as is the case for **Belgium** and **Germany**.

Now, however, there is new political pressure in the Netherlands to level the playing field between family business and other transfers. In a recent case, the courts struck down a bid to extend the exemption for family business transfers to other business transfers, but the issue of equitable treatment for different types of transfers remains on the radar.[9] The government appears to be investigating its options and there are concerns the exemption could be tightened or replaced with a less favorable system of tax deferral.

[8] "Belgium tries to fix one of Europe's most skewed tax systems," *Financial Times*, 28 September 2016.

[9] "Uitspraak delen," https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:HR:2013:1211&showbutton=true&keyword=13%2f01622 ECLI:NL:HR:2013:1211, *de Rechtspraak*, 22 November 2013.

“Since the latest rules in Germany have been in place for only a short period, there has not yet been a chance to test the exemption in court. A tax exempt transfer to the next generation will remain the regular case. But the long-term implications may be detrimental to the country’s largest family businesses, as inheritance taxes are so high, shareholders may be required to sell parts of the business or take on debt to pay the tax.”



Kay Kloepping
Partner,
KPMG Enterprise in Germany

As a relatively new country that values the entrepreneurial spirit, Brazil imposes a relatively high burden through inheritance and gift taxes, with no relief provided for transfers within families.

As these examples show, cultural attitudes can influence how countries treat family business transfers when it comes to tax, and neither culture nor tax policy is static. Interestingly, in some countries like Belgium, which have traditionally supported family business transfers, there appear to be requests for higher taxation in the name of equitable treatment for all taxpayers. By contrast, some countries like Brazil, which have taxed family business transfers more heavily, are under pressure to ease the burden.

“For now, French business families taking part in transfers should be sure they understand the requirements and plan accordingly by maintaining minimum shareholdings and determining the roles of children and other shareholders in management following the transfer, for example. The same is true in Germany, the Netherlands and other countries with strict conditions on tax reliefs for family business.”

Delphine Cabon
Director,
KPMG in France

Granting tax preferences — with strings attached

Accumulated family wealth may be seen as an attractive target for cash-strapped governments seeking revenues. According to KPMG Enterprise, policy makers should recognize the benefits of leaving wealth in the hands of entrepreneurial families to invest in profit-producing activities that stimulate job creation and innovation to the benefit of the broader economy. As a result, sound tax policy would treat transfers on death and during lifetime at least neutrally and at best in ways that facilitate transfers during lifetime.

In most cases, transferring the business through a planned, orderly succession as the owner retires rather than on death generally produces better outcomes for the business, the family and the broader economy. This is not to say that transfers through inheritance should not be just as well supported. Many businesses gain in size, maturity and professionalism as they pass down from generations, regardless of when and how they are transferred.

This can be seen in the different attitudes and approaches to family succession in **Hong Kong (SAR)** and **China**. In Hong Kong (SAR), many current family businesses are on their third or fourth generation and transfers tend to be more structured. China's first family businesses were not established until after the 1979 reforms opened the Chinese market to private enterprise. Few Chinese family businesses have been in place for more than two generations, and succession planning is approached more informally, if at all.

A high number of countries featured in this report do aim to support business transfers both during lifetime and on death. However, the support often comes with conditions designed to ensure the business continues and the rules are not abused to avoid tax inappropriately. Sometimes, these conditions are complex and onerous, imposing restrictions on holdings and activities that can distort good business decisions and hamper growth.

For example, France's tax exemptions for family business transfers on lifetime or death compare favorably to those of neighboring countries, but strict and complex conditions can make it difficult for family businesses to take advantage. Among other conditions, at least one beneficiary of the transfer or another shareholder who would have signed the agreement mentioning engagement to hold the shares, must continue to run the business for the exemptions to apply — a condition that is difficult to meet if the children are not ready to take on a management role or simply not interested.

The same conditions apply in France in the case of transfer of holding shares. Where the business involves a group of companies, the parent company must be actively involved in the group's management for the exemption to apply to the transfer of the shares. To prove the parent is not a passive holding vehicle, reporting processes should be in place to document the parent company's participation in setting strategy.

In view of the importance of France's family business sector, the country's current government is considering simplifying the details of these conditions, though the exemption itself will likely remain intact.[10] Draft proposals could be announced as early as May but are more likely later in 2018.

The Netherlands sets a 5-year active-business requirement for its exemption, which may seem like a smart policy for encouraging the business's post-transfer continuance. However, this creates problems as businesses wanting to maintain the exemption will have to tread carefully when streamlining or rationalizing parts of the business or seeking growth through acquisitions. The need to understand and appropriately document active versus passive business activities causes more complexities.

"In the Netherlands, it's important to have a back-up plan for an unexpected transfer not only in case of death but also if there is a change in qualifying conditions that requires a quick response to preserve access to the exemption. Be prepared for change and have everything ready to do the transfer so you can 'push the button' if needed. You may need to react quickly, so it's best to have everything ready to implement."

Olaf Leurs
Head of KPMG Enterprise EMA & Family Business, Meijburg & Co KPMG in the Netherlands

[10] "French PM says tax cuts for wealthy may come in 2018," *Financial Times*, 10 July 2017.

Case studies

When is the right time to pass the business on to the next generation: during the owner's lifetime or on death? While tax considerations are only one factor in this decision, the potential costs are fundamental to the decision and to the agreements and arrangements that would govern the transfer.

For this analysis, KPMG Enterprise member firms and KPMG International member firms in 65 countries, regions and jurisdictions were asked to analyze the tax burden arising from the inheritance of the business by a family member on the death of the owner of a family-owned business. They also assessed the tax outcomes where the business is transferred to a family member on the owner's retirement.

Exchange rates: For comparison purposes, all amounts are denominated in euros (€) using exchange rates current on 1 December 2017.

Subnational jurisdictions: Some participating countries have different internal jurisdictions for tax, with different tax rates and treatments applying in different geographical areas. These countries include **Argentina, Belgium, Brazil, Canada, India, Mexico, Pakistan, Spain, Switzerland and the United States.**

For the US, two states were analyzed: the high-tax state of **Minnesota**, which applies federal and state taxes to the transfer of a family business, and a low-tax state that applies federal taxes and lower state taxes (e.g. **Maine**). For other countries, regions and jurisdictions with these variations, the report shows a representative example for the specified area.

Case study 1

Family business transfer through inheritance

Elise Larksen owned her family business, Larksen Networks, for over 10 years. She 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.

Elise's spouse Richard died in 2012 and she had one daughter, Lianne, who is 35 years old. Unfortunately, Elise passed away in early 2018 and in her will she had requested the business be passed to Lianne, who intends to continue the business for the next 20 years or so.

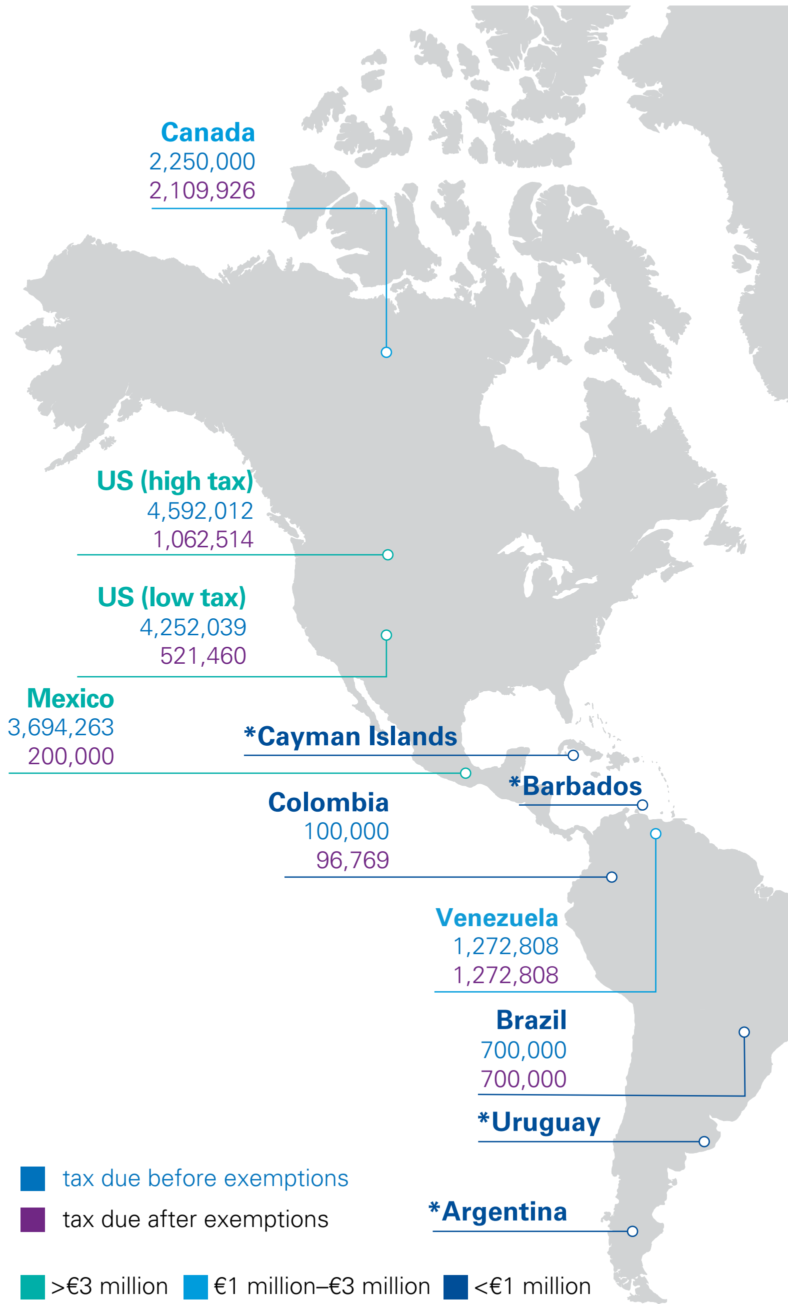
What is the tax impact of Elise's death?

Larksen Networks balance sheet as at date of transfer:	
Manufacturing facility (real estate):	€3,000,000
Inventory:	€2,000,000
Trade debtors:	€2,000,000
Cash (used in the business):	€1,000,000
Total assets:	**€8,000,000**
Share capital:	€1,000,000
Distributable reserves:	€4,000,000
Bank debt:	€3,000,000
Total liabilities:	**€8,000,000**

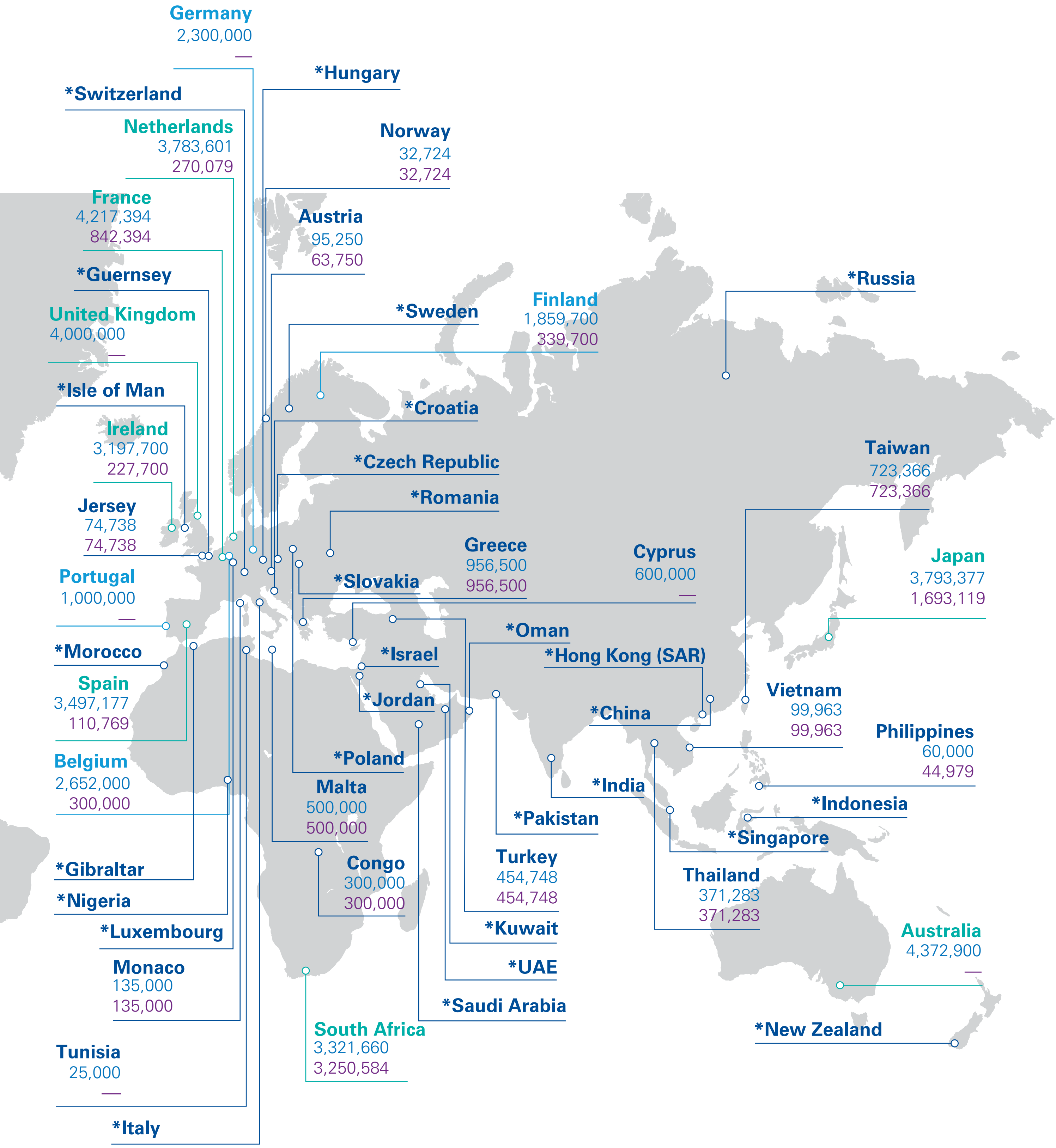
The results for 65 countries, regions and jurisdictions covered in this survey, before and after available exemptions, are summarized in the following pages in figures 1a, 1b and 1c. Key highlights and takeaways from the results are summarized on page 24.

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

This figure shows an overview of tax levied across the 65 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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Norway
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France
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842,394
Austria
95,250
63,750
*Guernsey
*Russia
United Kingdom
4,000,000
—
Finland
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339,700
*Sweden
*Isle of Man
*Croatia
Ireland
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227,700
Taiwan
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Jersey
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*Romania
Greece
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Cyprus
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Japan
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Portugal
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*Slovakia
*Oman
*Hong Kong (SAR)
*Morocco
*Israel
Spain
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*Jordan
*China
Vietnam
99,963
99,963
Philippines
60,000
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Belgium
2,652,000
300,000
*Poland
Malta
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*India
*Indonesia
*Pakistan
*Singapore
*Gibraltar
Turkey
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*Luxembourg
*Kuwait
Australia
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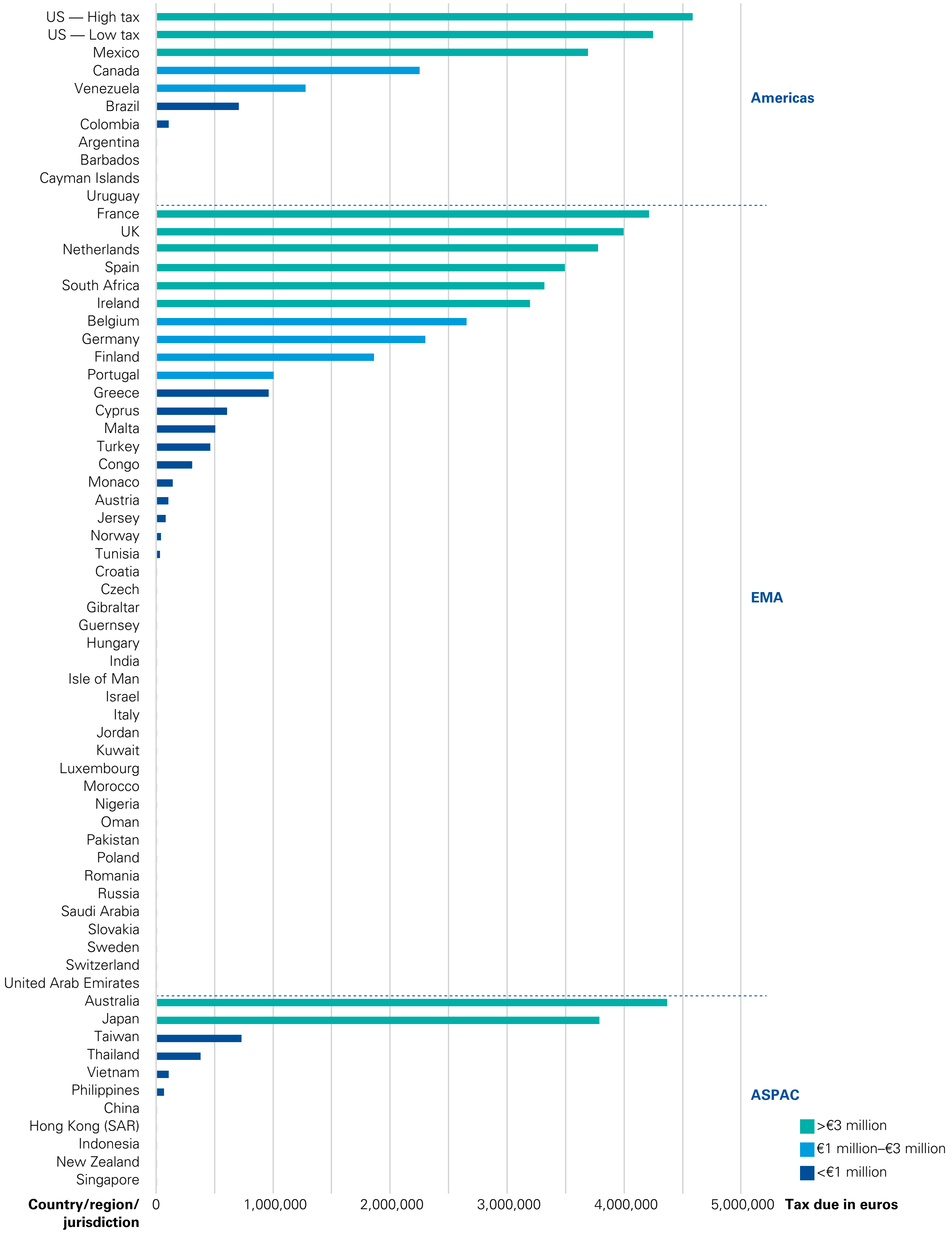
Monaco
135,000
135,000
*UAE
*Saudi Arabia
South Africa
3,321,660
3,250,584
*New Zealand
Tunisia
25,000
—
*Italy

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

This figure shows an overview of tax levied across the 65 countries, regions and jurisdictions surveyed on a family business transfer through inheritance of EUR10 million, excluding any available exemptions and reliefs.

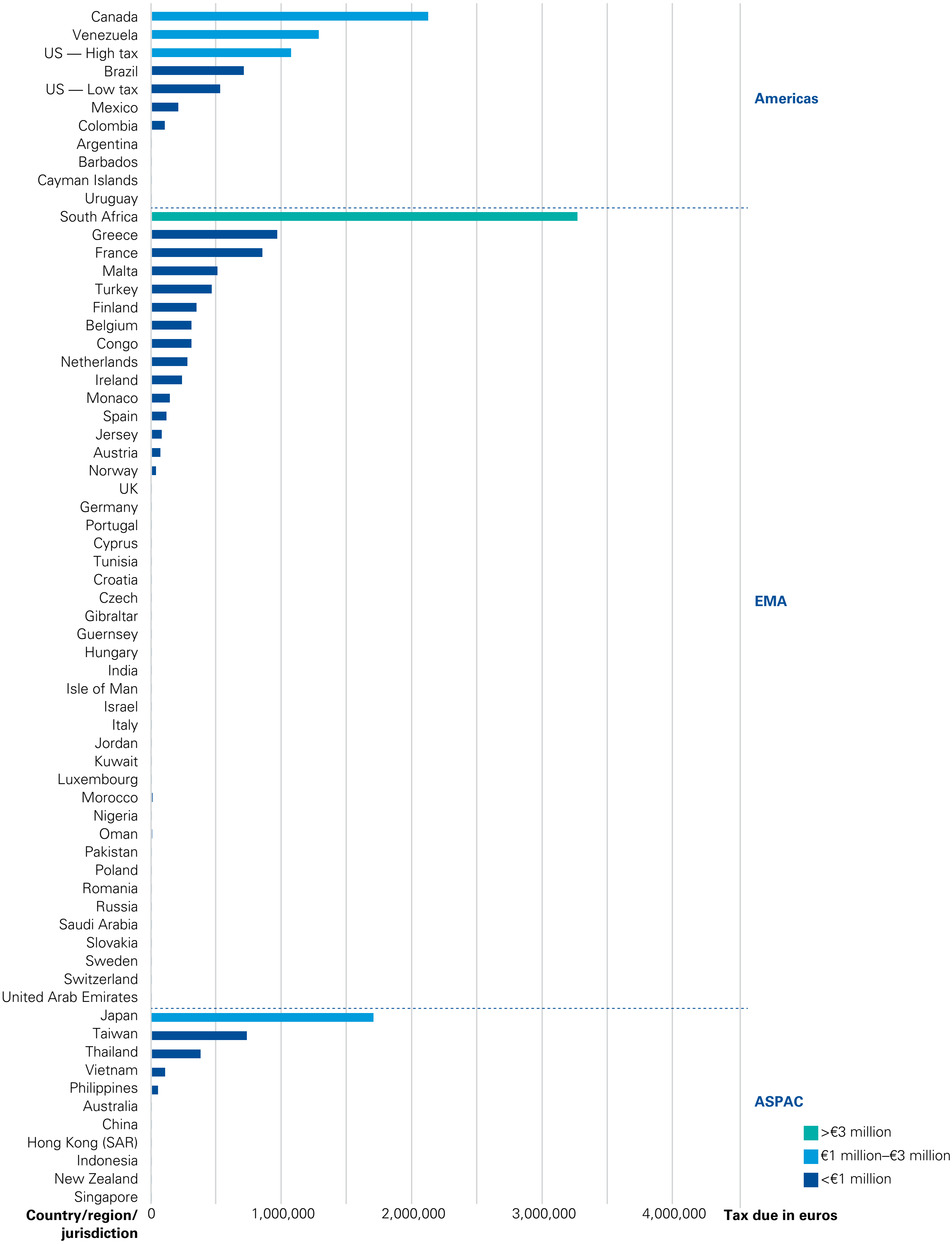


Source: Global Family Business Tax Monitor, KPMG Enterprise, 2018

Family business transfer through inheritance

Figure 1c: tax due *after exemptions*

This figure shows an overview of the final tax result across the 65 countries, regions and jurisdictions on the same transfer after available exemptions and reliefs are applied.



Source: Global Family Business Tax Monitor, KPMG, 2018

Case study 2

Family business transfer on retirement

Elise Larksen has owned her family business, Larksen Networks, for over 10 years. She 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.

In 2017, Elise, who is getting older, wished to retire. She decided to gift Larkson Networks to her daughter, Lianne, who is 35 years old. Lianne intends to continue the business for at least the next 20 years or so. The gift is not related to any employment of Lianne in the business.

What is the tax impact of Elise gifting the business to Lianne in 2018,

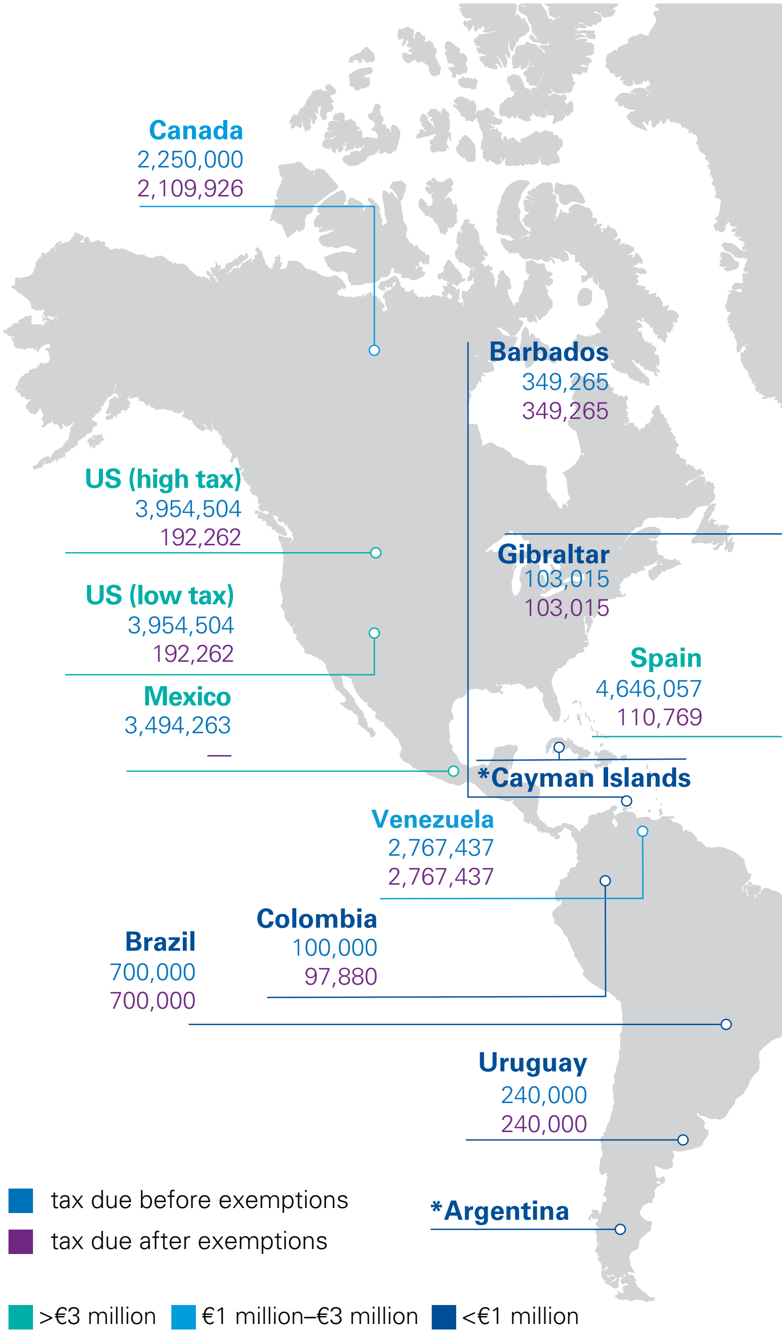
Larksen Networks balance sheet as at date of transfer:	
Manufacturing facility (real estate):	€3,000,000
Inventory:	€2,000,000
Trade debtors:	€2,000,000
Cash (used in the business):	€1,000,000
Total assets:	**€8,000,000**
Share capital:	€1,000,000
Distributable reserves:	€4,000,000
Bank debt:	€3,000,000
Total liabilities:	**€8,000,000**

presuming that Elise is still alive for at least 10 more years?

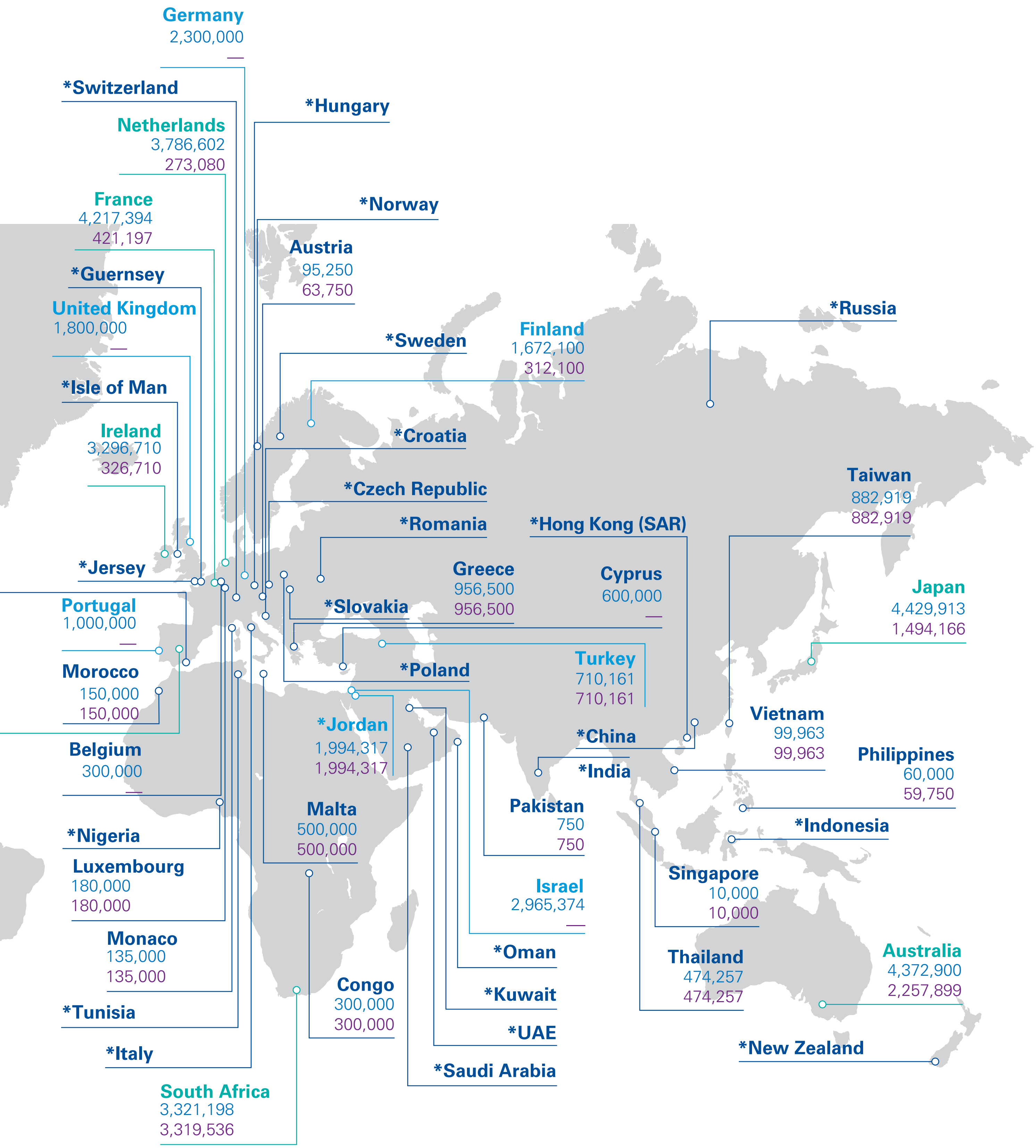
The results for the 65 countries, regions and jurisdictions in this survey, before and after available exemptions, are summarized in the following pages in Figures 2a, 2b and 2c. Key highlights and takeaways from the results are summarized on page 24.

Figure 2a: 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 65 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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1,672,100
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*Sweden
*Isle of Man
Ireland
3,296,710
326,710
*Croatia
*Czech Republic
Taiwan
882,919
882,919
*Romania
*Hong Kong (SAR)
*Jersey
Greece
956,500
956,500
Cyprus
600,000
—
Japan
4,429,913
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Portugal
1,000,000
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Morocco
150,000
150,000
*Poland
Turkey
710,161
710,161
Vietnam
99,963
99,963
Belgium
300,000
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*Jordan
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Philippines
60,000
59,750
*India
Malta
500,000
500,000
Pakistan
750
750
*Indonesia
*Nigeria
Luxembourg
180,000
180,000
Singapore
10,000
10,000
Israel
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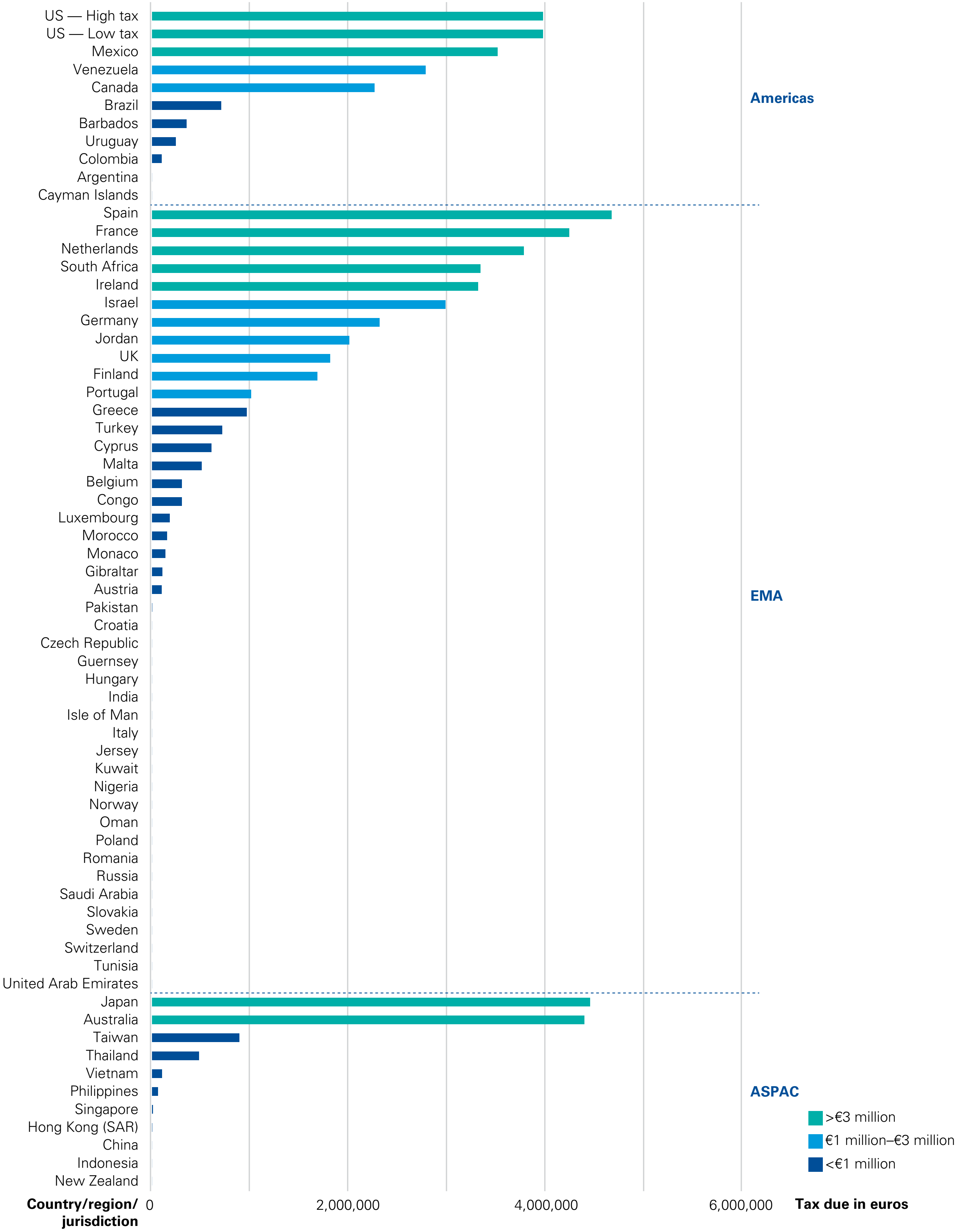
Monaco
135,000
135,000
*Oman
Thailand
474,257
474,257
Australia
4,372,900
2,257,899
Congo
300,000
300,000
*Kuwait
*Tunisia
*UAE
*New Zealand
*Italy
*Saudi Arabia
South Africa
3,321,198
3,319,536

Family business transfer on retirement

Figure 2b: tax due *before exemptions*

This figure shows an overview of tax levied across the 65 countries, regions and jurisdictions surveyed on a family business transfer on retirement of EUR10 million, excluding any available exemptions and reliefs.

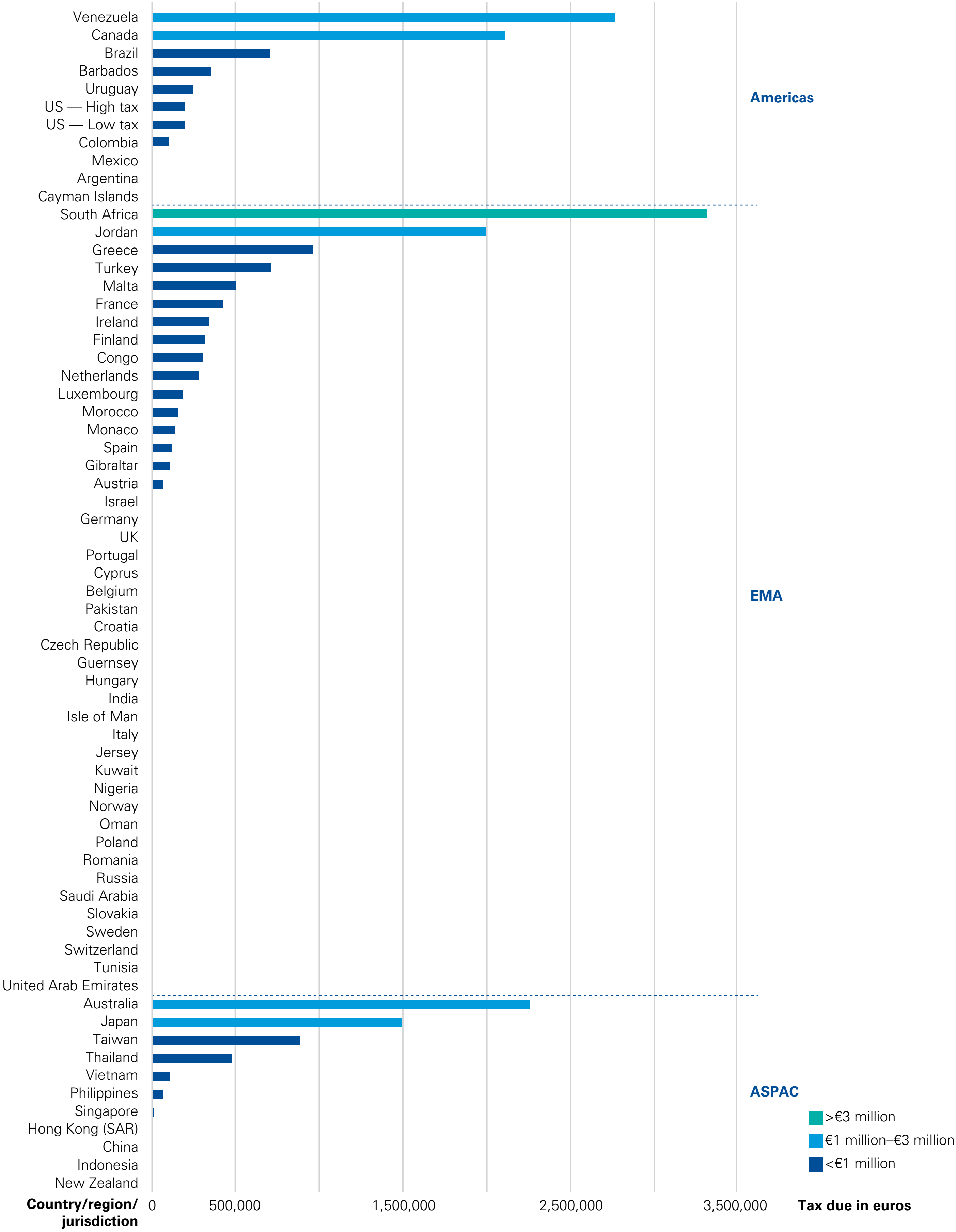


Source: Global Family Business Tax Monitor, KPMG, 2018

Family business transfer on retirement

Figure 2c: tax due *after exemptions*

This figure shows an overview of the final tax result across the 65 countries, regions and jurisdictions on the same retirement transfer after available exemptions and reliefs are applied.



Source: Global Family Business Tax Monitor, KPMG, 2018

Case study highlights and takeaways

Western economies tend to impose higher taxes on family business transfers during lifetime and through inheritance than emerging economies (e.g. **Indonesia** and **Colombia**), but the availability of generous exemptions in these economies tends to put levels of taxation more at par. As discussed earlier, this depends on exemption conditions being met — if not, the tax bill is generally higher.

The types of taxes applied across the countries, regions and jurisdictions vary greatly. In addition to inheritance and gift taxes, respondents also identified these taxes arising on transfers during lifetime and following death:

Personal income tax

Real estate transfer tax

Capital transfer tax

Wealth tax

Stamp duty and transfer taxes

Capital gains tax

Estate tax

The exemptions offered by Western economies can require complex upfront structuring and compliance with certain rules, reinforcing the need for advice to maximize the exemptions' potential benefits. These conditions may set requirements for holding the shares for an amount of time before the transfer and for continuing the business for an amount of time after the transfer.

Countries and jurisdictions that do not levy any specific inheritance, gift tax or other charges at the national level include:

Argentina	**Oman**
Cayman Islands	**New Zealand**
China	**Nigeria**
Guernsey	**Russia**
Isle of Man	**Saudi Arabia**
Indonesia	**Slovakia**
Kuwait	**United Arab Emirates**

Countries and jurisdictions that do not levy any specific inheritance or gift tax at the national level but may impose other charges (e.g. stamp taxes, capital gains tax) include:

Australia	**Norway**
Austria	**Pakistan**
Barbados	**Portugal**
Canada	**Singapore**
Cyprus	**Tunisia**
Hong Kong	
Malta	

The highest taxes on inheritance (before application of exemptions) in this report are imposed by:

US (high and low tax states)

Australia

France

UK

After any exemptions, the highest taxes on inheritance in this report are imposed by:

South Africa

Japan

Canada

Venezuela

The highest taxes on lifetime gifts (before application of exemptions) in this report are imposed by:

Japan

France

Australia

Spain

After any exemptions, the highest taxes on lifetime gifts in this report are imposed by:

South Africa

Australia

Venezuela

Canada

In many countries, the after-tax outcome of transfers during lifetime and on death is similar, but in some countries, the taxes on one type of transfer can be materially higher than the other. These differences can significantly affect an owner's decision on when to transfer the family business. In the UK, Ireland and US, for example, there is an automatic uplift in the base cost of assets on death. The inheritor is treated as though they had acquired the asset at its market value on the date of death. This benefit is not factored into this report but may produce positive outcome for families.

The analysis looks at the case study results at a high level. Details of a country and region's rules may change the results in specific situations — sometimes dramatically — so each country and region's exemptions and requirements should be examined in detail. For example:

Colombia offers no exemptions on lifetime transfers or transfers on death, but the amount of tax cost may be misleading. Income tax applies at 10 percent to family business transfers, but the tax is applied to the base cost of share capital transferred and not the value of the business itself, which is typically significantly higher.

Germany offers a generous exemption for family transfers of business assets, but no exemption is allowed for transfers worth more than EUR90 million, as discussed earlier in this report.

Canada allows a lifetime capital gains exemption on shares of some qualifying active businesses. For 2018, the exemption can be used to shelter up to CAD848,000 in capital gains. But the results do not demonstrate how careful planning can change the picture. Since the lifetime national gain exemption applies per person, its benefits can be multiplied by using the exemption to shelter the gains of two, three or even more individuals. Multiplying the exemption must be done with professional advice, however; among other things, ownership of the shares must actually transfer, which might not be a viable choice, depending on the family member.

Tables 1 and 2 compare the tax implications on inheritance and retirement (after exemptions) for countries, regions and jurisdictions with significantly higher taxes on inheritance transfers (table 1) and retirement transfers (table 2).

Comparing the tax implications on inheritance and retirement after exemptions

Table 1: Countries with higher taxes on inheritance transfers

Inheritance			
	Retirement after exemptions	Inheritance after exemptions	Difference
USA — High tax	€192,262	€1,062,514	€870,252
France	€421,197	€842,394	€421,197
USA — Low tax	€192,262	€521,460	€329,198
Belgium	—	€300,000	€300,000
Mexico	—	€200,000	€200,000
Japan	€1,494,166	€1,693,119	€198,953
Jersey	—	€74,738	€74,738
Norway	—	€36,974	€36,974
Finland	€312,100	€339,700	€27,600

"With a full exemption for transfers on death and only a partial exemption for lifetime transfers, Australia offers one example of a system that clearly favors succession on death. The prohibitive tax cost of lifetime transfers emerged as one of the most important issues raised following a 2012 Senate investigation into family businesses in Australia.[11] To date, however, the government has not addressed the imbalance, and succession planning in Australia remains geared toward inheritance for major assets."

William Noye
Partner,
KPMG Enterprise Australia

[11] Parliamentary Joint Committee on Corporations and Financial Services, *Family Businesses in Australia: different and significant: why they shouldn't be overlooked*, March 2013.

Table 2: Countries/jurisdictions with higher taxes on retirement

Retirement			
	Retirement after exemptions	Inheritance after exemptions	Difference
Australia	€2,257,899	—	€2,257,899
Jordan	€1,994,317	—	€1,994,317
Venezuela	€2,767,437	€1,272,808	€1,494,629
Turkey	€710,161	€454,748	€255,413
Barbados	€349,265	—	€349,265
Uruguay	€240,000	—	€240,000
Luxembourg	€180,000	—	€180,000
Taiwan	€882,919	€723,366	€159,554*
Morocco	€150,000	—	€150,000
Gibraltar	€103,015	—	€103,015
Thailand	€474,257	€371,283	€102,974
Ireland	€326,710	€227,700	€99,010
South Africa	€3,319,536	€3,250,584	€68,952
Philippines	€59,750	€44,979	€14,771
Singapore	€10,000	—	€10,000

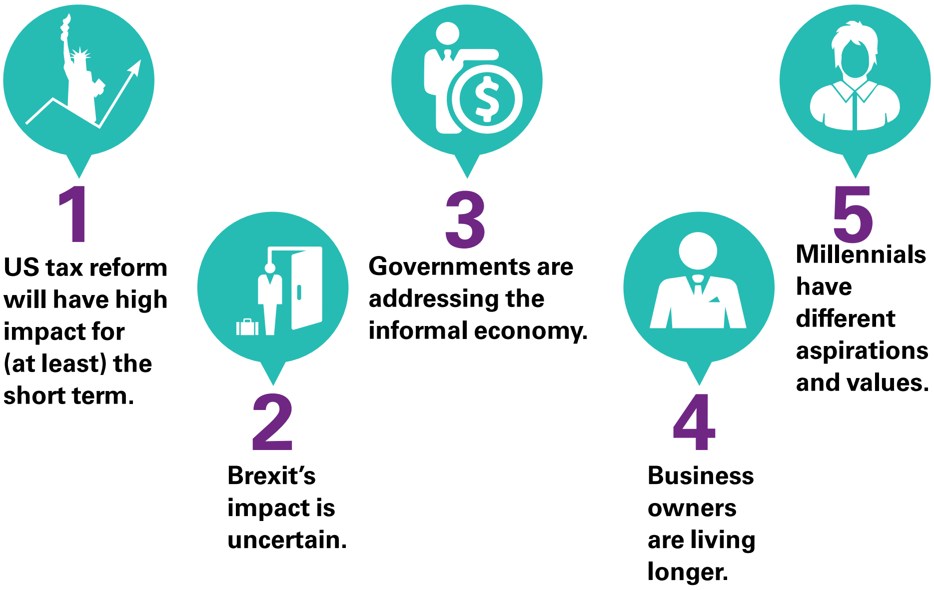
*Calculation may differ due to rounding

Future outlook:
Five key developments

US business families should consider making transfers of wealth during life in order to help minimize their transfer tax liability at death. Doing so may keep future appreciation from being subject to transfer tax. And if transfers are made in the near term, families may be able to take advantage of the temporarily enhanced gift and generation-skipping transfer tax exemptions that are currently available through 2025. For 2018, this exemption amount is USD11,180,000 for an individual or USD22,360,000 for a married couple."

William Jackson
Partner,
KPMG Private Markets Group in the US

In gathering insights from KPMG Enterprise advisers and KPMG International member firms worldwide, five developments emerged that are likely to have a profound influence on business families around the world as they develop and review their succession plans:



1. US tax reform will have high impact for (at least) the short term.

For business families in the **United States**, the recent tax reforms have dramatically improved the tax relief available on family business transfers. The lifetime exemption amount has increased to USD11.18 million (for 2018; indexed for inflation), allowing owners to transfer more assets tax-free on death or through lifetime gifts.

The increased tax benefits are in effect for tax years beginning after 31 December 2017, but they will sunset after 31 December 2025. After that, the continued availability of these benefits is uncertain, as these and other aspects of US tax reforms will expire unless further legislation is enacted to extend them.

The US federal changes do not affect taxes at the state level. For transfers on death, the case studies show there continues to be a wide discrepancy between high-tax states such as **Minnesota**, which impose their own inheritance and/or estate taxes, and low-tax states such as **Maine**, where only federal taxes on death apply. The high-tax states tend to impose higher taxes on their residents in general, however, and reductions in taxes on death in the near term are unlikely in view of current budget restraints.

Family businesses in **Canada** may also feel the impact. Family businesses already suffer one of the highest tax burdens on family business succession globally. In announcing its 2018 federal budget, Canada's government said it will analyze the US tax reforms in detail to assess any potential impacts on Canada.[12] The statement is broadly worded, however, and it remains to be seen whether this review will ultimately result in Canadian reforms to level the playing field.

[12] Department of Finance Canada, *Equality + Growth: A Strong Middle Class* (27 February 2018) at page 296.

"In the post-Brexit world, it will be more important than ever for the UK government to encourage family enterprises and entrepreneurialism. This means setting policies to drive business success and wealth creation and establishing conditions that attract businesses, entrepreneurs and people to the UK."

Greg Limb
Head, International Private Wealth
KPMG Enterprise in the UK

2. Brexit's impact is uncertain

As the UK and the European Union (EU) are still working out how Brexit will unfold, the implications for family businesses in the UK are unknown. The biggest impacts are expected for family businesses that employ EU nationals in key roles and for businesses that conduct trade with the EU. UK-based family businesses should think through potential talent management issues that could arise due to changes in the immigration status of employees. Family businesses should also review the terms of any commercial contracts with parties in the EU and make contingency plans to minimize any business disruption once Brexit's final terms are known.

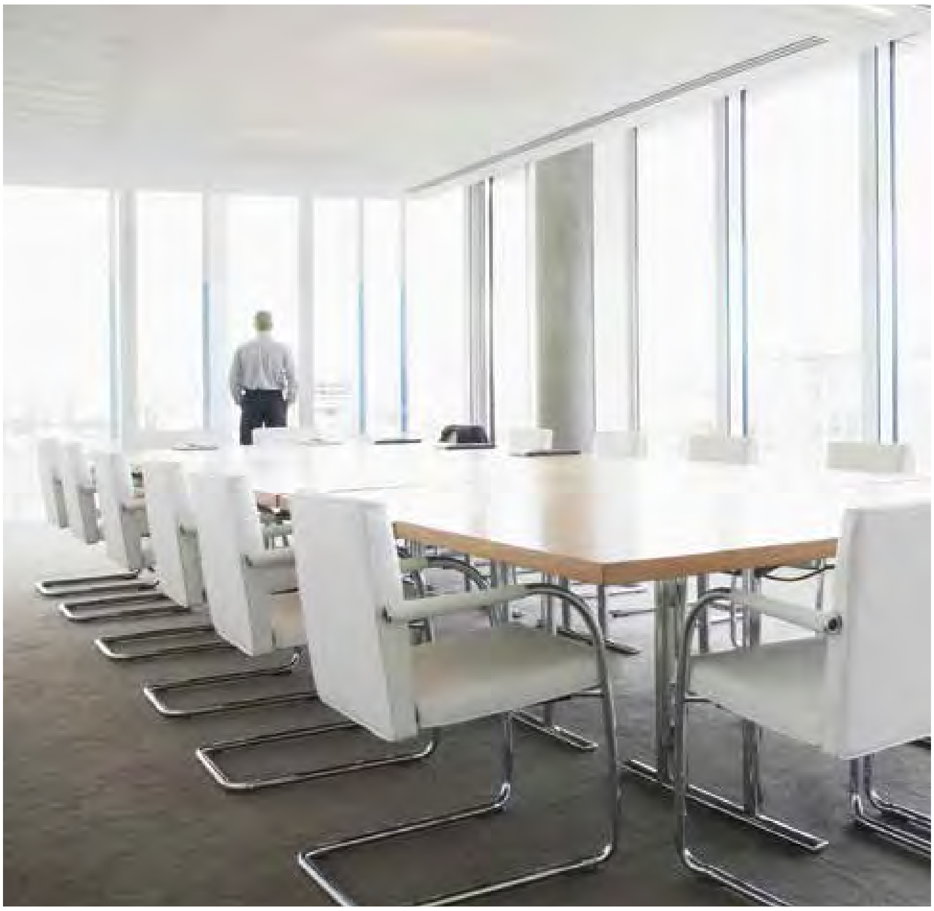
Post-Brexit, certain reliefs currently available under, for example, Belgian tax law for family business transfers within the EU or European Economic Area, may not be available on transfers to UK recipients.

3. Governments are addressing the informal economy.

In many countries, such as **Colombia** and **Nigeria**, the shadow economy is widespread and many businesses, including family businesses, operate outside of formal business structures. The size of the informal economy creates fiscal pressure, often causing legitimate businesses to shoulder higher tax burdens.

Apart from multinationals in the country, Nigeria's corporate sector is primarily controlled by family businesses, many of them operating informally. The formal books and records, bank accounts and governance may hamper their profitability and prospects for growth.

Colombia took steps to bring informal businesses into the legal economy with its 2016 tax reform, offering tax relief and social security benefits to those registering for tax identification. However, stronger action may still be needed to bring shadow economy businesses onside: more compelling incentives, more technical and technological resources for tax administration and more enforcement.



“Mexico has taken an interesting approach to encouraging tax compliance among family businesses. While inheritance tax is due for transfers upon death and lifetime transfers respectively, the transfer is fully exempt where it is declared to the authorities and where the recipient fully complies in declaring their other income.”

Celin Zorrilla
Partner,
KPMG in Mexico

“Tax evasion and elusion constitutes a serious problem, which might be caused by administrative burdens and high tax rates; this burden could demotivate family businesses participating in the legal economy. In order to attenuate this situation, more efficient and simplified rules as well as established tax structures should be introduced.”

Jesus Canal
Head of Family Business,
KPMG in Colombia

Governments have a role to play in creating tax policies that encourage the orderly transfer of business assets during lifetime, rather than on death. One option to take this a step further could be to create incentives for legacy family businesses to use their capital in starting new businesses. If governments see the advantages of providing tax relief for a longstanding business, why wouldn't they extend similar breaks to the sale of one business for the purposes of starting another with the reinvested proceeds?"

Beverly Johnson
Partner,
KPMG Enterprise
in Canada

To encourage family businesses and others to move into the formal economy — and potentially raise much needed revenue — Nigeria's tax authority, like many other jurisdictions, recently ran a tax amnesty program. For a 9-month period, Nigerian family businesses and other taxpayers could come forward to declare previously unreported assets and income without penalty or prosecution.[13] Now that the amnesty has ended, the Nigerian tax authority is expected to step up enforcement for businesses and other taxpayers that continue to flout the law.[14]

Families wishing to move their business into the formal economy should take action now and seek professional advice on their options for coming forward.

4. Business owners are living longer

Increasing longevity has the potential to disrupt business succession plans, as owners seek to remain active in the business until a later age and require living expenses over longer timespans. Ireland has made recent tax retirement relief changes to incentivize lifetime transfers between the ages of 55 and 65.

For the next generation, however, gaining control over the business can be delayed. The next generation may feel much differently about taking the reins of the family business at age 60 (which may be their current option) rather than around age 45, changing their career aspirations and desire to stay with the business as a result. To maintain their engagement, the next generation need to have meaningful roles, be rewarded and feel valued. This can be done, for example, by training and gradually transferring operational management responsibilities to the next generation, while the older generation moves into a less hands-on and more ambassadorial role.

Dealing with these new challenges requires careful planning on how assets and control of the business can

[13] "Nigeria to Target Tax Defaulters in Bid to Spur Economy," *Bloomberg*, 26 January 2018.
[14] See note 13.

be passed to the next generation in a timely fashion while ensuring the current generation has enough resources to fund longer retirements. Alternative strategies may encourage diversification, resulting in the next generation branching into new ventures. These approaches can add to the family's wealth while the current generation continues running the family business operations. Such 'intrapreneurial' strategies can be done by separating some of the wealth from the business in order to invest in a new venture, while ensuring the wealth of the original business will continue to grow.

5. Millennials have different aspirations and values

Millennials are altering the picture of family business succession. Compared to previous generations, millennials may tend to think more globally, their values appear to be more socially conscious, and their goals tend to be more philanthropic.[15] As with all generational shifts, rather than accepting a traditional role in the family business, millennials may have other ideas. For example, they may wish to take the family business in different, socially responsible directions. Alternatively, they may want to cash in the value in the family business and redeploy it in new ventures or divert it to benevolent causes.

If the next generation is not interested in running the business, business families may try to bring in partners or sell the business, while retaining a portion of the shares. Otherwise, the business will likely wind down.

"Opening the business to investors and partners can improve the business with new ideas, approaches and technologies. Rather than viewing this as giving up part of the business, families can approach this as an opportunity to realize business growth, thereby baking a bigger 'cake' for the family and its partners."

Tayo Ogungbenro
Partner,
KPMG in Nigeria

[15] See, for example, "Meet the millennials running Asia's family businesses," *CNBC*, 29 June 2017; "Millennials and the Family Business: When New Values Meet Old," *Legacy Counsel* (not dated); and "Millennials in the workforce: Do family businesses need to worry?," *grbj.com*, 2 March 2018.

It is never too early to start planning

For business families, some succession issues are specific to distinct regions or cultures. For example, **China**'s one child policy has limited the succession options of family businesses in the country, especially where the child wants to pursue other options.[16] Family businesses can face the opposite problem in countries like Nigeria, where polygamy is a common practice and competition among heirs can often become intense.[17]

But wherever you are located, KPMG Enterprise family business advisers have identified some common planning points that all business families should consider.

Start early

Whether it makes sense to transfer the business during lifetime or on death, the earlier the planning starts, the smoother the transition will ultimately be. This includes involving the next generation early as well as ensuring that the succession goals of everyone involved are understood and agreed.

Seek professional advice

Family business succession is highly complex, and missteps can be costly. A professional adviser can help you understand the exemptions and other tax reliefs that will be available on the transfer. Many of these benefits are not automatic, and a professional adviser can help you make the arrangements needed to meet complex conditions and comply with the rules — to ensure tax benefits on the transfer are optimized.

Communication

When planning for the transfer of a family business, regular, open communication between the generations involved helps ensure that the visions and expectations of each family member are aligned.

Develop a governance structure

Clarify and confirm your family's objectives from a legal viewpoint and establish succession plans and ownership structures that facilitate meeting those goals. Establish a structure for governance that will guide and safeguard the family business's operations during and after the transfer.

Conduct regular health checks

Review business arrangements and holdings to ensure all conditions receiving concessions will be met. As conditions often change — in family relationships, business environments and tax legislation — review your succession plan regularly and update it accordingly.

Monitor the value of assets

Monitor the values of the company's business versus passive assets and restructure holdings if needed to preserve access to exemptions or other tax preferences. Consider steps to compress the value of the assets that will comprise the family business transfer, for example, through planning and gifting to children, so taxes on the transfer will be calculated based on lower values.

Review the terms of wills

Where relevant, ensure that wills and other testamentary documents are drafted. Be sure the terms of the owner and other family members are drafted to adequately implement the succession plan and provide flexibility for heirs.

Consider family trusts and similar vehicles

Family trusts, foundations and/or similar entities are popular business succession vehicles in many countries, regions and jurisdictions. In many cases, trusts can be used to transition equity ownership and effective control to the next generation during the owner's lifetime. Although there can be a one-time tax charge on transferring assets into the trust, the equity can be passed to the next generation tax-efficiently, while future growth accrues in the trust.

The final analysis

In the final analysis, whatever decisions your business family makes, tax should not necessarily be the deciding factor. Succession plans should be aligned with the family's values and purpose. A sound business rationale should underpin all decisions about the family business's future. Early and informed planning is the best way to ensure your business and your family will prosper for generations to come.

[16] "One-child policy and family firms in China," *Journal of Corporate Finance,* January 2015.

[17] "Family Owned Business (FOB) Succession and Sustainability: Evaluation of some Selected Theories Applicable to FOB Succession Research in Nigeria," *Prudent Research Journal of Business and Management Economics,* March 2017.

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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 the province of Buenos Aires.

— If inheritance tax 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 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 non-family members). The inheritance tax rates for family business transfers are lower than the rates for other asset transfers.

— To qualify for the family business rates, the donor/deceased and their family must fully own more than 50 percent of the shares (30 percent in some cases) when the transfer occurs.

— 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.

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 is due on the increase in value.

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 CAD848,000 (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.

Cayman Islands

No tax applicable

— The Cayman Islands have no inheritance 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 (20 percent of shares or 34 percent 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, 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-habitors, 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.

Guernsey

No tax applicable

— Guernsey does not impose inheritance tax or gift tax.

— No other tax applies in this scenario.

Hong Kong (SAR)

Minimal tax due

— Hong Kong does not impose inheritance tax or gift tax.

— On lifetime gifts of Hong Kong stock, stamp duty may be imposed.

Hungary

Full exemptions available

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

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 other than transferred in electronic form). Generally, there is no stamp duty exemption on transfers of property among blood relatives unless specifically exempted by a particular state.

Indonesia

No tax applicable

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

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 EUR310,000 (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 include, among others, that transferor be at least age 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, entrepreneurs' 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 to ensure that all opportunities are maximized and all of the conditions of the gift/inheritance tax and capital gains tax reliefs are met.

Isle of Man

No tax applicable

- The Isle of Man has no inheritance tax or gift tax.
- No other tax applies in this scenario.

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).

Japan

Partial exemptions available

- Inheritance tax and gift tax apply to transfers on death and lifetime transfers respectively.
- In some cases, partial exemptions may be allowed.
- The value of assets subject to these taxes is determined based on evaluations rulings issued by the National Tax Agency.

Kuwait

No tax applicable

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

Jersey

Minimal tax due

- Jersey has no inheritance tax or gift tax.
- Probate fees are payable on transfers on death.

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.

Luxembourg

Full exemptions available on inheritance

- Inheritance tax on transfers on death and gift tax on lifetime transfers are charged at progressive rates based on the relationship between donor and recipient, with a surcharge based on the value of the transferred assets.
- Bequests to direct descendants are free from inheritance tax to the extent that the gift value does not exceed the amount that would have been received had the estate been intestate.
- For lifetime gifts, gift tax rates range from 1.8 percent to 2.4 percent for gifts to direct descendants and ascendants.

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 immoveable 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).
- Up to 30 September 2018, a new tax incentive encourages family business transfers to next generation by temporarily reducing the duty charged on transfers of family business shares to descendants to 1.5 percent.

Mexico

Partial exemptions available

- While inheritance tax and gift tax are due for transfers on death and lifetime transfers respectively, the transfer is fully exempt where the transfer is declared to the authorities and the recipient fully complies in declaring their other income.
- Certain states impose an additional 'capital transfer tax' on lifetime transfers and transfers on death. The figures shown in this analysis assume residence in a state where this tax applies.
- 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.

Monaco

Minimal tax due

- Inheritance tax and gift tax applies to transfers on death and lifetime transfers respectively.
- Exemptions from these taxes are allowed for direct descendants.
- Real estate transferred on death or within lifetime might be subject to stamp duty of 4.5 percent.

Morocco

Partial exemptions available

- Inheritance tax applies to transfers on death and lifetime gifts through other taxes and charges (i.e. capital gains and registrations fees).
- Lifetime gifts to descendants and ascendants are exempt from inheritance tax. Transfers on death under some formalities to right holders ("ayants droits") is exempt from inheritance tax as long as the business activities of the deceased person are continued after his death.
- Lifetime gifts to direct descendants and ascendants are subject to a registration fee at 1.5 percent. Transfer on death is subject to registration fees at 1 percent on inventory established by a Public Notary further to the death.

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 EUR1,071,987 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.
- 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.

New Zealand

No tax applicable

- New Zealand has no inheritance tax or gift tax.
- No other tax applies in this scenario.
- On a lifetime gift, issues may arise with imputation credits due to a continuity breach.

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 2018.
- 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.
- 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.
- 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.

Singapore

Minimal tax due

- Singapore has no inheritance tax, gift tax or wealth tax.
- Lifetime gifts of shares are subject to 0.2 percent stamp duty, calculated based on the higher of the consideration paid or the net asset value of the shares.
- Stamp duty does not apply on death.

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).
- As of 1 March 2018, donations tax and estate duty tax rates increased from 20 percent to 25 percent for donations/dutiable estate amount exceeding ZAR30 million.
- An additional 0.25 percent securities transfer tax is payable by the company on the transfer.

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.

Taiwan

Partial exemptions available

- On 12 May 2017, the estate tax and gift tax rates were changed from a single 10 percent rate to progressive rates ranging from 10 percent to 20 percent.
- Estates of more than 100 million new Taiwan dollars (TWD) are subject to 20 percent estate tax.
- Gifts of more than TWD50 million are subject to 20 percent gift tax.

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 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.

Turkey

Partial exemptions available

— Inheritance tax and gift tax apply to transfers on death and lifetime transfers respectively.

— Automatic exemptions apply to both types of transfer.

United Arab Emirates

No tax applicable

— The United Arab Emirates has no inheritance tax or gift tax.

— No other tax applies in this scenario.

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 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.

— Capital gains tax on lifetime transfers 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 10 million British pounds (GBP)), with each individual given an annual allowance of GBP11, 300.

— Lifetime gifts of shares to individuals who work in the same business may be taxed as income (at a maximum 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 and transfers on death of real estate are also subject to real estate transfer tax.

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.

KPMG Enterprise

Passion, it's what drives entrepreneurs, family businesses and fast-growing companies alike. It's also what inspires KPMG Enterprise advisers to help you drive success.

You know KPMG, you might not know KPMG Enterprise. KPMG Enterprise advisers in member firms around the world are dedicated to working with businesses like yours. Whether you're an entrepreneur looking to get started, an innovative, fast-growing company or an established company looking to an exit, KPMG Enterprise advisers understand what is important to you and can help you navigate your challenges — no matter the size or stage of your business.

You gain access to KPMG's global resources through a single point of contact — a trusted adviser to your company. It's a local touch with a global reach.

KPMG Enterprise Global Center of Excellence for Family Business

As with your family, your business doesn't stand still — it evolves. Family businesses are unique and KPMG Enterprise Family Business advisers understand the dynamics of a successful family business and work with you to provide tailored advice and experienced guidance to help you succeed. To support the unique needs of family businesses, KPMG Enterprise coordinates with a global network dedicated to offering relevant information and advice to family-owned companies. We understand that the nature of a family business is inherently different from a non-family business and requires an approach that considers the family component.

KPMG Enterprise International Private Wealth and Family Office Network

Working with you for your family's future

You've worked hard to establish your wealth and build a bright future for your family. But with numerous opportunities and challenges for growing and preserving your wealth, it can be difficult to find the right mix of trusted advisers who can provide concrete and relevant insights that speak to the complexities of achieving your unique goals — both for your business and for your family.

The KPMG Enterprise International Private Wealth and Family Office Network (IPW Network) connects a multidisciplinary group of advisers, located across our 154 member firms, who work collaboratively with ultra-high-net-worth individuals, entrepreneurs, families and family offices like yours. Together, they share and provide insights ranging from wealth and tax planning, risk and security, technology and innovation, transaction support, succession planning and governance, and legal services.

Using our IPW Network, you need only go to one place to draw upon KPMG Enterprise's deep industry knowledge and broad base of local and global experience. Our IPW Network advisers will work collaboratively to provide you with clear, practical and tailored advice that can help achieve the future you envision. Your success is our legacy.

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