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FAMILY BUSINESS SUCCESSION IN PRACTICE

Case: Accounting Firm Ltd.

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TIIVISTELMÄ

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Opinnäytetyön tarkoituksena oli selvittää eri vaihtoehdot sukupolvenvaihdoksen toteuttamiseen case-yrityksessä. Opinnäytetyössä käytiin läpi erilaisia sukupolvenvaihdoksen toteutustapoja yksityisessä osakeyhtiössä. Toteuttamistapoihin sisältyivät yrityksen arvon määrittäminen ja tapauskohtaiset veroseuraamukset, sekä luopujan että jatkajan näkökulmasta.

Opinnäytetyön teoriaosa keskittyi verotuksessa sovellettavien lakien ja säästöjen lisäksi perheyrittäjien sekä niiden sukupolvenvaihdosten erityispiirteisiin.

Opinnäytetyön tutkimusosuus painottui erilaisiin veroseuraamuksiin yrityksen käyvän arvon määrittämisen pohjalta. Yrityksen käypä arvo laskettiin toimeksiantajayrityksen viimeisten vahvistettujen tilinpäätösten pohjalta. Toisen tärkeän osa-alueen tutkimuksessa muodostivat analyysit suoritetuista haastatteluista. Tutkimusmenetelminä käytettiin sekä kvalitatiivista eli laadullista, että kvantitatiivista eli määrällistä tutkimusta.

Sukupolvenvaihdos on erilainen jokaisessa yrityksessä ja se pitäisi aina selvittää tapauskohtaisesti, sillä yhtä ainoa oikea ratkaisu ei ole. Opinnäytetyön lopputuloksena voitiin havaita, että mikäli case-yritys kykenee odottamaan sukupolvenvaihdoksen toteuttamista viisi vuotta, tulevat luopuja ja jatkaja yhdessä säästämään useita tuhansia euroja verohuojennusten avulla. Sukupolvenvaihdos tulee olemaan paras toteuttaa lahjaluonteisena osakekauppana. Lisäksi case-yrityksen nykyisen omistajan sekä nykyisten asiakkaiden haastatteluiden perusteella voitiin todeta, että yrityksen tulevaisuus on varsin vakaalla pohjalla.

ABSTRACT

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The aim of this study was to examine the options for implementation of succession in a case company. The thesis discussed a variety of alternatives of implementing succession in a private limited liability company. The implementation alternatives included defining the case company's fair value and tax consequences both from the transferor's and from the successor's perspective.

The theoretical study of the thesis focused both on the applicable laws and regulations of taxation and also on to the special features of family businesses and succession in them.

The research section of the study focused on different tax consequences from the basis of the determined fair value of the case company. Fair value was determined from the latest confirmed financial statement of the case company. The second important area of the research was analyzing the outcomes of interviews with the owner and the customers of the case company.

Succession differs from company to company and each case should always be investigated thoroughly. The results show that the transferor and the successor will together save thousands of euros in tax reliefs if the implementation is carried out in 2020. A gift-off trade will be the best alternative to carry out the implementation.

Keywords	Succession, tax reliefs, tax consequences, family business, fair value
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1 INTRODUCTION

The thesis is carried out for a case company, which has been operating since 2008 in the field of accounting. The case company's entrepreneur is planning to retire in the near future and has started thinking about business continuity after retirement. A probable successor for the business has been found inside the family, the successor being the current owner's son. The son has worked part-time during his studies in the company since 2010. The case company will take an advantage of this thesis when implementing the succession. The actual implementation is planned to be carried out in five years. The case company did not want to reveal its or its customers' information for public use, so a made up name of Accounting Firm Ltd. is created for the case company. The concrete figures used in the calculations and in the analysis are the actual figures of the case company.

1.1 Purpose, Research Questions and Limitations of the Study

The aim of this study is to determine the implementation methods of succession in a private limited liability company as well as the tax consequences of these methods. The aim of the study is to reveal the best alternatives of implementing the succession in the case company. The thesis takes into account the perspectives of the transferor and the successor.

The research questions of the thesis are:

1. What are the different methods of implementing family business succession in a limited liability company?
2. What are the lowest possible tax consequences to be achieved in succession?
3. What is the best alternative of succession from the transferor's and the successor's point of view?
4. What are the attitudes of case company's customers' towards the future and succession concerning their accounting service supplier?

The thesis is limited to examining the succession only in a private limited liability company, where the successor is from the family and the succession will be implemented during the transferor's lifetime. The thesis will not deal with arrangements of financing.

1.2 Research Methods

Both qualitative and quantitative research methods are used in the thesis. The theoretical study is based on the related literature, the tax administration guidelines and legislation. The data used in the thesis is from the financial statements of the case company and from the results of a quantitative electronic survey answered by the customers of the case company as well as from qualitative interviews with the owner of the case company and five entrepreneurs of the customer companies of Accounting Firm Ltd.

1.3 Structure of the Thesis

After the introduction section the thesis continues with theory related to the topic. Theory includes essential concepts concerning family businesses, determining the value of a company, different ways of transferring assets in succession and the variety of tax consequence alternatives the succession can create.

The empirical framework of the study begins with determining the value of the case company and calculating the tax consequences for each asset transferring method. After calculations the empirical study continues with analyzing the results from the qualitative and quantitative researches.

After the empirical framework the essential findings of the study will be concluded and further research suggestions are given for the case company.

2 FAMILY BUSINESS ISSUES

This chapter looks into different kind of family business concepts that are crucial for both to the family business as well as to the succession planning process. According to multiple studies family business succession is a wide concept with a remarkable number of factors to take into consideration. There are a variety of key factors that will help the company to carry out a successful succession, and one of them is planning. Succession planning takes time, when the aim is to do it well and comprehensively. (Morris, Williams and Nel 1996)

In their article Morris et al. (1996) gathered together the underlying determinants for a successful succession. The determinants have been arranged into three categorical groups: preparation level of heirs, relationship among family & business members and planning & controlling activities. The categories consist of follows:

The preparation level of the heirs includes formal education, training, work experience in other company, working experience in the company, entry-level position, motivation to join the company and self-perception of preparation.

The second group, relationships among family and business members includes, communication, trust, commitment, loyalty, family turmoil, sibling rivalry, jealousy, conflict and shared values and traditions.

The last category of planning and controlling activities includes, succession planning, tax planning, use of outside board, and use of family business consultants and creation of family council.

The most relevant determinants for the case company will be described in the theoretical discussion.

2.1 Family Business

There is a large number of both theoretical and operational definitions given to family business. Also there are a lot of perspectives on how to differentiate family businesses from non-family businesses. One simple definition selected from the

range is from Chua, Chrisman and Sharma (2002): Family businesses and non-family businesses differ from each other due the singular participation of the family members. The distinguishing key feature that separates the family businesses from the other businesses is the relationship between family members and the business systems. In addition family businesses often face singular and complex problems that the traditional businesses are not familiar with (Davis and Harveston 1998).

As stated before there are several definitions for a family business but none of them are generally accepted as the one and only right definition. However, a group of experts from European Commission proposed a definition in 2009 including four key points that confirms whether a business is family business or not: 1) Most of the decision-making grants are in the possession of an inevitable person or persons who has found the firm or who has earned the share capital of the firm. The permissions can also be in the possession of the parents, spouses, or children of the two previous characters. 2) The overall majority of the decision-making grants are either direct or indirect. 3) The governance of the firm has to involve at least one of the representatives from the family. 4) “Listed companies meet the definition of family enterprise if the people who established or acquired the firm (share capital) of their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital”. (European Commission 2009)

Collins (2012) discusses and compares the older versions of family businesses to new modern approaches. She states that it is clear that the understanding of family businesses is developing and that the new modern approach has some emerging differences that the family businesses have not faced before. According to Collins (2012) the fact has been accepted that every family business has its own variety of personalities, objectives and relationships, which makes each business unique. However, there are advantages and disadvantages, which can be identified commonly in all family businesses. Businesses are forced to review their operations due the quick economic, social and technological changes which might create specific problems for the family owned businesses. Ensuring the survival and

growth of the business in current demanding market situation the family business- es needs to be able to face the difficulties that some of the strong centralities to the business can create; such as heritage and tradition. (Collins 2012; Kets de Vries 1993)

2.1.1 Family Business Continuity

In their article in 2011 Lucky, Minai and Isaiah developed a conceptual frame- work to revise the understanding of succession and family business continuity. In the framework they stated that family business succession includes three key fac- tors. The key factors were: founder, successor and environment. A conceptual model that they developed to back up the framework can be seen from the Figure 1. The model in Figure 1 illustrates three different scenarios that may occur be- tween the founder and the successor.

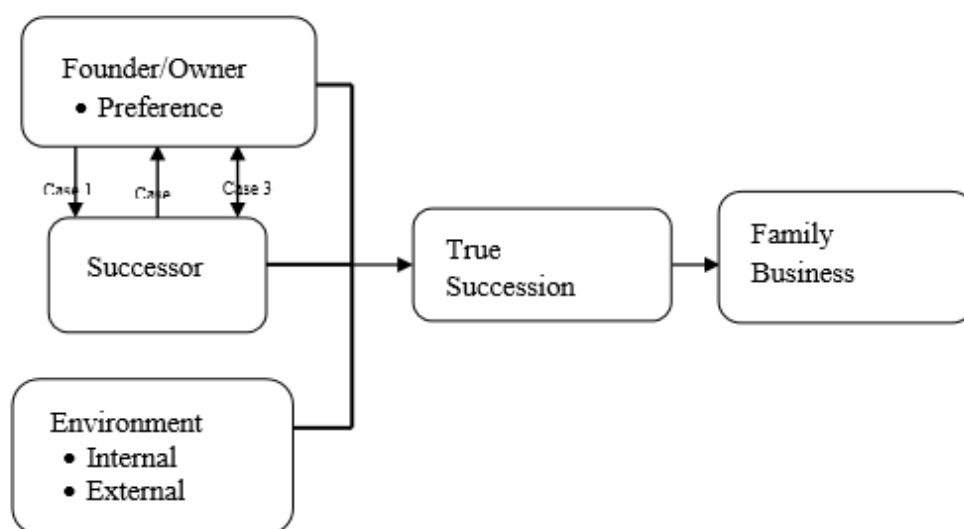


Figure 1. The conceptual model (Lucky et al. 2011).

The first case indicates the scenario where the founder of the business initiates the whole succession process. The founder in this case has a potential successor in mind, which he would prefer to take the lead in the company even though the potential successor might not be interested in the matter. Pressuring the potential successor without his interest is considered as conservative succession. The second case indicates the scenario, where the successor initiates the succession process while giving pressure to the founder to agree with the succession. The suc-

cessor in this case is keen on taking over the company and can be seen as “wavering and rebellious in nature”. The third and the last case indicates the scenario, where the founder and successor has mutual agreement and opinions on how the succession process will be handled and when the succession will occur. According to the article the founder “gives up authority and power and becomes a consultant, while the successor assumes the leadership role and becomes chief decision-maker”. (Lucky et al., 2011; Evans 1992)

In addition, Lucky et al. (2011) stated that the key factors (founder, successor and environment) have an equal importance in ensuring the succession and continuity of the family business. To ensure the family business continuity both the internal and external environments should also be inspected precisely.

2.1.2 A Contingency Model

This subchapter describes the possible differences between an internal and external successor. In some cases the internal successor may not hold the capability, competence or skills to take over the company sufficiently (Royer, Simons, Boyd and Rafferty 2008; Sambrook 2005; Sharma, Chrisman and Chua 2003). The four-field matrix shown in Figure 2 illustrates the four situations that show the degree of industry-specific general and technical knowledge for both internal and external successor as well as the family business-specific experiential knowledge. Situations of each square are explained after the Figure 2.

Royer et al. (2008) argue in their article that the internal successor is as suitable as the external successor when the degree of knowledge added together amounts to same or higher than the external successor’s degree. The specific formula for the internal successor’s suitability is: $ISGK^{sub I} + ISTK^{sub I} + FSEK^{sub I} \geq ISGK^{sub O} + ISTK^{sub O}$. In the formula the letter combinations stands for: *ISGK = Industry-Specific General Knowledge*, *ISTK = Industry-Specific Technical Knowledge* and *FSEK = Family Business-specific Experiential Knowledge*. In addition “sub I” and sub O” stands for inside- and outside-family successors. (Royer et al., 2008)

Relevance of general and technical industry-specific knowledge

		LOW	HIGH
Relevance of experiential family business-specific knowledge	LOW	Inside and outside option have same probability to be success promising $(I = O)$ I	Outside option has higher probability of being success promising because of the greater range of talents with general/technical knowledge available on the market $(I < O)$ II
	HIGH	Inside option has higher pro- bability of being success pro- mising because of access to experiential knowledge $(I > O)$ III	Inside option is preferable $(I > O)$, if: $ISGK_I + ISTK_I + FSEK_I \geq$ $ISGK_O + ISTK_O$ IV

Figure 2. The contingency model (Royer et al. 2008).

The first square illustrates the situation where the industry-specific, general & technical knowledge and the family business-specific experiential knowledge relevance's are low. In this case, there are no differences between the internal and external candidates. (Royer et al 2008)

The second square displays the situation where the industry-specific general and technical knowledge relevance are high and the family business-specific experiential knowledge relevance is low. In this case, the external candidate should be preferred as successor. (Royer et al 2008)

The third square of the figure demonstrates the situation opposite to the second square. When the family business-specific experiential knowledge relevance is high and the industry-specific general and technical knowledge relevance's are low it is quite hard to attract external successors since the valuable resources are impossible to realize from outside. For this reason, the internal candidate is more likely to continue as a successor. (Royer et al 2008)

The fourth square illustrates the situation of high degree of relevance in each field. In this case, the preferable successor is the one that holds more knowledge compared to the other candidate. (Royer et al 2008)

2.1.3 The Three-Circle Model

The Three-Circle Model in Figure 3 was developed for the Family Business System by Tagiuri and Davis during their studies at the Harvard Business School in the 1970s. The figure is used worldwide by families, consultants and academics since it became a central framework that helps people to understand the family business systems. (Tagiuri and Davis 1982; Ward 2005)

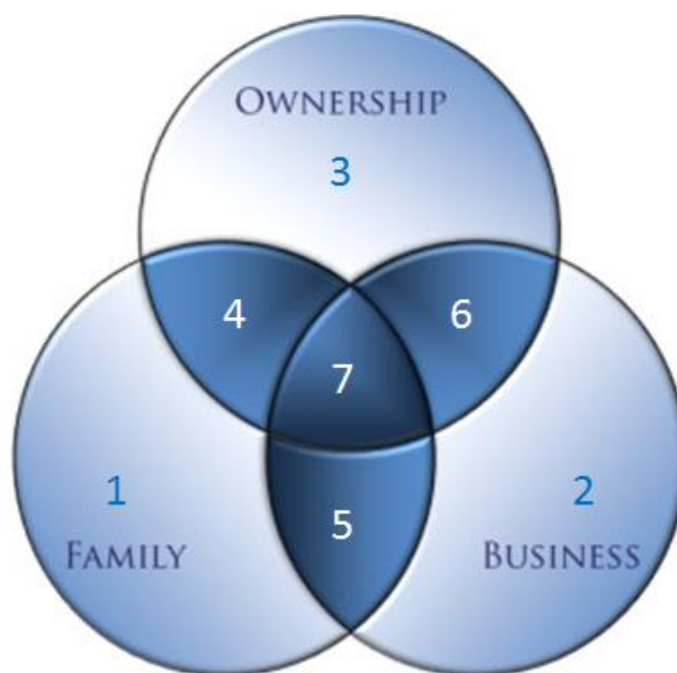


Figure 3. The three-circle model (Tagiuri and Davis 1982).

The key words Family, Business and Ownership in the model simply shows that these three areas have an equal importance in the family business system. In the areas where the three circles are overlapping a role conflict or conflict of interest may occur. (Ward 2005)

Furthermore, the model includes seven different numbered areas such as the circles themselves and the overlapping areas. The seven numbers indicates seven different distinct roles that the model consists of. These distinct roles are the roles of each and every person that is involved in the family business meaning also that one person is able to have various different roles in the system. (Ward, 2005)

The first three areas are quite obvious and easy to specify in a firm: 1) family member, 2) external manager and 3) external shareholder. The other four roles are in the overlapping areas where the person has multiple roles to handle. The fourth one, family shareholder and fifth one, family member in management position are two different roles combined together, whereas the family member is also either a shareholder of the business or has a place in the management. The sixth role, non-family shareholder in management position is an external person that has shares and place in management of the business. The seventh role, family shareholder in management position is a combination of all of the three circles in the model, meaning that the same person has a role in each areas of the system. To pursue a good business performance, the establishment of clear rules and strategy to avoid conflicts is always vital. Sometimes clear rules and strategy are not enough if the person to a certain role is not capable of taking into consideration each circle's ambitions. In the case of unsuitable successor is nominated from the family, the performance could as well decrease, increase or stay the at the same level. (Tagiuri and Davis 1982; Ward, 2005)

2.1.4 Family Business Life Cycle

In 2005 Kohlrieser developed the *Family Business Life Cycle Model* during his studies of dividing the family business life cycles by time and dimension. Figure 4 shows how different generations have succeeded in the family business. The model consists up to four generations in the family business. It starts when the company is founded by the first generation and the second generation gets involved and eventually takes over the management of the business. The third and fourth generation follows the same path as the second one.

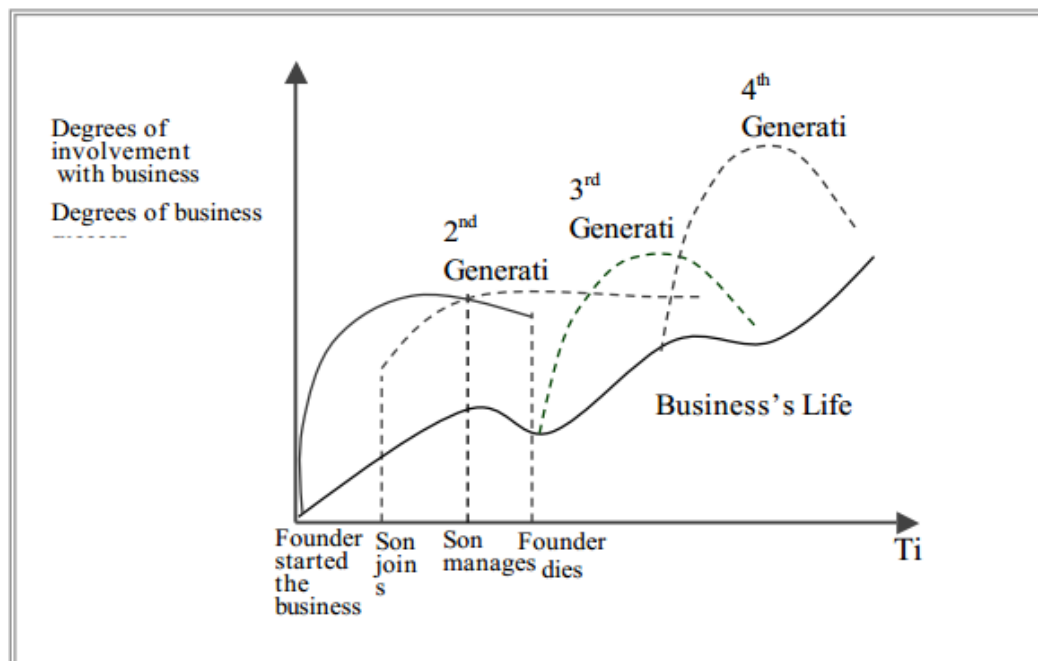


Figure 4. Family business life cycle (Kohlrieser 2005).

During the generational transition the current owner and the becoming owner needs to discuss and plan several matters concerning the actual transition. For example, conflict management, cooperation between the younger and older generations, how to lead the company and sharing the knowledge of power and responsibilities should be taken into consideration before and during the transition period. (Ward 2005; Kohlrieser 2005)

2.2 Family Businesses in Finland

The following subchapters introduce two institutions in the Finnish economy which have studied family businesses. First the Finnish Family Firms Association is introduced in chapter 2.2.1 and in 2.2.2 the essential results of the family business survey conducted by the PwC Finland are presented.

2.2.1 The Finnish Family Firms Association

The Finnish Family Firms Association (PL=Perheyritysten Liitto) is a lobbying organization for Finnish family businesses. It was established in 1997 by Peter Fazer, primarily to remove the owner's inheritance and gift taxations. The current CEO of the association is Leena Mörntinen and today the association promotes

primarily the interests of larger family business owner's. (Perheyritysten Liitto 2014)

Around 400 companies are currently members of the association and at the same time the companies are part of the wider international association; the International Family Business Network (FBN International). The association is also part of GEEF, the European Group of Family Enterprises. The member companies of the Finnish Family Firms Association employ currently over 150 000 people and their total turnover all together climbs up to 30 billion euros per year. (Perheyritysten Liitto 2014)

The vision of the association is that Finland has the best conditions for owning and operating family business activities. In addition, the Finnish Family Firms Association wants to be a pioneer in business organizations and social visionary. Some of the daily activities are for example: organizing seminars and different kinds of educational programs, monitoring the member companies' interests in ownership issues and maintaining the relationships both to domestic and international cooperation organizations. (Perheyritysten Liitto 2014)

The Association states that the family businesses are the backbone of the whole Finnish economy. In addition 80% of the businesses in Finland are family firms, of which, the majority is either small or medium-sized firms. Over 20% of the Finnish TOP 500 businesses are family firms. Furthermore, the family businesses employ 42% of the corporate sector's workforce. In relation to the turnover, the family owned firms employ significantly more than other ways owned firms and are more profitable when comparing the invested capital. Between 2000 and 2005 medium-sized and large family enterprises of the founder generation proved to be more profitable than the other enterprises. (Perheyritysten Liitto 2014)

2.2.2 Family Business Survey Results

PwC stands for the network of PricewaterhouseCoopers International Limited. The network consists of separate and independent legal entities from different countries worldwide, which are member firms of the network. The member firms

all together employs over 195 000 people in nearly 160 countries. At the moment PwC is globally one of the leading organizations that provide professional services. (PwC Finland 2014)

PwC Finland is also member firm of the international network with more than 800 consultants that offers professional services to their clients. Client range is wide including both the public and private sectors. The company serves clients all the way from large international corporations to small and medium-sized companies. The consultants operate across Finland giving advisory in e.g. taxation and assurance issues. They state that they form the basis for the relationships to customers and partners by supplying reliable and premium-quality services. (PwC Finland 2014)

In 2012, the PwC Finland conducted a *family business survey* to find out and understand the family firms opinions concerning: Performance and Challenges of family businesses, Internationalization, How family businesses differ, Family involvement and Succession planning as well as the role of Government and Society. The reason why the survey is used in this study is the fact that the case company will face the transitional period of succession in the near future and the questions made in the survey in 2012 concerns the future of the companies in the next five years; until the year 2017. (PwC Finland, 2014)

According to the study made by PwC Finland the Finnish family businesses have performed quite well over the past couple of years, as 70% of the respondents had grown during the year before the survey was conducted. The family owned companies in Finland are comfortable when looking up to the future and most of the respondents are certain about the next five years' growth, as can be seen from Figure 5. In addition 94% of the companies believe in growth over the next five years, which is fairly high when comparing to the global equivalent per cent that is 81. Another positive factor that can be found from the graph is that none of the respondents forecasted a downward trend in the business over the next five years. (PwC Finland, 2012)

Key challenges in five years' time



Figure 5. Key challenges in five years' time (PwC Finland 2012).

One of the biggest disadvantages of the family businesses is the conflict between family members. In the worst case scenario, it can ruin the whole business and waste all the hard work and efforts that have been put into the company. The disadvantages of family businesses will be discussed more comprehensively later in this chapter. However, as can be seen from the PwC's survey very few companies believe it to be possible for the company to have this kind of conflict in the future, which is a positive outcome. Five key challenges can be identified and separated from the others when looking at Figure 6. (PwC Finland 2012)

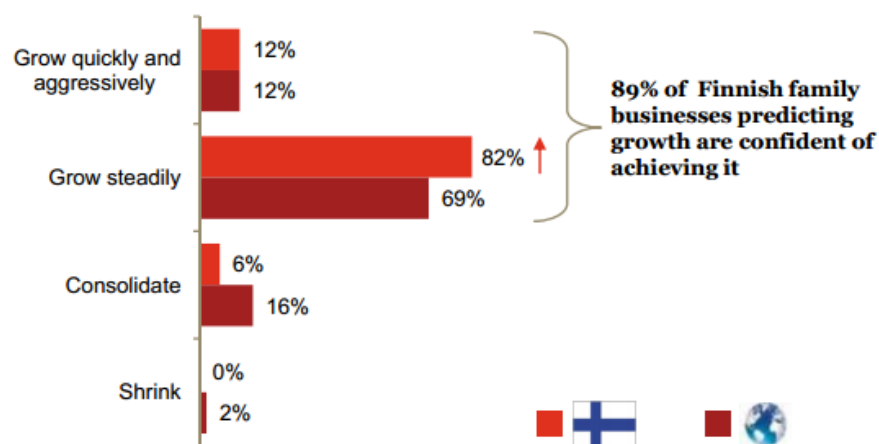


Figure 6. Expected development of the company (PwC Finland 2012).

The five key challenges are attracting the right skills, overall economic situation globally, need to continually innovate, price competition and retaining the key staff. From the study can also be seen, how the Finnish family businesses sees the “attracting of the right skills” as the most important key challenge, unlike the rest of the world. The rest of the world sees this factor as a challenge but not in the same scale than the Finnish family companies. (PwC Finland, 2012)

Most of the companies that intends to expand their operations to new foreign countries, would favor to expand to Europe and to America, Europe being the most popular with 31%. 38% in the survey sample companies will not expand into new countries within the next five years, which is relatively high proportion of the sample. (See Figure 7) (PwC Finland 2012)

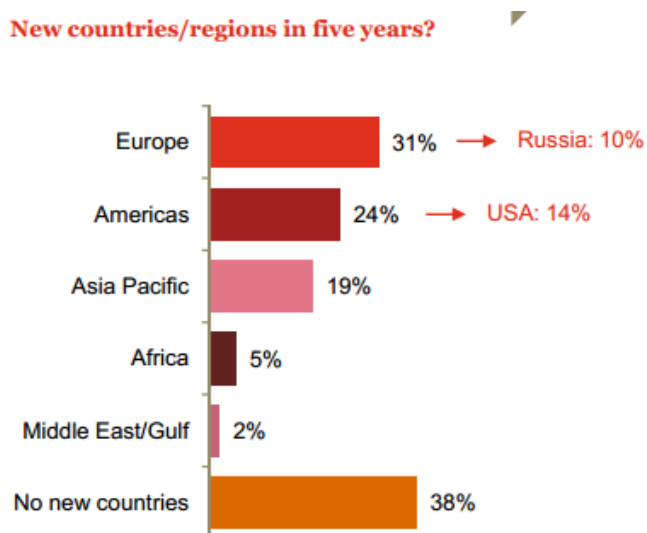


Figure 7. Countries to revise in the next five years (PwC Finland 2012).

The high degree of Finnish family companies that are not willing to expand their operations to other countries can probably be explained with the variety of challenging factors concerning the internationalization process. Taking care of everything, when having operations active in many countries at the same time is hard work. The differences in legislation and taxation vary from country to country. In addition, some companies may leave the idea of revising the operations already before even thinking about the actual challenges of the internalization process.

The nine biggest challenges the respondents of the survey found crucial to their businesses can be seen from Figure 8. (PwC Finland 2012)



Figure 8. Challenges of international operations (PwC Finland 2012).

Three of the nine factors stand out from the alternatives with the highest volumes of responses. Understanding the foreign culture and ways to operate business overseas is the biggest challenge pointed out by the respondents. The second largest challenge in international operations seems to be the understanding of the local regulations followed by the level of competition in the international markets. (PwC Finland 2012)

The survey made by PwC also identifies a number of factors that differentiates family businesses from non-family businesses. There are both positive and negative factors of being a family business, as said earlier in the study, but following are some of the factors that pointed out from the PwC's study in 2012. A clear insight from the survey is that family businesses in Finland recognize more advantages than disadvantages when comparing to non-family businesses. The first advantage is commitment as well as the long term commitment for the business. Commitment comes out of motivation which family members tend to have concerning their family-owned enterprise's current and future situations. In addition, one respondent stated that family businesses are more reliable than others because

they always have the reputation of the family to maintain. According to the study family-owned businesses tend to have a responsible attitude towards their employees whereas the larger companies are moving their operations to cheaper countries and firing their workforce in Finland. Other advantages mentioned could be fast decision making without bureaucracy and adding value to the local communities by centralizing the company's operations to a certain area. (PwC Finland 2012)

Moving from advantages to disadvantages, it can be found some downsides which non-family businesses will probably never face during the company's lifetime. These disadvantages can be categorized into two groups issues concerning succession and financing of the company. Successions in all family businesses are different as well as a long process which usually includes difficulties concerning e.g. the taxation and finding the right person to continue the business. Without a well planned succession process, the succession itself can be very costly to the company, even if the finding of the successor has been easy. Furthermore, the taxation is higher when owning a family business than non-family business. Financing is also bigger concern in family businesses due the fact that it is harder to find external funding for the company and usually the personal assets of the owner are used as a deposit to get external capital. (PwC Finland 2012)

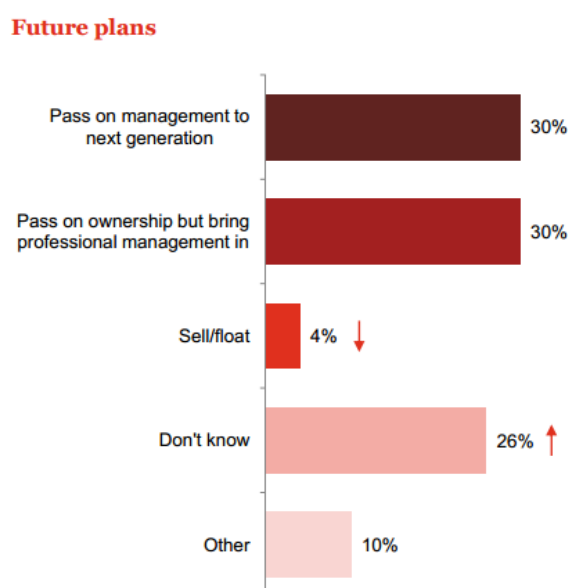


Figure9. Future plans (PwC Finland 2012).

The fourth issue of the findings in the survey was family involvement and succession planning. A majority of the respondents had a clear view of the future. 60% of the sample stated that in five years the company will be passed on to the next generation. Half of the majority is planning on passing the management of the company to the next generation and the other half is planning on passing only the ownership to the next generation and leaving the management to non-family members. The reasons for passing only the ownership to the next generation are simply the lack of required skills to manage the company or the younger generation just did not want to be involved in the company's management. A quite concerning matter can be seen from Figure 9; as stated before, two thirds of the sample had a clear view of the future and then again nearly one third or more specifically 26 per cent of the sample had no idea what will happen to the company in five years' time. This is a concern when thinking of the companies' long-term strategy. Only 4 per cent planned to sell the company to outsider or leave the company floating at least for a while. This leaves 10% of the sample who answered to the question with "Other". It can be assumed that the remaining companies will wait for the succession more than five years or shuts the whole business. (PwC Finland 2012)

Agreement with statements about family businesses and society

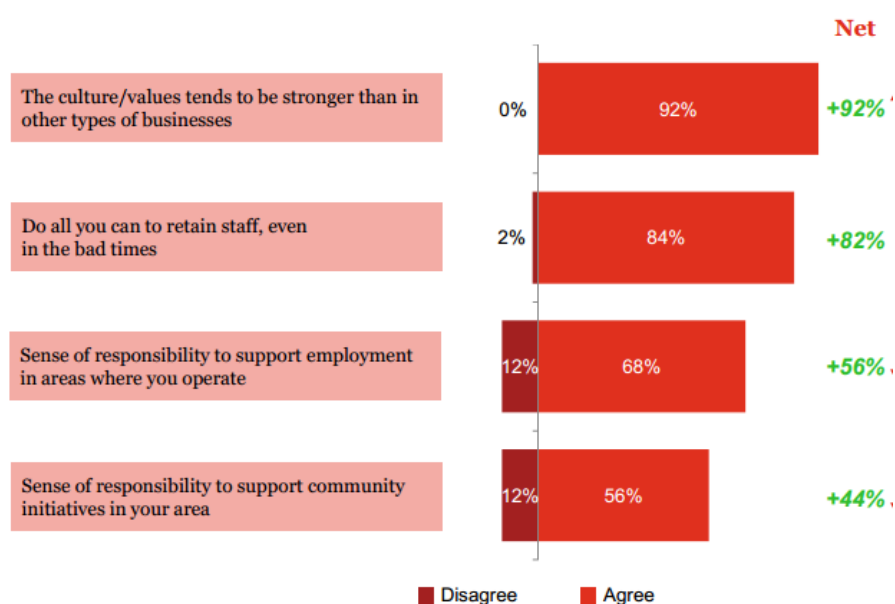


Figure 10. Family business and society (PwC Finland 2012).

As stated before by the Finnish Family Firms Association, 80% of the firms in Finland are family businesses. This is recognized also by the companies that were involved in the PwC Finland's survey. The companies recall that they play an important role concerning Finland's economy, for example by creating jobs and adding stability to the economy. However, the companies believe that the Finnish government does not understand the contribution of the family businesses to the whole Finnish economy. According to the survey, family businesses are seeking for help from the government e.g. for accessing finance. They also feel that the government should remove some of the advantages that corporations perceive. For example, many companies from the sample consider the taxation as unfair when comparing family and non-family businesses. The respondents state that the succession process, continuity and growth are too expensive and difficult for the companies to accomplish. The Finnish government should take actions to rectify these problems due the fact that family businesses tend to have stronger values and sense of responsibility to staff than other businesses, which affects the local community. (PwC Finland 2012)

The main points of the study can be summarized into few key points. The majority of the Finnish family businesses are confident of the continuity of the business and the firms do not find a conflict between family members very likely to occur in the future. The key challenges found for the family companies were attracting the right skills and to be continuously innovative. When the government starts to appreciate the family firms more and starts to make it easier for the firms to operate it will be helpful to the companies to face the challenges in the future including competition, financing, taxation, growth as well as the key challenges mentioned before. (PwC Finland 2012)

3 FINANCIAL PLANNING OF SUCCESSION

Succession refers to changes in the ownership of a company, when the business is transferred from the transferor to the successor. In family business succession, the successor is usually a close relative of the transferor. Succession may occur during the transferor's lifetime or after his death. The process of succession is long-term, multi-staged and systematic, so it is good to prepare for three to five years for the process. Time is also determined according to the procedures used in the succession. In some cases a certain period of time may be valid to obtain some possible tax reliefs which will extend the process. The key elements of a successful succession is the planning time and setting the right price for the business. When the successor is from the same family there are a variety of tax reliefs that can be used. The most common options to transfer the company to the next generation are trade at a current price, gift-off trade at maximum of 75% and at maximum of 51% of the current price or a gratuitous transfer; a gift. In principle, the exchange method is not the most important feature in succession but the fact that the business is transferred as viable to proceed. (Immonen & Lindgren 2013) How to determine the value of the company and different ways of transferring assets in succession will be looked into.

3.1 Determining the Value of a Limited Liability Company

Private companies do not have a market value that directly defines the company's value, unlike the publicly listed companies. Private limited company is generally valued from two viewpoints. The first one is called the *net asset value* which defines the value of the company at the present moment. The net asset value is simply the difference between the company's assets and liabilities. The second alternative to evaluate the company is to determine its ability to generate revenue in the future. The second figure is called the *return value*. Calculating the net asset value and the return value will allow the company to determine quite accurately the *fair value* also. However, at the end the final price is agreed between the seller and buyer in negotiations. In case of succession the company acquisition includes also other factors that cannot be measured in money, such as the continuity of the

transferor's life's work, retaining the company in the family and securing the children's future. (Heinonen 2005; Verohallinto 2013 a)

3.1.1 The Net Asset Value

The net asset value is determined by reducing the company's liabilities from its assets. A limited liability company's assets and liabilities include all sources of income, which belong to the assets and liabilities of business activities. The last approved *balance sheet* is used in the calculations. In case the company's debt is greater than its assets the net asset value is zero. (Leppiniemi & Leppiniemi 2012; Verohallinto 2013 a)

3.1.2 The Return Value

Usage of the return value when evaluating a company's price is commonly used in cases of mergers, acquisitions and as well in successions. In practice, the return value is determined by the future revenue streams and the buyer has to check how much the company is resulting for the shareholders. *Financial Statements* have stabilized their position in determining the return value due to their ability to verify the made tax solutions. When determining the average return value generally used three to four previous *Income Statements* which have been prepared according to the accounting laws and regulations are used. After the calculation the average is capitalized with a 15% interest rate. (Leppiniemi & Leppiniemi 2012; Verohallinto 2013 a)

3.1.3 Fair Value

The fair value means the probable transfer price. In a limited liability company the basis of the valuation is primarily the previously paid price of the shares. This is called the *comparison transfer*. In a comparison transfer for example, that part of the shares may be overpaid to achieve decision-making power should be taken into consideration. In this case, the fair value of some shares may be distorted, because usually the demand and the price will fall. If the company's share value cannot be determined based on the comparison transfer, the current value is calculated using the net asset value and the return value. The result will be illustrative

fair value. The method of calculation is schematic, which does not take into account the specific characteristics of the company and its operating environment. When the return value is greater than the net asset value, the fair value is calculated as the average of both values. When the net asset value is greater or equal than the return value, the fair value is equal to the net asset value. (Verohallinto 2013 a)

3.2 Different Ways of Transferring Assets in Succession

Succession can be implemented in various methods of trading. The most common methods of acquisitions are *share trade*, *business activities trade* and *gift-off trade*. Share trade and business activities trade are common when selling the company to an outside buyer, which is not a relative to the seller. This is because in the case the compensation is desired to be as large as possible. Gift-off trading is used in particular between relatives since usually the donator is willing to hand over the business below the market price. (Juusela & Tuominen 2013)

3.2.1 Share Trade

The company acquisition, which is better known in a limited company as share trade, refers to an arrangement in which the seller is selling his shares to the next owner against agreed compensation paid by the buyer. In theory, the share trade can be agreed to verbally; however, a common policy is to make a written agreement of it. (Immonen & Lindgren 2013)

3.2.2 Business Activities Trade

Business activities trade, also known as the acquisition of the net asset trade, means an arrangement in which a company sells all or part of its operations such as real estate, machinery or exchange of the property. Arranging financing is much easier in business activities trades than in the share trade, due the fact that the purchased property may be used as a security deposit for the possible out-sourced funding. (Lakari & Engblom 2012)

3.2.3 Gift-off Trade

Gift-off trade means a trade in which the transferor sells the ownership in lesser than the fair value. Gift-off trades are more common in family business succession, due the ability to use a variety of reliefs to reduce the taxation. According to inheritance and gift taxations, the given discount to the successor is considered as gift and taxed as a gift if the purchase price does not exceed 75% of the fair value. (Lakari & Engblom 2012)

3.3 Succession by Gift, Pre-heritance and Gift of Favor

Ownership can also be transferred to the successor in family business succession by gift, pre-heritance and as a gift of favor. The difference between these three will be explained in the following subchapters. (Immonen & Lindgren 2013)

3.3.1 Gift

An arrangement, in which both the wealth of the giver of the gift decreases and the wealth of the beneficiary increases significantly without any compensation is regarded as a general characteristic of a gift. The tax legislations regulation refines that the purchase price should not be more than 75% of the fair value. Consequently, the difference between fair value and compensation is regarded as gift. (Immonen & Lindgren 2013)

3.3.2 Pre-heritance

Pre-heritance means the properties that the donator of the heritage gives while still alive. Regarding to its nature and taxation, a pre-heritance is always seen as a gift and taxed by gift taxation. The donator of the pre-heritance can determine the recipients that receive pre-heritance, which does not have to be the nearest inheritor as long as the inheritor is entitled for heritage. Pre-heritance can be given without any compensation, in which case it is considered a gift. Furthermore, the pre-heritance can be given as a gift-off trade, where the inheritor will pay some compensation for the gift. (Lakari & Engblom 2012)

3.3.3 Gift of Favor

The gift of favor naturally refers to a gift, where the donator favors the recipient. In case it can be prove that the donator has favored a certain recipient a calculated increase can be made at the actual dividing of the heritage. For example, a typical gift of favor could be an arrangement in which the donator hands over property to only one of the children and determines that it will not be taken into consideration as pre-heritage. In such cases, it may be assumed that the donator has favored one recipient at the expense of the others. Characteristically, the gift of favor can be either a gift or a gift-off trade. (Lakari & Engblom 2012)

4 TAXATION IN SUCCESSION

Due to their individuality, each company is taxed in a different way when dealing with succession. Typically, the change in taxes can be in income tax, inheritance and gift tax, transfer tax or value added tax. Tax penalties may be applied to the transferor, to the successor, or to the company. Choosing the method of transferring assets during the transitional period may affect taxation. In income, inheritance and gift tax laws there are different tax relief opportunities for the successor and for the transferor. In particular, within the family arrangements there are relief regulations, which can be used to minimize taxation. (Juusela & Tuominen, 2013; Verohallinto 2013 b)

4.1 Taxation When the Purchase Price Is Over 75% of the Fair Value

Primarily in share trades the transferor is taxed and the tax is determined on the basis of capital gain amounts. The resulting profit is taxed as capital income. With the family arrangements various reductions can be achieved even to extent of a complete tax exemption. When the seller is a natural person the regulations of capital gain taxation are used. Capital gains are taxed as capital income and the tax rate is 30% until 40 000 euros is reached. The surplus portion is taxed with 32% tax rate. For example, if someone receives 60.000€ capital income the amount of the tax will be $30\% * 40.000 + 32\% * 20.000 = 18.400\text{€}$. When the output result in capital is losses to the seller, one can reduce the losses from capital gains within the first and next three tax years. The transfer price can be reduced by 40% if the seller has owned the shares for more than ten years. Less than ten years of owning the shares can reduce the price only by 20%. The presumed acquisition is usually used when the actual acquisition cost is less than 20 or 40 percent. The only tax penalty that applies to the successor is the transfer tax which is 1.6% of the purchase price. (Juusela & Tuominen 2013; Verohallinto 2013 b)

4.2 Income Tax Reliefs

When the owner of the company has owned the shares for long enough and will give up a enough shares to a sufficiently close relative, it is possible that the entire

capital gain is tax-exempted. The conditions are defined below and all of them have to be fulfilled in order to obtain the full tax-exemption:

- The seller must have owned the released shares more than 10 years. In addition, if the seller has been holding the shares less than 10 years but the seller has inherited the shares with no compensation, the holding period of the previous owner will be added.
- The transfer of the shares should be more than 10 per cent of the company's share capital.
- The transferee should be the transferor's child, the child's heir, sibling or half sibling. Also the spouses of the seller's children can be transferees along with the children.

Income tax relief will be lost if the successor abandons his shares obtained from the succession in less than five years. (Lakari & Engblom 2012; Verohallinto 2013 b)

4.3 Taxation in Business Activities Trades

In business activities trades, the taxation is targeted to the company that sells its property. The sale of fixed assets is a normal business transaction which is recognized as an income transfer price basis. The company has the right to reduce the remaining acquisition costs as expenses of the sales year. Transfer tax is paid when the transaction concerns Finnish securities or real estate. The transfer tax for securities is 1.6%, for housing and real estate shares 2% and 4% for the donation of real estate. The tax calculation is based on the purchase price or the value of other compensations. The buyer is responsible for paying the tax unless the parties have agreed otherwise. Also, transfer tax does not have to be paid from gratuitous assets. (Verohallinto 2013 b; Immonen & Lindgren 2013)

4.4 Gratuitous Transfer

Gratuitous transfer can be received e.g. from inheritance, testament or as a gift and it will be taxed by inheritance and gift tax regulations. When transferring property through testament or heritage, the regulations of inheritance tax will be

applied. A completely gratuitous gift will be taxed using the gift tax regulations. (Juusela & Tuominen 2013; Verohallinto 2013 b)

4.4.1 Gift Taxation

A gift tax is carried out when the assets change hands with no compensation. The recipient or the donor must be a resident of Finland and at least 50% of the property amount must be in Finland. Gifts that amount to less than 4.000 euros and will be only for the recipient's personal use, are tax-free. The recipient of the gift is responsible for possible gift taxation. Beneficiaries are divided into two different tax brackets:

- The spouse, relatives in the ascending or descending line, the heir of the spouse in the descending line and the fiancé of the transferor.
- Other relatives and guests. (Lakari & Engblom 2012)

4.4.2 Taxation of Property Transfer through Heritage

Inheritance tax is paid on the property changes through inheritance or testament. Family relations and the amount of inheritance given determine the value of the inheritance tax. Family relations divide relatives into two different tax brackets. (Lakari & Engblom 2012)

- Children and their heirs, spouses, spouse's children and their heirs, parents, grandparents and common-law spouse. In addition, the common-law spouse must have a child with the transferor or they must have been married previously. Of course, the unmarried partner is entitled for inheritance if the testament's prescription states so.
- All the others, such as siblings. Also, the unmarried partner is in the second bracket, if the conditions mentioned above are not met.

The spouse and a minor heir of the transferor are entitled for the tax reliefs. The minor's reduction is 40000 euros and the spouse's reduction is 60.000 euros. (Lakari & Engblom 2012)

4.4.3 Taxation of Gift-Off Trade

Gift-off trade transaction refers to the transfer where the purchase price is less than the fair value. Gift-off trades are combinations of gifts and share trades in which the pricing deviation determines the taxes to be paid. An underpriced purchase will result to income tax paid by the seller and possibly to gift tax paid by the buyer. When the agreed compensation is no more than 75% of the fair value the buyer is obliged to pay the gift tax. The Finnish Income Tax Act contains a specific provision according to which the transfer is divided to compensational and gratuitous parts when the purchase price is at the most 75% of the fair value. (Immonen & Lindgren 2013)

In principle, the transferee is obligated to pay a gift tax when the purchase price is at the most 75% of the fair value. Gift is determined by the difference between the fair value and the purchase price. In this case, the transferee will pay a transfer tax, which is determined from the actual sales price. A gift tax regulation does not concern the gifts which are under 4.000 euros and will go to personal usage of the transferee. (Juusela & Tuominen 2013; Verohallinto 2013 b)

4.5 Reliefs of Inheritance and Gift Taxation

Inheritance and gift tax relief provisions have been created with a view of ensuring the continuation of the business during and after succession. Inheritance and gift taxes can be relieved partially or even completely. According to inheritance and gift taxation articles 55-57§ the following conditions have to be met in order for the taxpayer to be entitled to the tax reliefs. (Juusela & Tuominen 2013)

1. The transferred property is a farm, a business or part of them and the transferred assets must be at least 10% of the whole property.
2. The transferee must continue the operations by being a part of the company's management. In addition, the transferee must be a member of the BOD (Board of Directors) or a CEO (Chief Executive Officer).
3. The amount of gift tax should be at least 850 euros.

4. The taxpayer submits a request for relief before taxation delivery.

The points above justify the partial rebate, but it is also possible to get a full tax exemption for the gift tax. According to the Finnish Inheritance and Gift Tax Act, the full exemption can be achieved if a transfer is partially compensated. Therefore the compensation should correspond to more than 50% of the fair value. Inheritance and gift tax reliefs will be lost if the transferee of the gift hands over the majority of the received shares within the next five years. The tax reliefs must be paid back at the time the transferee has given up more than 50% of the received shares. In practice, the transferee will have to pay the reduced amount increased by 20%. The tax relief does not have to be repaid if the company runs out of business due bankruptcy, a forced sale, marginalization, expropriation, death, illness or something else comparable to those causes. (Juusela & Tuominen 2013)

4.6 The Impact of Tenure and Yield Rights to Taxation

The transferor of the gift may reserve the right to manage the gift. Suspension of the rights also reduces the payable gift tax. The transferor takes over the cost of the assets, such as real estate taxes, but at the same time he gets the rights to property income. The transferor does not have to pay any remuneration to the new property owner. Tenure rights can be imposed for a certain period or for the rest of their lives. In this case, the gift taxations may be reduced since the tenure of the property has been limited. Tenure deduction is affected by the property's value, annual return of the property, the age of the transferor and the limitation time. If the tenure is reserved for life, it is calculated by multiplying the fair value with the return rate. The obtained annual return is then multiplied with the transferor's age bracket multiplier. In fixed-term tenure right, the annual return is multiplied with the amount of years in the fixed term. The tenure for fixed-term is capitalized to present value with eight percent of interest. However, the tenure is reserved to the lowest multiplier. Thus, when the multiplier from fixed-term is greater than the age multiplier, the age multiplier is used for determining the asset value. (Verohallinto 2014)

5 TAX CONSEQUENCES IN THE CASE COMPANY

The empirical study starts with determining the value of the case company and calculating the tax consequences of each asset transferring method explained in the theoretical study. The case company of the thesis is an accounting firm established in 2008. The company operated as a trade name for the first two years and then changed the form of business into Limited Liability Company in 2010. The company has been owned by the same person since the establishment and the ownership is planned to continue within the family. The expected successor of the company is the owner's son who has been working in the company since 2010.

5.1 Determining the Value of the Firm and Tax Consequences

The owner of the company holds 90% of the company's shares and the son holds the remaining ten percent. The selling prices of the shares were 25 euros per share. The amount of outstanding shares is 100. Dividing of the shares was done to ensure the purchase right of the remaining shares to stay in the family in case something happened to the current owner. This explains the minority of the amount per share. At the moment, the company employs only two people, the owner and the son. The company is forced to plan its future due the age of the current owner. The succession is planned to take place in five years when the owner has held the shares for ten years to minimize the occurring tax payments. The planning of the succession is carried out at very early stage to assist the situation if the acquisition needs to be done earlier than expected. The case company asked not to show its financial statements publicly. The following calculations are based on the figures given by the case company. The figures in every calculation are rounded to the nearest euro to make the understanding of the calculations clearer while still holding a relatively low error margin.

5.1.1 Determining the Value of the Company

As stated in chapter four: "In a limited liability company the basis of the valuation is primarily the previously paid price of the shares. This is called the *comparison transfer*." When the fair value cannot be determined in the basis of the compari-

son transfer the determination will be done according to the net asset value and the return value (Verohallinto 2013a).

When calculating the company's net asset value the liabilities are deducted from the assets. To calculate the net asset value of the case company the balance sheet values of the last confirmed financial statements from year 2013 are used. In the year 2013 the assets of the case company were **116.892** euros whereas both the short-term and long-term liabilities added together were **66.129** euros. The difference between the assets and liabilities is the net asset value of the company. In this case, the net asset value of 2013 was **50.763** euros (116.892 - 66.129).

The return value of a company is determined usually based on the results of the three or four previous confirmed income statements. The result values are added up and divided with the amount of results used which gives the average result value. Then the average is capitalized with a 15% interest rate. In the calculation for the case company the last three confirmed income statement from years 2011, 2012 and 2013 are used. The figures are in order **51.579€**, **46.095€** and **53.280€**. The amount of the result values added together is **150.954€** (51.579 + 46.095 + 53.280). By dividing the obtained result by three years the average annual return value is $150.954 / 3 = 50.318$. The return value is then calculated by capitalizing the average annual result value with 15% interest rate. In this case, the return value will be $50.318 / 0.15 = 335.453€$.

Finally the fair value of the company is calculated by using the net asset value and the return value determined above. The fair value of the case company is $(50.763 + 335.453) / 2 = 193.108€$. The fair value of a single share is calculated by dividing the fair value of the company with the number of outstanding shares. As stated in the preface of this chapter, there are one hundred outstanding shares in the case company. Thus, the fair value per share will be **1931€** (193.108 / 100).

5.1.2 Tax Consequences of Share Trade

The Finnish income tax legislation states that in share trade the possible capital gain of the seller will be taxed due it is recognized as capital income. The possible

capital gain is calculated by deducting the acquisition costs from the transfer price. Presumption of the acquisition cost is always deducted from the transfer price. The deduction is either at minimum of 20% or at maximum of 40%. The 40 percent deduction may be used when the transferor has owned the shares for at least ten years. (Verohallinto 2013b)

Table 1. Tax consequences of share trade.

Purchase Price	190 108 €	190 108 €	144 482 €	144 482 €
Acquisition Cost	(20%) 38 022 €	(40%) 76 043 €	(20%) 28 896 €	(40%) 57 793 €
Capital Gain	152 086 €	114 065 €	115 586 €	86 689 €
Transferor's taxes without reliefs	47 868 €	35 701 €	36 188 €	26 940 €
Transferor's taxes with reliefs	47 868 €	- €	36 188 €	- €
Beneficiary's transfer tax	3 042 €	3 042 €	2 312 €	2 312 €
Tax consequences in total	50 910 €	3 042 €	38 500 €	2 312 €

Table 1 illustrates the tax consequences in the case company for both to the transferor and to the successor. The first and third columns show the figures that would occur if the shares were sold before the ten year period was reached. In that case, the presumption of acquisition cost is calculated with 20% due to the fact that the real previous purchase price (25€/share) is lower than 20%. The transfer price in the first column is the fair value of the company and 76% in the third column.

The second and fourth columns of Table 1 illustrate the situation where the shares have been owned for at least ten years. The transfer price in the second column is the same as the fair value of the company and 76% of the fair value in the fourth

column. Thanks to the exceeded time period the presumption of the acquisition cost is 40% of the transfer price. The 76% is chosen to two of the columns as the borderline situation of the legislation. As the transfer price being more than 75% of the fair value the sale will not be considered as gift-off trade.

Without any reliefs the transferor will be taxed by the Finnish Income Tax Act. The income tax is 30% of the capital income up to 40.000€ and 32% of the surplus. The tax consequences without any reliefs are calculated in Table 1 in row four with the method given in this paragraph and earlier in chapter 4.

As also stated in chapter 4, the transferor might get a full tax exemption if all the required terms are met. In Table 1 “- €” figures illustrate the situation that the shares have been owned for over ten years, the beneficiary is a child of the transferor and the transferred amount is more than 10% of the company. Regarding to the case company all the terms are reached in 2020, when the owner has hold the shares for ten years, the successor is the transferor’s child and the number of transferred shares is 90%. When these terms are met the transferor gets a full tax exemption. In case the successor sells the company within five years, the previous tax exemption is lost and must be paid back.

Even when the previous terms are fulfilled the beneficiary still needs to pay the transfer tax to the government, which is 1.6% of the sales price. The lower the sales price the lower the amount of transfer tax as show in row six in Table 1. As can be seen from the “tax consequences in total” -row the tax reliefs have a great impact on the amount of tax to be paid. In case the company succeeds in waiting for five years and gets the tax reliefs before making the transfer, nearly 50.000 euros will be saved in taxes reliefs.

5.1.3 Tax Consequences of Gift-Off Trade

In a gift-off trade, the transfer price is divided into compensated and non-compensated portions. The non-compensated portion is considered as a gift to the beneficiary and the compensated portion is considered as capital gain for the transferor. The gift portion will be taxed by the gift tax regulations. As found out

when writing the theoretical study of the thesis the sale is considered as gift-off trade when the transfer price is 75% or less of the fair value. In gift-off trades, the gift part is calculated from the difference between the fair value and the transfer price. Compensated part is, of course, the value of transfer price.

The minimum value of a gift which will be taxed is 4.000€ and the gift tax for the case company is calculated according to Table 2, since the successor is the owner's son and belongs to the first tax class. The figures of Table 2 are used according to the alternatives in illustration in Table 3.

Table 2. Tax class I for gift tax (Verohallinto 2013).

The value of the taxable portion	Standard tax portion at the lower limit	Tax % of the surplus
4 000 - 17 000	100 €	7
17 000 - 50 000	1 010 €	10
50 000 - 200 000	4 310 €	13
200 000 - 1 000 000	23 810 €	16
1 000 000 -	151 810 €	19

Table 3 illustrates the alternatives that may occur in the case company's succession process. There are four possible alternatives and each of them has different results in tax consequences. There are two columns for both 75% and 51% of the fair value. The reason for having two alternatives for both percentages is the fact it is unsure whether the succession reliefs can be used or not. In the second and third column of Table 3 the transfer price is 75% of the company's fair value and the acquisition costs are calculated with 20% and 40% estimations. The comparison figure for the 75% columns is 51%. The 51% of the fair value alternatives have been chosen due the regulation of the Finnish Gift Tax Act which states that the successor has the right for full gift tax exemption if the following terms are met: the transfer is over 10% of the company, the successor will continue the operations of the company and the compensation is over 50% of the fair value. Even

if the company is able to use both of the reliefs the successor will still need to pay 1.6% transfer tax of the transfer price.

Table 3. Tax consequences of gift-off trade.

Transfer amount % from 190.108€	75 %	75 %	51 %	51 %
Acquisition cost %	20 %	40 %	20 %	40 %
Transfer price	142 581 €	142 581 €	96 955 €	96 955 €
Acquisition cost	38 022 €	76 043 €	38 022 €	76 043 €
Capital gain	104 559 €	66 538 €	58 933 €	20 912 €
Transferor's taxes without reliefs	32 659 €	20 492 €	18 059 €	6 274 €
Transferor's taxes with reliefs	32 659 €	- €	18 059 €	- €
Gift portion	47 527 €	47 527 €	93 153 €	93 153 €
Tax portion at lower limit	1 010 €	1 010 €	4 310 €	4 310 €
Tax % of the surplus	10 %	10 %	13 %	13 %
Tax of the surplus	3 053 €	3 053 €	5 610 €	5 610 €
Gift tax	4 063 €	4 063 €	9 920 €	9 920 €
Gift tax after reliefs	- €	- €	- €	- €
Transfer tax 1.6%	2 281 €	2 281 €	1 551 €	1 551 €
Tax consequences in total	34 940 €	2 281 €	19 610 €	1 551 €

As can be seen from the “tax consequences in total” -row the tax reliefs have a great impact on the amount of tax to be paid. In case the company is able to wait for five years to get the tax reliefs before making the transfer thousands of euros in tax reliefs will be saved.

5.1.4 Tax Consequences of Gratuitous Transfer

A company can be transferred to another with no compensation. The beneficiary of gratuitous transfer will be taxed by gift tax or inheritance tax regulations. The amount of tax is determined in the basis of the fair value of the company. In the case that no compensation is given, the beneficiary is not obliged to pay any transfer tax. When the transfer is non-compensated the beneficiary has the possibility to partial reliefs only. (Verohallinto 2013b).

Table 4 illustrates the possible tax consequences of the case company if the transfer was to be gratuitous.

Table 4. Tax consequences of gratuitous transfer.

	Gift Tax	Inheritance Tax	Succession value
Fair value of the transfer	190 108 €	190 108 €	76 043 €
Standard tax portion at the lower limit	4 310 €	3 500 €	4 310 €
Surplus	140 108 €	130 108 €	26 043 €
Tax % of the surplus	13	13	13
Tax amount of the surplus	18 214 €	16 914 €	3 386 €
Tax consequences in total	22 524 €	20 414 €	7 696 €

Both gift and inheritance taxes are determined by the first tax class since the successor is the owner’s son. The figures are based on the information given in Table 2 and Table 5.

Table 5. Tax class I for inheritance tax (Verohallinto 2013).

The value of the taxable portion	Standard tax portion at the lower limit	Tax % of the surplus
20 000 - 40 000	100 €	7
40 000 - 60 000	1 500 €	10
60 000 - 200 000	3 500 €	13
200 000 - 1 000 000	21 700 €	16
1 000 000 -	149 700 €	19

The beneficiary of the gratuitous transfer may request partial reliefs to the gift tax. In these cases, a *succession value* is calculated as 40% of the fair value of a share. The gift tax consequences after the partial reliefs are calculated also in Table 4.

5.1.5 Summary of Tax Consequences

Table 6 shows together all the tax consequences from different alternatives, which are again first divided into transferor's and successor's portions and finally the alternatives tax consequences in total. Table 6 is compiled to make it easier for the case company to compare the difference between succession alternatives.

The tax consequences have been calculated by both with tax reliefs and without them to emphasize the huge difference the reliefs make in the taxation of succession. It can be stated that the lowest tax consequences occur when the compensation is more than 50% of the fair value and at the most 75% of the fair value. The cases between these percentages are called gift-off trades.

For the case company the gift-off trade is the best alternative for implementation due to the fact that the tax consequences are the lowest and still the transferor gets at least a reasonable compensation for the transferred shares. In addition, the difference is relevant whether the tax reliefs can be taken into consideration or not.

Table 6. Summary of tax consequences.

	Transferor's tax consequences	Successor's tax consequences	Tax consequences in total
Share trade (100%) with reliefs	- €	3 042 €	3 042 €
Share trade (100%) without reliefs	47 868 €	3 042 €	50 910 €
Share trade (76%) with reliefs	- €	2 312 €	2 312 €
Share trade (76%) without reliefs	36 188 €	2 312 €	38 500 €
Gift-off trade (75%) with reliefs	- €	2 281 €	2 281 €
Gift-off trade (75%) without reliefs	32 659 €	2 281 €	34 940 €
Gift-off trade (51%) with reliefs	- €	1 551 €	1 551 €
Gift-off trade (51%) without reliefs	18 059 €	1 551 €	19 610 €
Gratuitous transfer (gift)	- €	22 524 €	22 524 €
Gratuitous transfer (inheritance)	- €	20 414 €	20 414 €
Gratuitous transfer (succession value)	- €	7 696 €	7 696 €

6 EMPIRICAL ANALYSIS AND FINDINGS

This chapter of the thesis presents first the research methodology followed by the introduction of validity and reliability of the study. Before giving the final conclusions and suggestions for the case company in chapter 7, the results of the quantitative and qualitative researches are explained thoroughly.

6.1 Research Methodology

To make the succession more understandable in a practical level, both qualitative and quantitative studies were carried out separately. At the moment the case company is offering only bookkeeping so both of the research methods are meant to enlighten the current situation as well as the future of the case company in terms of potential development areas. The following findings will reinforce the succession planning process as a backup for the computational calculations.

For the quantitative research, an electronic questionnaire was developed and the link to the survey was delivered to the customers of the case company via email. The email was sent to 31 customers of whom 23 answered the survey. The aim was to get at least twenty responses. This was exceeded by three responses. The research was conducted between the 26th and 30th of January 2015. The questionnaire was written in Finnish since all the customers of the case company are local Finnish speaking natives. The questions and answering alternatives are translated into English and can be found from Appendix 2.

For the qualitative research six face-to-face interviews were completed; one with the current owner of the case company and five with the current customer companies of the case company. The questions asked from the customers aimed to back up the online questionnaire and to add deeper findings to some of the questions in the survey. A personalized interview with the current owner was held to open up the succession process planning, which they had already been started on some level. The conversations were held in Finnish as well due to the respondents' backgrounds. The conversations were held in the premises of the case company and in the premises of the customer companies' between the 2nd and 4th of Febru-

ary 2015. The lists of questions translated into English can be found from Appendix 1.

6.2 Validity and Reliability

The validity and reliability are discussed in the next two subchapters to give the reader an overview on how these issues have been taken into account in the empirical study.

6.2.1 Validity

The aim of confirming the validity of the research is to find out how well the research is measuring the exact things it is supposed to measure, in other words does the explanation match with the description (Hirsjärvi, Remes and Sajavaara 2009).

To ensure the validity of the research, the respondents were given comprehensive background information of the project in the email, in which the link to the electronic survey located. Also, before the survey was published and the customer interviews were held, the questionnaire and interview form were checked with two external persons and the current owner of the case company. The interview for the owner of the case company was then again checked with two external persons. They were asked to go through the material and present comments if something was unclear in the materials. They presented some comments concerning for instance, the structure of the questions as well as the response options. Based on these comments, improvements were made to the mentioned matters and no complaints of any kind were received from the respondents of the survey and interviews.

The results of the survey and interviews illustrate that the usage of methods and the replies of respondents correspond to the aimed valid outcome of the research. In relation to these facts, the criteria of validity can be claimed to be fulfilled.

6.2.2 Reliability

The reliability, in other words the repeatability of the research should be evaluated with the aim of avoiding mistakes that could compromise the reliability of the research project. Reliability can be evaluated and confirmed for example by reaching the same respondent two different times and getting the same response at both times. (Hirsjärvi et al. 2009)

Regarding this study, it can be noticed that majority (74%) of the customer companies gave response to the questionnaire and when asked similar, though deeper questions in the five customer interviews, the responses gave even more profound confirmation to the results of the questionnaire.

Consequently, if the questionnaire or interviews were repeated within the same conditions, the results would most likely to be similar, which confirms the reliability of this study.

6.3 Analysis of the Electronic Survey

The questionnaire starts with four questions collecting basic information on the respondents, namely is the respondent the owner or an employee of the company, how long has the company been operating, does the company have any employees and does the company have any invoiced customers.

As stated before, there were altogether 23 respondents. Nearly 90% of the respondents were the owners of the customer companies, and only three of the respondents were employees of the customer companies. Since some of the questions were quite profound this fact gives an impression that the results of the questionnaire present reliably the opinions and views of the companies.

As can be seen from Figure 11, the majority (~39%) of the customer companies have been operating for over ten years, whereas only three of the companies have been established during the last two years.

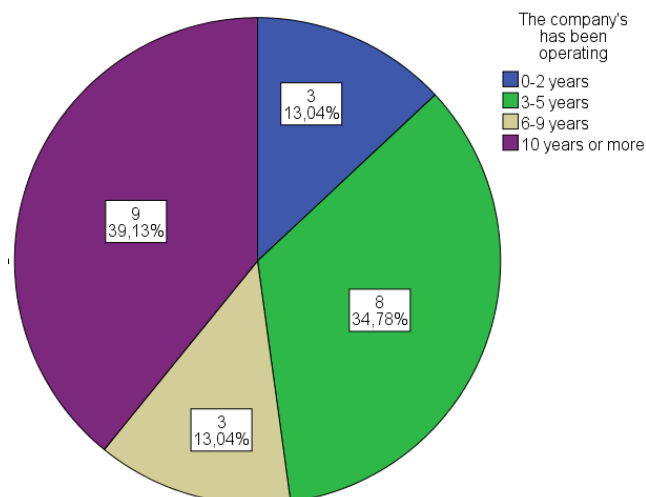


Figure 11. Operating years at the customer companies.

Following the basic information questions in the survey the respondents were asked how possible they see the wage calculations and invoicing to be made by the accounting firm in the future. As Table 7 shows one of the respondents did not answer to the question about the wage calculations.

Table 7. Employees and payroll calculations in the future.

Has the company any employees? * Accounting agency's possibility to handle the wage calculations in the future? Crosstabulation

Count

		Accounting agency's possibility to handle the wage calculations in the future?				Total
		Very possible	Possible	Not very possible	Impossible	
Has the company any employees?	No	4	4	1	2	11
	Yes	6	1	4	0	11
Total		10	5	5	2	22

Seven of the eleven respondents that declared to have employees in the company, saw it as possible or very possible for the accounting firm to work the payroll calculations in the future. Even more positive outcome was that eight of the respondents who did not have any employees in the company answered that it is possible or very possible that the accounting firm could process the payroll calculations in the future. This tells the case company that some growth in the customer companies can be expected, which means the possibility of growing revenues for the case company.

The next question concerned the company's current billing customers and the billing in the future see Table 8.

Table 8. Billing customers and invoicing in the future.

Has the company any invoicing customers? * Accounting agency's possibility to handle the invoicing in the future? Crosstabulation

Count

		Accounting agency's possibility to handle the invoicing in the future?				Total
		Very Possible	Possible	Not very possible	Impossible	
Has the company any invoicing customers?	No	1	1	1	2	5
	Yes	2	5	9	2	18
Total		3	6	10	4	23

Seven of the 23 respondents argued that it is possible or very possible for the accounting firm to process the billing in the future. In addition, 18 of the 23 respondents declared that their company has invoicing customers. Also, two of the respondents marked either possible or very possible response to the question even though they do not have any invoicing customers at this point, which demonstrate that if they will have billing customers the accounting firm could work the invoicing of the customer company.

The next group of questions in the survey considered the attitudes towards succession. It was asked whether the word succession brings positive, negative or neutral feelings to the respondents. It was promising to find out that none of the respondents stated that the word succession brought negative feelings to them. Figure 12 illustrates the responses given to questions and whether the respondent had any previous experience of succession and the thoughts towards keeping the companies in the family.

As can be seen from the clustered bar chart in Figure 12, only five of the 23 respondents had previous experience of succession and all of them found it either a good or a very good thing to keep the company in the family. One of the respondents found it not very good thing to keep the company in the family, but no one answered the alternative: "Not good at all". The rest of the respondents found the matter as a good or a very good thing.

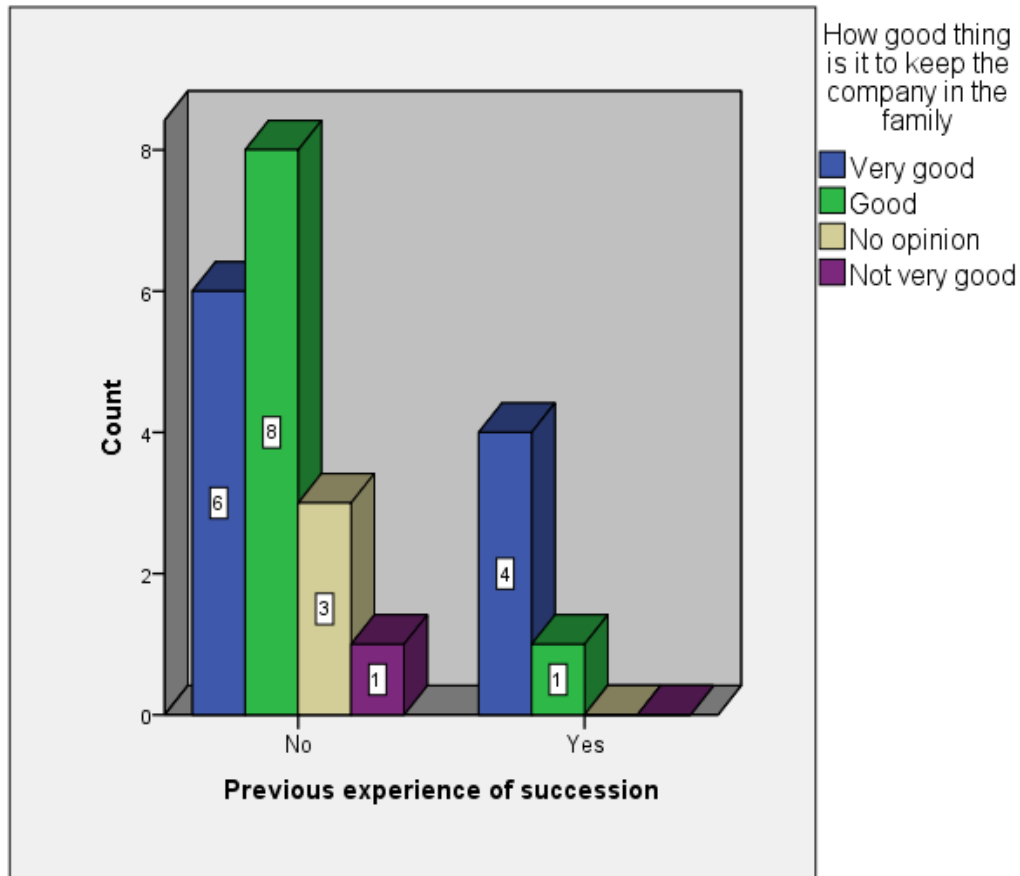


Figure 12. Experience and attitudes towards succession.

After the section of succession questions the questionnaire focuses on the future and development of the customer companies. The first question of the new section was the belief of the years that the customer company will operate in the future. As Figure 13 shows, only four respondents had no idea on the future continuity of the company, which leaves the majority (19 out of 23) to have at least some view or goals for the future. Figure 13 compares the companies clustered by the number of years the company has been operating previously. The bar chart shows that the companies that have been operating only for three to five years are the most opportunistic group considering the length of the future operations with six “10 years or more” –responses. In addition, also two thirds (six out of nine) of the companies that have been operating for over ten years already have quite an ambitious view with the response of ten or more operating years to come. Furthermore, 70% (16 out of 23) of the customer companies believe in operating for over ten years in the future.

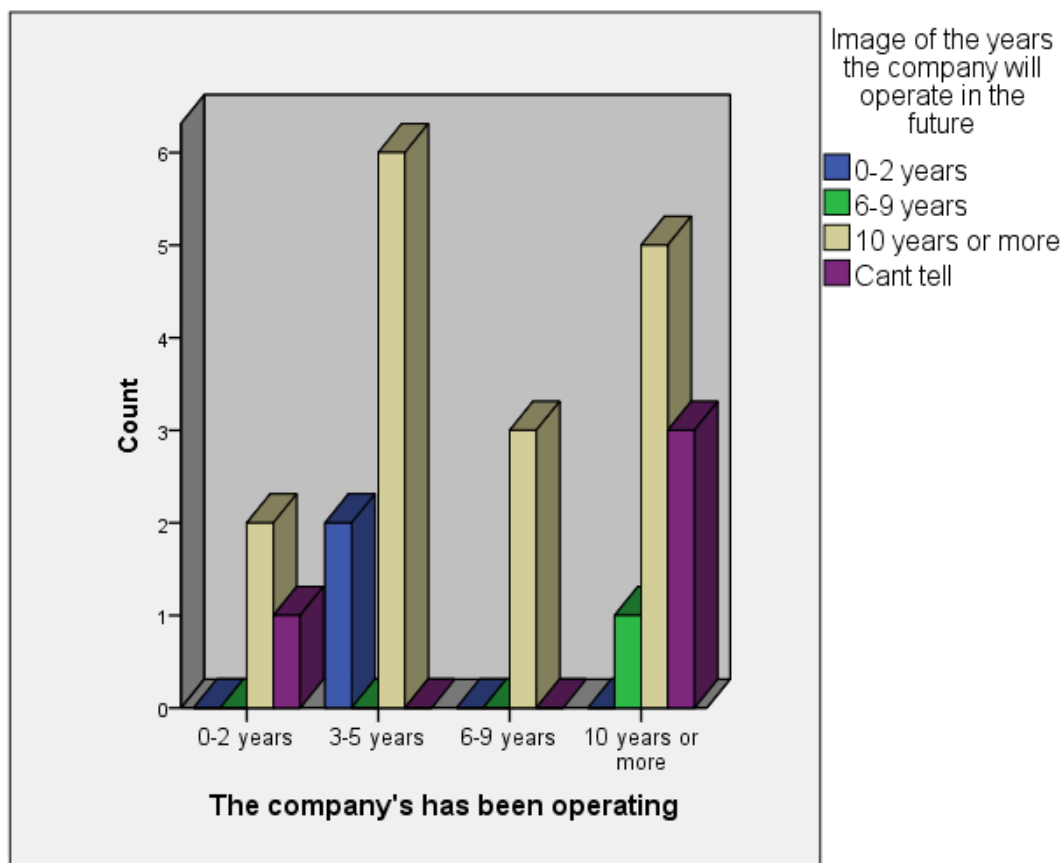


Figure 13. The previous and future operating years of the studied companies.

Next the respondents were asked how they expect their company to develop during the next five years. The answers can be seen from Table 9.

Table 9. Expected development within the next five years.

Company's expected development within the next five years					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Growth	13	56,5	56,5	56,5
	Stable	9	39,1	39,1	95,7
	Cant tell	1	4,3	4,3	100,0
	Total	23	100,0	100,0	

The question had five alternatives to choose from: Fast growth, growth, stable, shrinking and cannot tell, of which only three options were chosen by the re-

spondents. Over half (13 out of 23) of the companies expects some growth within the next five years and none of the companies are expecting to shrink, which is quite positive. These facts back up the theory concluded in Table 7 that growth can be expected in some of the customer companies, which means the possibility of growing revenues in the case company.

The next two questions were whether the customer company has foreign cooperation or not and how possible they see having foreign cooperatives in the future. Table 10 demonstrates that four of the companies that have currently no foreign cooperation have a view that they possibly might have some foreign customers in the future.

In addition, also companies that already have foreign cooperation responded that they will possibly or very possibly continue having these cooperation's. A fact that cannot be seen from Table 10 is that one of the respondents who declared to have no foreign cooperation did not answer the question about foreign future cooperatives.

Table 10. Foreign associates.

The company has foreign associates ^ Image of having foreign associates in the future Crosstabulation

Count		Image of having foreign associates in the future				Total
		Very possible	Possible	Not very possible	Impossible	
The company has foreign associates	No	0	4	6	8	18
	Yes	3	1	0	0	4
Total		3	5	6	8	22

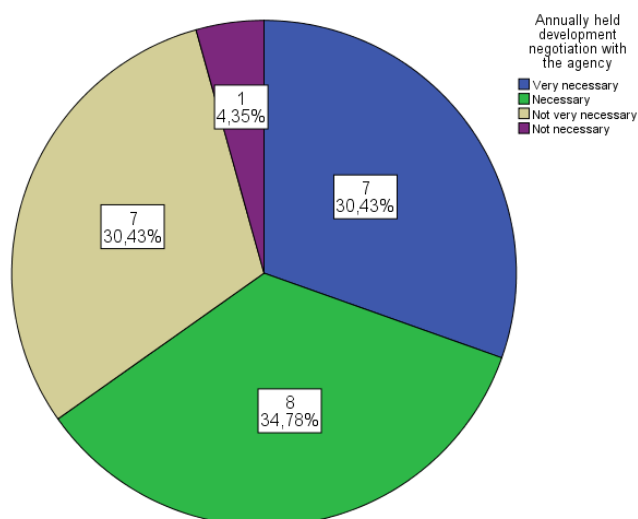
The respondents that claimed to have foreign associates were asked to choose from four alternatives to specify what kind of cooperation they have. The options were: buyers, suppliers, subsidiaries and others. A strong positive correlation (1.0) can be found in Table 11 between the responses of having foreign cooperation and the "suppliers" as a cooperation -alternative.

Table 11. Foreign associates correlation.

Correlations			
		The company has foreign associates	Suppliers
The company has foreign associates	Pearson Correlation	1	1,000**
	Sig. (2-tailed)		,000
	N	23	23
Suppliers	Pearson Correlation	1,000**	1
	Sig. (2-tailed)	,000	
	N	23	23

A correlation of 1.0 means that all the companies that declared of having foreign cooperatives also chose the suppliers as cooperation partners, so none of the other alternatives were selected from the offered alternatives.

The last question group consisted of three questions: how necessary the respondents see an annual development discussion with the accounting firm, open word suggestions for possible development discussions and open word feedback to develop the accounting firm's operations from the customer's point of view. The last two were free choice questions. Figure 14 illustrates that over 65% of the respondents considered a possible development negotiation to be necessary or very necessary.

**Figure 14.** Annually held development negotiation.

In addition, seven open word answers were given as suggestions to the previous question for the possible topics of a development discussion. The open word responses were:

- The company form options, development of the company and tips from the accountant.
- The company's results and overall situation as well as the possible corrections to achieving better results.
- Financial planning of the next financial year, how to predict the needed amount of billing customers in order to withdraw a certain salary.
- Comparing the previous financial years and legislation.
- Economic overview and different options in company forms
- The overall view of the economy
- The accountant's vision of how to improve the cost structure to a more positive direction.

A conclusion can be drawn that there are customer companies that would need this kind of development discussions and a variety of topics were given by respondents which will help the case company in planning these negotiations in the future.

The last open word feedback question seemed to give positive feedback for the case company with no improvement suggestions. Only four open word answers were given by the respondents:

- I don't know how to answer.
- Under these conditions, everything is working perfectly well.
- A good and competent service. Active approach to variety of things - not stalled, but renewable activities.
- Everything is okay.

Very comprehensive conclusions cannot be drawn based on these open word suggestions, due the fact that it cannot be said whether the ones that did not answer

anything thought that everything is in order or not. Thus, at least negative feedback was not openly given.

6.4 Results of the Interview Analysis

Quantitative research was conducted with a help of five customer companies from different industries and with the current owner of the Accounting Firm Ltd. Further information of the customer companies will not be published due to the wishes of the respondents. First the compiled answers of the customer interviews are presented and after that the analysis will examine the thoughts of the current owner of the case company. Both interview templates are translated into English and can be found from Appendix 1.

6.4.1 Customer Companies

The first part of the discussion with the customer companies dealt with the current and future situations considering their workforce, followed by a question about payroll calculations. Two of the five companies had no employees in the company besides themselves as the owner and two companies had between ten and twenty employees. The remaining customer company stated to have two entrepreneurs and two employees in the company. Three of the respondents believed that their employment situation will stay on the same level in the future and two of the companies were expecting some growth in the workforce during the next couple of years. When asked about payroll calculations, positively three of the companies said straight away that the accounting firm could most likely handle the wage calculations in the future. One company did not expect to have any employees to calculate wages to and the remaining company had its own software to calculate the wages and stated: "It would probably take more time to send the needed information to the accountant than calculate them by myself".

Following the wage and employment questions the interview continued similarly to a topic concerning customer base and invoicing. One of the companies had only private people as customers due to its business activities as the rest had both private people and companies as their customers. In addition, one of the companies

had the municipality of their home town as their biggest customer. All of the companies are located and operating in the same town, however, four of them have customers around the region as well. Two of the respondents stated that they are expecting steady growth in the customer base in the near future. One of the respondents expected the development to be stable and the remaining two companies expected their operations to decrease to some extent. A more thorough discussion was held about the subject with the companies that expected the customer base to decline in the near future. They both had good and temporary explanations for the matter: the first one expected the decline in the customer base due the decreasing economic situation, but was still confident of having enough work to keep the workforce as it is and has been for twenty years. The other one stated that some of the services will end at least for a while since one of the two entrepreneurs will take some time off due personal reasons. All of the interviewed customer companies were aiming to hold the invoicing themselves due the complexity of invoicing and customers.

The third topic of the interview concerned the actual succession in the case company. The respondents were asked how they see the transformation and what they would like to maintain in the collaboration. All of the interviewed customer companies stated, in different words, that the succession will not be an obstacle as long as everything goes as professionally as it has been going so far. Two of the respondents said that the most important and valuable thing for them has been the ability to be given professional advice in variety of matters regardless of what time of the day it has been. The stated fact is part of customer knowledge and orientation, which the other companies also emphasized. Some of the respondents had previous experience of larger accounting agencies and they highlighted that trust and communication flow is in a way different and on a better level in smaller accounting firms. A comment regarding the topic was made by one of the respondents that in general level companies might see the succession of their accounting firm as a precarious matter. Uncertainty towards the succession might occur when the successor is young and has just finished his education which brings doubts on how professional he young person can be compared to the elders.

The fourth part of the interview concentrated on the future of the customer companies. The companies were asked to comment on the future of the company, some realistic goals and some optimistic visions. One of the respondents stated again that their operations will follow the general economic situation quite closely. Also one of the respondents concluded that the company has already stopped offering some services of the business earlier which came out to be a good thing and now the company employs only the owner and will continue to do so in the future. The rest of the companies were expecting their company to develop in the near future. One of them stated that they have been planning on revising their expertise to a wider entity. One of the three respondents that expected growth explained that in the field of the company's operations a large number of former entrepreneurs are reaching the retirement age in the near future and there are not many successors to continue their operations. The respondent sees this fact as a very positive and encouraging thing for the company's realistic future. Regarding the optimistic future one of the respondents was seeking a buyer to the company due to his age. Another one of the recipients was considering whether some of the heirs would like to continue the business after the retirement of the current owner or should the company find an outside buyer. The remaining three respondents wished to have reliable employees whom to give more responsibility in order to ease their own work load, however, they all still wanted to continue with the field work also themselves to some extent.

The last question of the interview aimed to gain some examples to the contents of possible development discussions. Similar answers were given as in the electronic survey earlier i.e. going through the financial statements, how to cut out some unnecessary cost, company form and changes in taxation. In addition, some new comments were also added. One respondent wanted to go through the changes in taxation that could affect the invoicing of the company, not only the tax percentages but also the possibility to increase prices due the rising of the index. Other new comments that occurred where: planning the budget with investments for the next financial year and effects of the high seasons on to the business.

Finally the respondents were asked whether they have anything else to comment and two comments were given by one of the respondents: “We see the coming succession as a positive thing because we know the current owner well and also the successor to some extent. Also, informing us at a very early stage gives a strong positive impact”, “The accountant can at any point without us asking give advising when something comes to mind, because the accountant usually focuses on different figures than us entrepreneurs”.

6.4.2 Current Owner of the Case Company

The second part of the qualitative research was an interview with the current owner of the case company. The interview was held on the fourth of February 2015 in the premises of the case company. The owner was asked a variety of questions during the discussion concerning the succession process planning.

First of all the owner was asked about the history of the company and she stated that the company has been operating from year 2008, first as a sole trader and then as a limited company since 2010. The respondent has owned the majority of the shares during the whole life-span of the company.

Then the respondent was asked why it is necessary to change owners in the company and how much of the ownership will be shifted. The results to these questions were that the current owner is reaching the retirement age and during the succession process it is likely that the ownership will be transferred partly to the successor. However, at some point the whole amount of shares will be shifted.

“To whom and when the succession is planned to happen”, was the next question. The current owner stated that the successor will most likely be her son who already owns ten percent of the company and has been working part-time in the company since 2010. Furthermore, the owner added that the succession is planned to take place in 2020 when she has owned the shares for ten years. In addition, the theoretical study and financial calculations were conducted before the interviews and presented to the owner, which gave her this goal to continue in charge for the next five years.

The next question was primed with a discussion based on the theory and financial calculations. The owner was asked: “How will the succession most likely take place?” The owner gave two options for the question: the successor will buy the rest of the shares either as a normal share purchase or as a gift-off trade.

Then the owner of the case company was asked have there already been any advance preparations made and what will still be prepared in advance. Factors that have already been prepared, are the share transfer of ten percent to the son to obtain the first right to purchase the rest of the share in case something happens to the current owner, as well as discussions concerning succession have been held between the founder and future successor. Current preparations that are in progress are the training of the successor to the job and also this case study will help the succession planning quite a lot, states the current owner.

The owner was asked what she will do after the succession. It could be seen from the owner that she had not put a lot of thought in this subject before. After a little silence the owner replied that she would like to maintain some kind of a role in the company, for example, as a counsellor or a reviewer.

The second last question to the current owner was: “What would you want the successor to keep in the company’s operations?”. The owner had the answer to this question clear in her mind when she stated that: maintenance of the long-term customer relationships, handling everything on time and most likely even in advance to leave some room for surprises and also that the customers are not served only during business hours. In addition, the respondent emphasized that all customers should be treated as individual human beings.

The last question of the interview presented to the current owner of the case company was whether she wanted to reveal any development ideas that she has had but has not executed yet. Due to personal reasons the owner has intentionally left undone some development ideas that she would want the successor to carry out even to some extent. Developing ideas which came out included an accounting firm with all the ledgers and different aspects of accounting, tax minimizing calculations for customer companies and finishing the digitalization process.

7 CONCLUSIONS

The aim of this study was to determine the implementation methods of succession in a private limited company as well as the tax consequences of these methods. The aim of the study was to reveal the best alternatives of implementing the succession in the case company both from the transferor's and successors point of views. The research raised quite a few examples for possible development ideas for the future operations, which will be given later in this chapter.

7.1 Summary of the Results

Succession and its taxation is an extensive subject, so the study was limited to succession where the successor is from the family and the succession is implemented during the transferor's lifetime. The study was also limited to keep the results and suggestions as simple as possible for the case company.

The theoretical part of the study is based on relevant literature, up-to-date legislation and the tax administration guidelines. However, some of the legislations and guidelines have already been changed as this study has been carried out. Because of this study begun in the year 2014 and some of the regulations changed at the beginning of 2015, it was agreed with the case company to use the figures and regulations from 2014. In addition, the succession will most likely take place after five years so the figures and percentages used in the study will change before the implementation. For this reason, the case company has been provided with the tables and calculations used in this study to make it easy for them to replace the old figures and calculate everything with new figures when the time comes. It remains to be seen how the legislative changes will impact on the succession of the case company in the future.

As an answer to the research questions the lowest tax consequences and the best alternative of implementation for both parties is the gift-off purchase, where the compensation of the transfer is more than 50%, and not more than 75% of the fair value. In this case, the transferor gets at least a reasonable compensation for the transferred shares and the tax consequences are the lowest possible for both par-

ties, to the transferor and to the successor. In addition, it cannot be emphasized enough that the implementation should not occur before the current owner has owned the shares for at least ten years. In case the company manages to postpone the implementation of succession until the year 2020, the tax reliefs can be taken into consideration and consequently, the transferor does not get any tax consequences, whereas the successor pays only the transfer tax. Furthermore, the successor will need to commit to the company for at least five years after the transformation for the parties to be able to enjoy the tax reliefs.

From the results of the qualitative and quantitative analysis it can be seen that the attitudes of customers of the case company are mainly positive towards the succession in operating accounting service provider and most of the customers see that Accounting Firm Ltd. has the skills to carry out even more matters related to bookkeeping such as the payroll calculations and invoicing in the future.

7.2 Suggestions for the Case Company

As mentioned before, there is no single solution for succession and it has been positive to realize during the process that the case company is very well on schedule regarding the succession planning. It is hoped that this thesis will help the planning process as well as the actual implementation in the future.

At one point the owner of the case company stated that she has not been trying to expand the company due to her age. However, she would like the successor to start developing the business in the future. From the study a variety of suggestions came out that the case company could take an advantage of in the future:

Some of the customers stated that it could be possible for the accounting service provider to process their wage calculations in the future. Consequently, further research could be conducted on how many employees the customers have and how often the payroll calculations need to be done.

Annually held development negotiations are needed. Therefore, the case company could send an open invitation to its customers via email to which they could respond and make a reservation for the negotiation.

It is useful to the companies to evaluate their business plan every once in a while and discuss whether some improvements and development plans could be added.

It would be a very remarkable benefit for both to the successor and to the transferor if they could postpone the succession implementation until the tax reliefs can be enjoyed. In addition, the successor would have more time to gain capital and explore different financing alternatives for the future transfer e.g. banks, investment supports and start-up grants. The improvement and development actions could also be taken into consideration while the current owner is still heavily involved in the operations.

Some further theoretical research could also be beneficial for the case company to conduct. For instance up-to-date regulations and legislations concerning succession should be examine at least at the time of the actual succession implementation. In addition, the customer company could perform a research where they compare how the company forms differ from each other and how differently they behave in succession. Furthermore, some additional literature related, for example, to modern family businesses and the development of SMEs could give further insight to the topic of succession.

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APPENDIX 1

CUSTOMER INTERVIEWS

1. Current employee situation, development of the employment and wage calculations.
2. Current customer base, development of the customer base and invoicing.
3. How do you see the family business succession in your accounting firm, and what would you want to be remained in the activities and cooperation's?
4. Customer companies future views, realistic goals and optimistic fantasies.
5. Contents of possible development negotiation.

CURRENT OWNER INTERVIEW

1. How long have the company been operating and how long have you owned the company?
2. Why is it necessary to change the owner?
3. How much will the ownership change, partly or all of it?
4. To whom will the ownership be transferred?
5. When the succession is planned to happen?
6. How will the succession most likely happen?
7. What kind of advance preparations will be done and what has already been done?
8. What are you planning to do after the succession?
9. What things would you like the successor to keep in the business after succession?
10. Do you have any development ideas for the company that has not been implemented?

APPENDIX 2

ONLINE QUESTIONNAIRE

1. Are you the owner or employee of the company?
 - Owner / Employee
2. How many years has your company been operating?
 - 0-2 years / 3-5 years / 6-9 years / 10 or more years
3. Does your company have any employees?
 - Yes / No
4. Does your company have invoicing customers?
 - Yes / No
5. How possible do you see that the accounting firm would handle your company's wage calculations in the future?
 - Very possible / Possible / Not very possible / Impossible
6. How possible do you see that the accounting firm would handle your company's invoicing in the future?
 - Very possible / Possible / Not very possible / Impossible
7. What kind of feelings the word "succession" brings to you?
 - Positive / Negative / Neutral
8. Do you have any previous experience of succession?
 - Yes / No
9. How good thing is it to keep a company in the family?
 - Very good / Good / No opinion / Not very good thing / Not good at all
10. How many years do you think your company will operate in the future?
 - 0-2 years / 3-5 years / 6-9 years / 10 or more years
11. How do you expect your company to developed within the next five years?

- Fast growth / Growth / Stable / Shrink / Can't tell

12. Does your company have any foreign cooperatives?

- Yes / No

13. If you answered yes, which of the following foreign cooperatives does your company have?

- Buyers / Suppliers / Subsidiaries / Others

14. How possible do you see that your company will have foreign cooperatives in the future?

- Very possible / Possible / Not very possible / Impossible

15. How necessary do you see annually held development negotiations with the accounting firm?

- Very necessary / Necessary / Not very necessary / Not necessary at all

16. What things should be included in the possible development negotiation?

- Open word

17. Open feedback to develop the accounting firms services from customer's point of view?

- Open word

APPENDIX 3

ONLINE QUESTIONNAIRE IN FINNISH

Tiltoimisto Oy - Lomakekysely

Kysely on tarkoitettu tilitoimiston asiakasyrityksille

Yleistä

Oletteko yrityksen

Kuinka monta vuotta yrityksenne on toiminut?

Onko yrityksellänne työntekijöitä?

Onko yrityksellänne laskutusasiakkaita?

Miten mahdollisena pidätte palkanlaskennan toteuttamista tilitoimiston toimesta tulevaisuudessa?

Hyvin mahdollisena Mahdollisena Ei kovin mahdollisena Ei ollenkaan mahdollisena

Miten mahdollisena pidätte laskituksen toteuttamista tilitoimiston toimesta tulevaisuudessa?

Hyvin mahdollisena Mahdollisena Ei kovin mahdollisena Ei ollenkaan mahdollisena

Sukupolvenvaihdoksella tarkoitetaan yritys- tai liiketoimintakauppaa, jossa omistajuus siirtyy yritystoiminnan jatkajalle suvun sisäisesti.

Minkälaisia tunteita sana "sukupolvenvaihdos" teissä herättää?

Positiivisia Negatiivisia Neutraaleja

Onko teillä henkilökohtaista kokemusta sukupolvenvaihdoksesta?

Kyllä Ei

Miten hyvänä asiana pidätte yritysten säilymistä suvun sisällä?

Erittäin hyvänä Hyvänä Ei mielihpidettä Ei kovin hyvänä Ei ollenkaan hyvänä

Maailman muutuessa myös yritysmaailma muuttuu jatkuvasti. Useat yritykset etsivät erilaisia vaihtoehtoja liiketoimintansa kehittämiseen. Seuraavat kysymykset keskittyvät tulevaisuuden näkymiin.

Kuinka monta vuotta arvelette yrityksenne toimivan tulevaisuudessa?

0-2 vuotta 3-5 vuotta 6-9 vuotta 10 vuotta tai yli En osaa sanoa

Miten arvioitte yrityksenne kehittyvän seuraavan viiden vuoden aikana?

Kasvaa nopeasti Kasvaa tasaisesti Pysyy samana Kutistuu En osaa sanoa

Onko yrityksellänne ulkomaisia yhteistyökumppaneita? (Ostajat, tavarantoimittajat, tytäryhtiöt yms.)

Kyllä Ei

Jos vastasitte kyllä, mitä seuraavista ulkomaisista yhteistyökumppaneista yrityksellänne on?

Ostajia Tytäryhtiöitä
 Tavarantoimittajia Muita

Miten mahdollisena näette, että yrityksellänne on (myös) tulevaisuudessa ulkomaisia yhteistyökumppaneita?

Hyvin mahdollisena Mahdollisena Ei kovin mahdollisena Ei ollenkaan mahdollisena

Käytössänne olevan tilitoimiston palvelut

Miten tarpeellisena pidätte vuosittaista kehitysneuvottelua asiakasyrityksen sekä tilitoimiston välillä? (Esim. edellinen tilikausi - tuleva tilikausi, muut yleiset asiat)

Hyvin tarpeellisena Tarpeellisena Ei kovin tarpeellisena Ei ollenkaan tarpeellisena

Mitä asioita haluaisitte mahdollisessa neuvottelussa käytävän läpi?

Vapaa sana yrityksen palveluiden kehittämiseen asiakkaan näkökulmasta.