# The Allowance for Corporate Equity and Family Businesses in Europe

Partly thanks to EFB's messaging to European policy makers, the importance of and treatment of equity, as a financing tool, is being discussed. For most family businesses the use of equity is an essential tool for funding their long-term operations. EFB is of the belief that, whilst facilitating the responsible use and access of debt is crucial for businesses, a rebalancing of the financing environment is needed in Europe. In other words, equity financing should enjoy a similar fiscal treatment as debt.

Although progress has been made, it seems that major reforms are still far afield. In addition, it is essential that reforms are enacted that strengthen equity, without a detrimental fiscal impact on debt. Therefore, to strengthen the justification for reform, EFB must do its part to encourage policy makers to enact major fiscal reforms in favour of equity.

**Proposal: The Allowance for Corporate Equity, helping family companies invest for the long-term.**

EFB's Debt/Equity Taskforce has proposed a micro economic study to demonstrate the likely positive impact of the introduction of an allowance for corporate equity (ACE) on family businesses in Europe.

The proposal is as follows:

1. The study assumes that the family owners are based in the same country as their business operations.
2. The study will take a fictitious small, medium sized business with a simplified balance sheet and demonstrate the fiscal position of the business with and without the ACE. Conversely, the study could use real life family businesses, whilst maintaining the unanimity of the business, and apply the same aforementioned model.
3. The study will also consider the financial structure of the companies that applies the ACE to; the study will look at companies that tend to use debt and those that are equity rich.
4. The study will use the concept of the Total Efficient Tax Rate[1] which takes into account taxation at both the level of the business and at the level of the owner.
5. The study limits itself to 5 or 6 EU nations (favouring countries that have higher tax burden and where the ACE would have a greater impact).
6. The study should look at countries that already have an allowance in place.

[1] TETR = Tax on corporate profits payable by the corporation + tax on dividend payable by the recipient of the dividend distributed from the corporate profits