TOTAL TAX CONTRIBUTION OF UK FAMILY BUSINESSES

A study prepared by PwC for the IFB Research Foundation to provide robust data on the tax contribution of family businesses to the public finances in the UK

ABOUT THE IFB RESEARCH FOUNDATION

The IFB Research Foundation was established as a registered charity in 2008 to foster greater knowledge and understanding of family firms and their contribution to the UK economy and society, as well as the key challenges and opportunities that they face. The Foundation is the only organisation uniquely focused on understanding the UK family business sector.

The results of our research have become the primary source of evidence on the impact of UK family companies and are relied upon by government, family businesses (as well as their advisers), academics and researchers to help underpin their decision-making.

ABOUT PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 155 countries with over 327,000 people who are committed to delivering quality in assurance, advisory and tax services.

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FOREWORD FROM THE IFB RESEARCH FOUNDATION

This latest report from the IFB Research Foundation presents new evidence on the contribution that the family-business sector makes to the UK's public finances– estimating the tax contributed to be £225bn in 2021. Employment taxes and VAT represent the largest proportion (80%) of all taxes contributed by the firms in our study. The previous assumptions used in the charity's family-business Sector Report were becoming increasingly outdated and this study was commissioned, with the assistance of PwC, to bring the estimated tax contribution of the UK's family firms up to date. The results certainly highlight the importance of family businesses to our economy and the Exchequer.

It is interesting to note that the overall proportion of tax contributed by family businesses is similar to other businesses although a comparatively higher value of the tax contribution relates to employment taxes. The importance many family firms placed on contributing to their local community by maintaining jobs, where they could, during the pandemic may be a contributing factor.

There is also some evidence here that providing employment and training to apprentices is an important way that family firms are contributing to the economy, with many of the family firms in this study making use of the UK's apprenticeship levy.

There is much to build on here. The Research Foundation is embarking on new research looking at the ESG performance and impact of family firms, of which taxation forms a part. Looking forwards, the learning from this study will assist us in producing more robust evidence on the overall economic impact of the UK's family businesses.

Sir Michael Bibby
Chairman, IFB Research Foundation

FOREWORD FROM PwC

It hasn’t been the easiest five-year period for any business operating on a global stage. In a period of “perma-crisis” customers, shareholders, government and the public turn to businesses in whom they have confidence.

A decade ago family businesses scored 20 points higher than non-family businesses on the Edelman Trust Barometer. And PwC's 11th Global Family Business Survey underlines the importance of this today, with 95 per cent of family business respondents saying that they need customers to have confidence in them.

We at PwC believe that in order to build confidence, family businesses need to prioritise the issues that matter most to the majority of today’s customers putting real emphasis on environmental, social and governance issues, including DEI (Diversity, Equity, Inclusion). In many cases family businesses are “walking the walk” but, given a natural inclination to maintain a low profile, fiercely protect their privacy and not flaunt their credentials, they are not perceived as “talking the talk”.

We believe that this report, as the first of its kind in relation to the family business sector, can go a long way to righting this balance for family business by providing robust data to raise the public profile of what family businesses contribute in taxes.

It is hard to ignore the stark statistics the report reveals including the estimated £225bn contribution by the family business sector as a whole to the UK public finances in 2021 (more than a quarter of UK Government receipts from all taxes) and that 41 per cent of the total value generated by family firms is distributed to their employees in wages. We hope that family firms can use this as a base to demonstrate to stakeholders, including government and the wider public, not only their "Environmental, Social and Governance (ESG)" credentials but the importance of their enduring legacy for future generations.

We at PwC act for family businesses in the UK, helping them from inception through growth to generational change and beyond into the legacy which often becomes a diversified family office for generations to come.

In an age where more than half the world’s population are millennials and gen Z, there is a need for family businesses to change the narrative and more vocally demonstrate these credentials in order to retain the very high levels of consumer confidence that they enjoy within the global economy.

Susannah Simpson
UK Private Client Leader

Andy Wiggins
Total Tax Contribution Leader

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We estimate that the family business sector as a whole made a contribution of around £225bn to the UK public finances in 2021

Comprising:

£74bn

in taxes borne, which are a cost to the business

£151bn

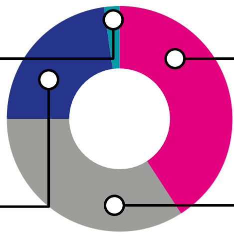
in taxes collected from employees and customers

This represents

27%

of government receipts from all taxes in the UK

The largest element of value distributed by family firms in the study is to employees in wages, followed by amounts paid to goverment in taxes showing the valuable contribution made by family firms through employment and to the Exchequer.



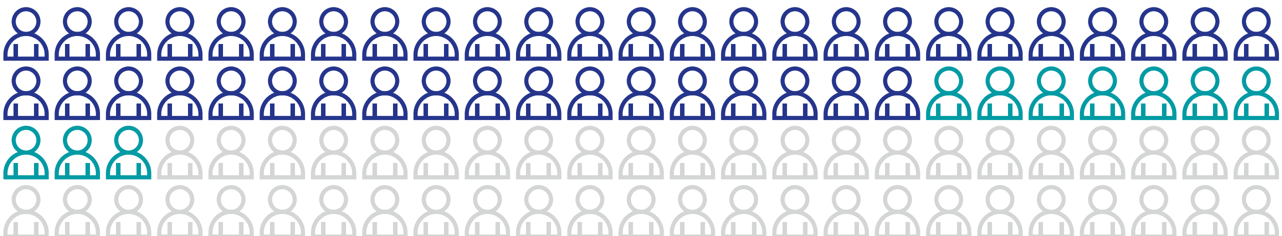
1.8% to lenders of finance

41.1% distributed by family firms to employees in wages

22.9% amount retained in the business for reinvestment and for distribution to shareholders

34.2% to government in taxes

The **greatest contribution** from study participants to the Exchequer is through employment taxes, **42.6 per cent** of the Total Tax Contribution. Corporation tax is **10.0 per cent** of the Total Tax Contribution.



For **every employee** in the study, an amount of

£11,468

is paid in employment taxes

Family businesses play a **valuable** role in **mentoring employees** through apprenticeships.

KEY FINDINGS

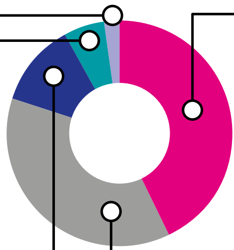
A range of family firms, by size and industry, provided data for the Total Tax Contribution study generating a rich bank of data. The **44 participating firms** provided data for, on average, **10 taxes**, **6.7 taxes borne** and **3.3 taxes collected**.

Taxes paid by study participants covered five tax bases, people, product, profit, property and planet taxes.

1.6%
Planet taxes

5.8%
Property taxes

12.6%
Profit taxes



42.6%
People taxes

37.4%
Product taxes

Compared to turnover and profit, the **taxation of family businesses** participating in the study is similar to large, **non-family owned** UK businesses

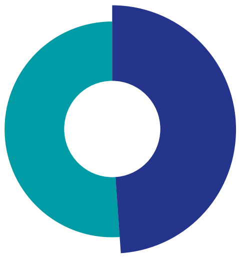
For every

£100

of turnover, family businesses in the study pay an average of

£18.50

in taxes borne and collected



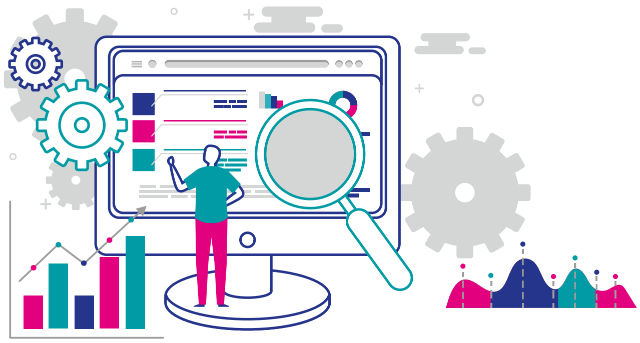
Taxes borne by family firms in the study amount to

48.9%

of profit before taxes borne

Participating family firms told us that they used **Total Tax Contribution data** with tax authorities and policy-makers, to discuss the full range of taxes they pay.

Some made a **public statement** of their Total Tax Contribution to highlight the **positive impact** of their business on the public finances.



1. INTRODUCTION

1. INTRODUCTION

There are limited data to inform the public tax debate on the contribution of family businesses in the UK. Corporation tax is the most visible tax when it comes to financial reporting and regulation, but many other business taxes are paid. The purpose of this study is to provide robust data, extracted by family businesses operating in the UK, regarding their contribution in taxes.

The study is intended to raise awareness and aid understanding of the tax contribution from the family business sector and inform policy decisions. With high UK inflation, the challenges posed by the conflict in Ukraine and the high levels of public spending during the COVID-19 pandemic (HM Treasury, 2023), policymakers are continuing to grapple with the stabilisation of the public finances. As the UK Government looks for additional tax revenue, it will be looking to different sectors to raise taxes, including the UK family business sector.

The contribution that a family firm makes through taxes, its Total Tax Contribution (TTC), is part of its sustainability message, and can enhance brand value. Many family businesses want to create an enduring legacy for future generations; they are concerned about the impact of their business on society and how to support their communities. Collecting robust data on all the taxes paid by family firms is an effective way of demonstrating the critical contribution that they make to the UK economy. Such data highlight the importance of family businesses to stakeholders including government, family business practitioners, students and researchers of family business, and the wider public.

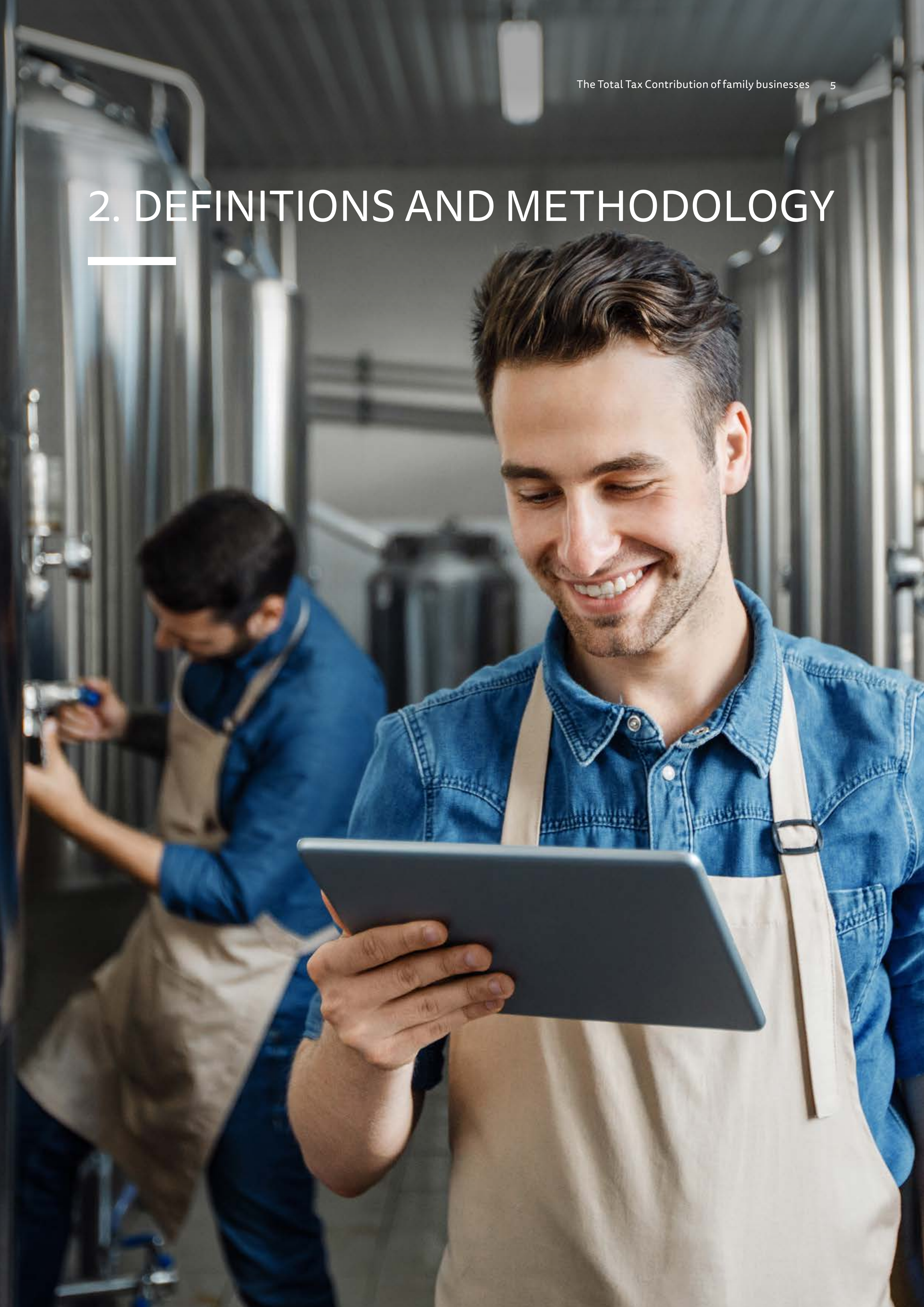
This report, commissioned by the IFB Research Foundation shows the anonymised results of the TTC survey of UK family businesses. Each of the 44 firms participating in the study received a confidential individual TTC report which they found useful for communicating with both internal and external stakeholders. See Section 7 for more details.

The study uses the PwC Total Tax Contribution methodology, which looks at all the different taxes that firms pay and administer, including corporation tax, employment taxes, VAT and other taxes. The study reports on the total taxes that are borne by these firms, and also on the taxes they administer and collect on behalf of the Government. The framework was developed over 15 years ago and has been used in several studies around the world (PwC, 2021).

As this is not information the firms are required to disclose in their financial reports, the results provide information which would not otherwise be in the public domain. PwC has anonymised and aggregated the data provided by the family businesses to produce the study results. PwC has not verified, validated or audited the data and cannot therefore give any undertaking as to the accuracy of the study results. Where the report refers to data published by the Government and HMRC, this is clearly indicated. This is the first TTC study of family businesses that PwC has carried out for the IFB Research Foundation. These data have been used together with government data to estimate the contribution to the UK public finances from the sector as a whole, excluding unregistered businesses and sole traders.[1] The data relate to payments to the UK Exchequer, and no tax payments to foreign tax authorities are included.

This report is structured around eight sections. Section 2 provides definitions and methodology. Section 3 outlines the estimate of the contribution of the family business sector to the UK public finances. Sections 4 and 5 provide details of the data submitted by study participants, both the profile of taxes (Section 4) and in the context of turnover and profits (Section 5). Section 6 compares the results from this study with other TTC studies that have been carried out with businesses in the UK. Section 7 looks at how TTC data can be used by family firms and Section 8 concludes, suggesting areas for future consideration.

2. DEFINITIONS AND METHODOLOGY



2. DEFINITIONS AND METHODOLOGY

2.1. THE DISTINCTION BETWEEN TAXES BORNE AND TAXES COLLECTED

The TTC methodology makes a distinction between taxes borne and taxes collected. Appendices A1 and A2 provide detailed lists of the taxes borne and collected which were reported by study participants.

Taxes borne are all the taxes levied on a firm, which are its cost and affect its results. They include corporation tax, employers' national insurance contributions (NIC), irrecoverable VAT, and business rates. Taxes borne are a firm's direct contribution to tax revenues.

Taxes collected include employees' income tax and NIC administered through the payroll, and net VAT charged to customers. These are the taxes of employees and customers respectively but are collected from them by firms and paid over to the Government. Taxes collected are generated by a firm's business activity and are part of its indirect contribution to tax revenues.

2.2. DEFINING A FAMILY BUSINESS

The IFB Research Foundation adopts the EU definition of a family business (European Commission, 2009) which are firms that are either publicly listed with 25 per cent or more of shares in possession of the owning family, or an unlisted/private business where the owning family controls more than 50 per cent of the company's voting shares. First-generation owned businesses are included, but unregistered businesses and sole traders are excluded. See Appendix A3 for further details.

All study participants fall into this definition. The majority of firms (39 firms, 89 per cent) included in the study have a family shareholding over 50 per cent; one (2 per cent) has a family shareholding of between 25–50 per cent and four (9 per cent) are first-generation entrepreneurs, which are considered family businesses for the purposes of the study. A total of 42 (96 per cent) are private firms.

2.3. PARTICIPATION BY SIZE OF FIRM AND INDUSTRY

Invitations to participate in the study were sent to CEOs, CFOs and the finance teams of family firms and 44 firms provided data for the study. The participating firms provided comprehensive data for, on average, 10 taxes, 6.7 taxes borne and 3.3 taxes collected.

Industry: the participating firms covered a range of industries and, for the purpose of the analysis, these are allocated to four broad categories with differing TTC profiles. The industries are defined broadly as follows:

- **Industrial firms:** construction, manufacturing businesses, usually with an element of value add.
- **Consumer firms:** consumer, professional services, administrative businesses.
- **Retail firms:** customer-facing businesses.
- **Financial services firms:** asset management, real estate, banking, insurance.

The IFB Research Foundation's latest sector report (IFB Research Foundation and Oxford Economics, 2022) shows that turnover from family businesses is concentrated in wholesale and retail, construction and professional services sectors. The study provides data in each of these major industries as shown in Table 1.

Size: As expected in the first year of the study, the majority of participating firms are from the larger end of the size spectrum. Following the size classification used by the BEIS Small Business Survey (BEIS, 2022a),[2] based on the number of employees, Table 1 shows the breakdown by size. There are no sole traders in the study.

Table 1: Participation in the study by industry and size

Number of firms = 44	Per cent
Industry	
Industrial firms	34
Consumer firms	27
Retail firms	27
Financial firms	12
Total	**100**
Size	
Micro and small firms: 1–49 employees	14
Medium firms: 50–249 employees	25
Large firms: over 250 employees	61
Total	**100**

Source: PwC analysis

3. CONTRIBUTION OF THE FAMILY BUSINESS SECTOR TO THE UK ECONOMY IN TAXES

3. CONTRIBUTION OF THE FAMILY BUSINESS SECTOR TO THE UK ECONOMY IN TAXES

The majority of businesses in the UK are family businesses. A report published by the IFB Research Foundation (IFB Research Foundation and Oxford Economics, 2022) estimates that in 2020 there were 4.8 million family firms, 85.9 per cent of the 5.6 million firms that comprised the private sector. Most of these family firms were micro firms with no employees, that is, they were sole traders; in 2020 there were 3.8 million such businesses. Including unregistered businesses and sole traders, the report estimated that family firms generated around £1.7tn in turnover in 2020.

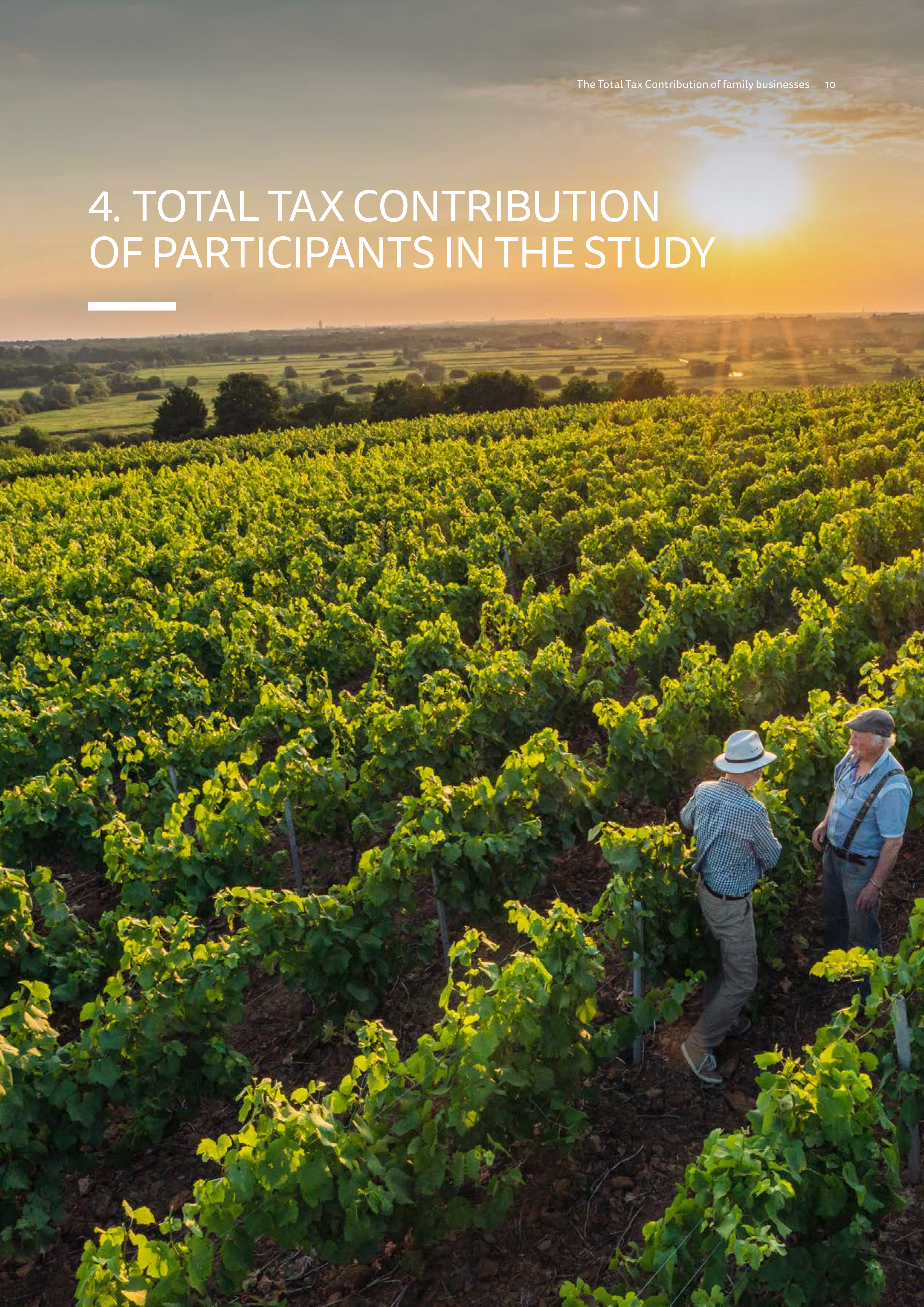
This section estimates the TTC of the UK family business sector using publicly available data on turnover for the whole sector (ONS, 2023)[3] alongside the study participants' data collected in the study. This is an estimation only and the extrapolation is at the level of taxes borne and taxes collected, rather than by individual tax. The extrapolation is based on ratios of TTC as a percentage of turnover:

- **Impact of industry:** the study shows that for three significant industries in the family business sector (consumer firms, industrial firms, retail firms) the TTC profile varies with the business model. A retail firm with high volume and high turnover will tend to have a lower TTC/turnover ratio than firms in other industries. By contrast, a consumer firm generates net VAT on the value added to its products, so will tend to have a higher TTC/turnover ratio than a retail firm. And finally, an industrial firm also generates net VAT but some exports will be zero rated for VAT with a lower TTC/turnover ratio.
- **Impact of size:** family businesses cover a range of sizes, but our analysis showed little variation in the TTC/turnover ratios in the study in each industry by size of firm.

The contribution from the family business sector to the public finances in 2021 is estimated to be around £225bn, comprising £74bn (33 per cent) taxes borne and £151bn (67 per cent) taxes collected. The total of £225bn represents 27 per cent of UK Government receipts from all taxes in the year to 31 March 2022 (OBR, 2022), emphasising the contribution made by the sector. For further details on the extrapolation estimate see Appendix A4.

While this section estimates the tax contribution from the sector as a whole, the following sections focus on the data received from the participants in the study, providing more granular detail on individual taxes.

4. TOTAL TAX CONTRIBUTION OF PARTICIPANTS IN THE STUDY



4. TOTAL TAX CONTRIBUTION OF PARTICIPANTS IN THE STUDY

A survey of family businesses was carried out to understand the contribution they make to the UK public finances. This section shows results from the 44 participating firms, highlighting the profile of taxes borne, taxes collected and TTC. It provides further commentary on two significant tax bases, corporation tax and employment taxes. Finally, there is a spotlight on brewers participating in the study, highlighting that there are businesses, for example brewing firms, which are subject to specific industry taxes such as alcohol duty.

4.1. THE PROFILE OF TAXES BORNE

Taxes borne are a cost for businesses and therefore directly affect their profits. Figure 1 shows the taxes borne by the study participants. Employers' NIC is the largest taxes borne by the family business participants (45.0 per cent), with corporation tax 26.4 per cent of the total. Business rates (14.0 per cent) are paid on occupied property and other large taxes include fuel duty, customs duty, apprenticeship levy and irrecoverable VAT. Smaller taxes (amounts less than 1.0 per cent of the total), include the climate change levy; congestion charge; air passenger duty; vehicle excise duty; betting and gaming duty; tonnage tax; withholding tax; stamp duty reserve tax and insurance premium tax. Participants reported an average of 6.7 businesses taxes borne. These are listed in Appendix A1, and a description of each tax is provided in Appendix A2.

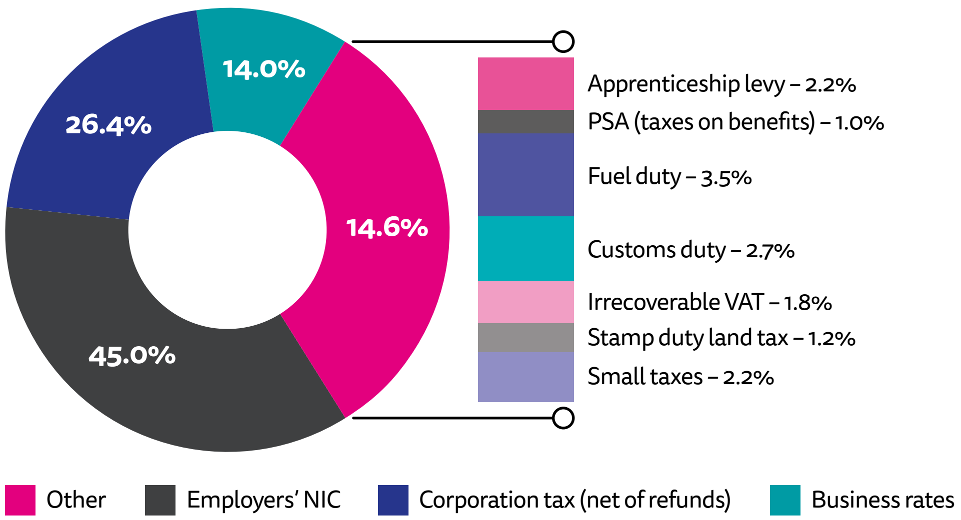


Figure 1: Profile of taxes borne by survey participants

Source: PwC analysis, chart is an average basis

4.2. THE PROFILE OF TAXES COLLECTED

Employment taxes, comprising employees' NIC (12.0 per cent) and income tax (36.4 per cent), together with net VAT (41.8 per cent), are the most significant taxes collected by family firms from employees and customers respectively (see Figure 2). Participants reported a total of 3.3 businesses collected. These taxes create a compliance burden, since businesses must administer both the collection of the tax and subsequent payment to HMRC, but there is little visibility over these taxes in a firm's financial statements. Alcohol duty reflects the participation of members of the Independent Family Brewers of Britain (IFBB) in our study (see box on page 14).

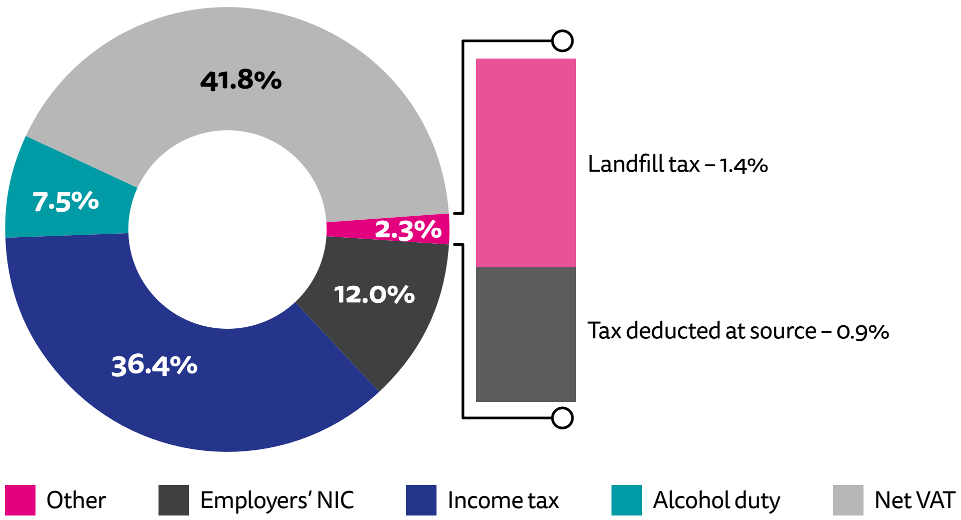


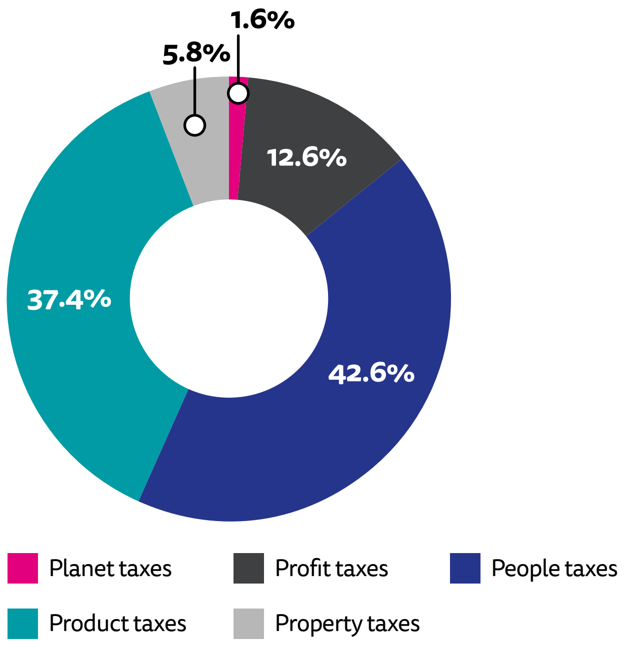
Figure 2: Profile of taxes collected by survey participants

Source: PwC analysis, chart is an average basis

4.3. THE TOTAL TAX CONTRIBUTION OF PARTICIPANTS

Figure 3 shows taxes borne and taxes collected taken together giving the TTC profile of the firms that took part in our study. Taxes have been grouped according to the tax base to which they are applied, see Appendix A5 for further details of these tax bases. Profit taxes are just 12.6 per cent of the total, comprising corporation tax (10.0%) and other profit taxes (2.6%), while people taxes make up almost half of the TTC of participating firms at 42.6 per cent.

Figure 3: Profile of the Total Tax Contribution of participants



Source: PwC analysis, chart is an average basis

4.3.1. Corporation tax

Corporation tax is the main tax on company profits in the UK and is a tax borne by family firms, making up 10.0 per cent of the TTC of firms in our study. Before 1 April 2023, there was a single rate of corporation tax of 19.0 per cent.[4] Our study shows that 34 firms (78 per cent of participants) paid corporation tax at an average rate of 18.9 per cent. The UK's corporation tax legislation allows losses from difficult trading times (e.g. COVID-19) to be carried forward to offset future profits (HMRC, 2022a).

Among the firms included in the study, for every £1 of corporation tax, firms pay another £2.19 in other taxes borne, and £5.80 in taxes collected.

An additional consideration is how family business owners are compensated. Some will take a salary, in which case profits and corporation tax will be lower, but there will be employment taxes on the salary drawn. Others will take a dividend out of profits after tax. In this case, profits subject to corporation tax will be higher but since this study is focused on the firm's tax contribution, it does not collect data on the owner's personal tax contribution. This is an area for potential consideration in the future.

4.3.2. People taxes

Employment taxes are both borne and collected by family firms. Taxes borne include employers' NIC, apprenticeship levy and PAYE settlement agreements, while taxes collected include employees' NIC and income tax collected under PAYE.

Employment and the payment of employment taxes are important ways that family firms contribute to the UK economy. Participants employed 57,000 employees and paid total wages of £2.1bn. The average wage[5] of participants is £37,369 which is higher than the national average wage of £33,000 (ONS, 2022). Based on the data collected in this study, employment taxes borne and collected totalled £0.6bn, an average of £11,468 for every employee.[6]

Providing employment and training to apprentices is a key contribution made by family firms to the economy. For example, payment of the apprenticeship levy was reported by 28 participating firms. Of these, 16 use the levy to train apprentices, with five firms using 100 per cent of the levy for their apprenticeship programme.

In summary, the largest contribution made by study participants is through the employment taxes they pay – which amounts to 42.6 per cent of their TTC while corporation tax is just 10.0 per cent. For every employee, the firms paid on average £11,468 in employment taxes. This highlights the value of the tax contribution made by family businesses through employment, and in mentoring employees through the apprenticeship levy.

The following section aims to place the TTC study data into the context of broader economic footprint measures such as turnover and profit.

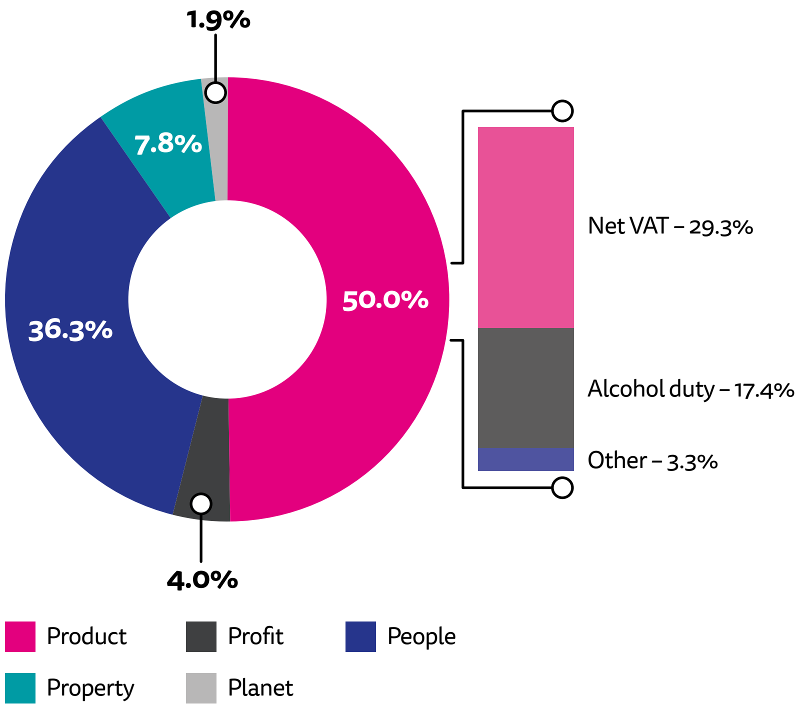
THE TOTAL TAX CONTRIBUTION OF FAMILY BREWERS IN THE UK

TTC data were provided by eight members of the Independent Family Brewers of Britain (IFBB)[7] and it is possible to provide a further breakdown of that data without compromising participant confidentiality.

The TTC profile in Figure 4 highlights that there are businesses, for example brewing firms, which are subject to specific industry taxes such as alcohol duty. Alcohol duty makes up 17.4 per cent on average of the TTC and is collected by the brewers when alcohol is sold to customers, with the final consumer bearing the tax. Together with net VAT, product taxes make up half of the TTC.

Government receipts in the year to 31 March 2022 (OBR, 2022) from duties on spirits, wine and beer were £13.1bn, 1.6 per cent of total government receipts from all taxes. TTC can provide a helpful way of highlighting the contribution made through sector taxes.

Figure 4: Total Tax Contribution of brewers participating in the study



Source: PwC analysis, chart is an average basis

5. TOTAL TAX CONTRIBUTION DATA IN THE CONTEXT OF TURNOVER AND PROFITS

5. TOTAL TAX CONTRIBUTION DATA IN THE CONTEXT OF TURNOVER AND PROFITS

This section puts the TTC study data into the context of other economic measures, such as turnover, profit and value distributed. The following calculations are generated using the study data:

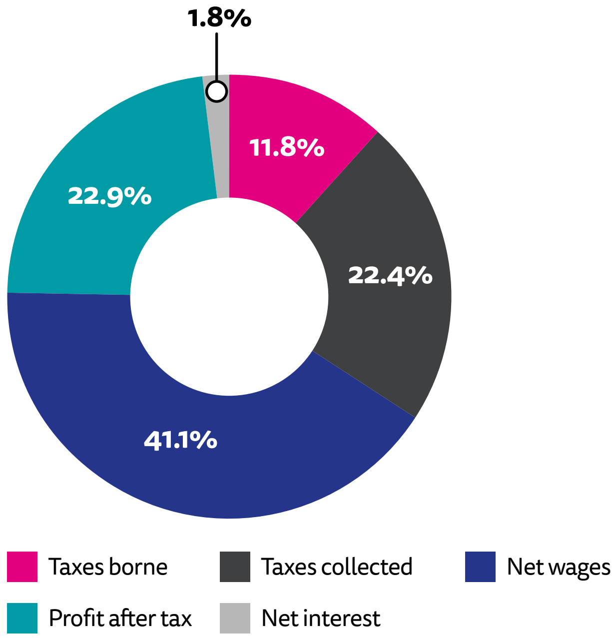
- Taxes borne and collected as a percentage of value distributed.
- Total Tax Rate which is the total tax borne as a percentage of profit before business taxes borne.
- Taxes borne and collected as a percentage of turnover.

The above calculations are carried out for each individual participant giving mean average calculations. For example, the TTC/turnover ratio is calculated for each participant separately and then the mean is calculated. The mean gives equal weight to all firms in the group and more accurately reflects the contribution made by individual firms.

5.1. VALUE DISTRIBUTED TO THE GOVERNMENT IN TAXES BY FAMILY FIRMS

Value is distributed to the Government in taxes, to employees in wages and retained in the business for reinvestment. With the information gathered through the study, it is possible to put the TTC in the context of value distributed by firms for those providing these data. Figure 5 shows the profile of value distributed by the participants on an average basis. The TTC paid to the Government is 34.2 per cent of the value distributed, while a further 41.1 per cent is paid to employees as wages and salaries. The average amount retained in the firms in our study available for reinvestment or for distribution to shareholders is 22.9 per cent, and just 1.8 per cent is paid to lenders for financing. These figures point to the valuable contribution made by family firms through employment and to the public finances.

Figure 5: Value distributed to stakeholders by study participants



Source: PwC analysis, chart is an average basis

5.2. TOTAL TAX RATE

The Total Tax Rate is a measure of the cost of all taxes borne as a percentage of UK profits before all of those taxes are deducted. For example, employers' NIC will be deducted to arrive at a firm's profit, but in the Total Tax Rate calculation, it will be added back to profits. The calculation is taxes borne as a percentage of profits before total taxes borne. The average Total Tax Rate for the study participants is 48.9 per cent, highlighting that nearly half of pre-tax profits are paid in taxes. See Appendix A6 for details of the calculation.

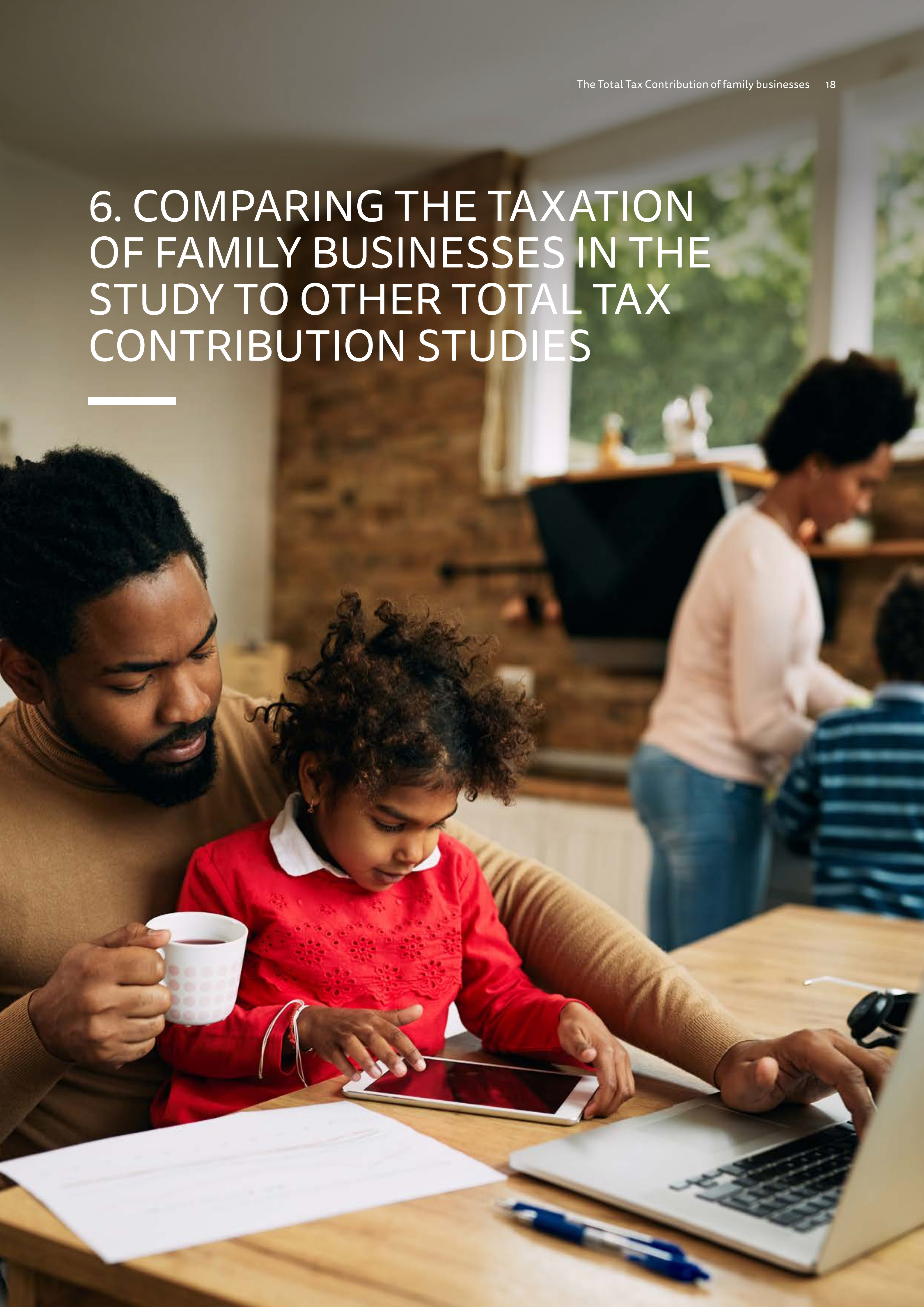
5.3. TAXES BORNE AND COLLECTED AS A PERCENTAGE OF TURNOVER

For family firms participating in the study, TTC as a percentage of their UK turnover is, on average, 18.5 per cent. That is, for every £100 of UK turnover, on average, an amount equivalent to £18.50 is paid in taxes.

In summary, value is distributed by the family firms in the study to employees in wages (41.1 per cent of the total), to government in taxes (34.2 per cent), and to lenders of finance (1.8 per cent). The amount retained in the business for reinvestment and for distribution to shareholders is 22.9 per cent of the total on average. For every £100 of turnover, family businesses in the study pay, on average, £18.50 in taxes borne and collected. Taxes borne by family firms amount to 48.9 per cent of profit before taxes borne.

The next section compares these ratios to those of large listed businesses to understand how taxation of family firms in our study compares to other businesses.

6. COMPARING THE TAXATION OF FAMILY BUSINESSES IN THE STUDY TO OTHER TOTAL TAX CONTRIBUTION STUDIES



6. COMPARING THE TAXATION OF FAMILY BUSINESSES IN THE STUDY TO OTHER TOTAL TAX CONTRIBUTION STUDIES

This section compares the results of the current study with other TTC studies that PwC has carried out. TTC data are available for the 100 Group (100 Group and PwC, 2022), broadly the FTSE100 and for the European Business Tax Forum (EBTF and PwC, 2023), a group of large multinational businesses headquartered in different countries in Europe.

Total Tax Rate: Taxes borne as a percentage of profits before taxes borne are, on average, 48.9 per cent for family businesses in our study. The equivalent ratio for the 100 Group is 39.9 per cent and for the EBTF, it is 40.0 per cent. Family businesses in our study pay a greater percentage of their profit in taxes, a likely reflection of greater profitability of very large firms. Profit taxes make up 44.7 per cent of taxes borne in the EBTF, 32.2 per cent in the 100 Group and 12.6 per cent for family firms.

Total Tax Contribution as a percentage of turnover: It is possible to compare TTC as a percentage of turnover.[8] For family businesses in our study, this ratio is 18.5 per cent, compared to 15.6 per cent for the EBTF. The higher ratio for these family businesses in the study may reflect lower turnover in family firms with economies of scale available for larger firms.

Value distributed: A greater proportion of the value distributed by family businesses in this study is paid to employees in net wages (41.1 per cent) compared to the 100 Group (31.4 per cent) and the EBTF (25.7 per cent). A smaller proportion is paid in taxes borne by family firms (11.8 per cent) compared to the 100 Group (15.3 per cent) and the EBTF (19.9 per cent), reflecting lower profitability for family firms and highlighting the important contribution that family firms that took part in our study make through employment. A smaller proportion of value distributed is paid in financing[9] by participating family firms (1.8 per cent) compared to the 100 Group (6.2 per cent).

Employment taxes: The average wage per employee for study participants is £37,369 which compares to an average wage among the 100 Group survey participants of £37,514. The equivalent figures for employment tax per employee are £11,468 and £12,903 respectively which reflects the broader range of wages per employee in the 100 Group survey.

In summary, compared to turnover and profit, the taxation of the UK family businesses in this study resembles that of large, non-family owned businesses. This aligns to the finding in this study that the variation of TTC by size of firm is more limited.

The following section explores how TTC data can be used, both with policymakers and by individual family firms.

7. TOTAL TAX CONTRIBUTION FOR STAKEHOLDERS

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This section explores how TTC can be used by family firms. TTC is already used by a number of large listed businesses in both internal and external communications. A total of 50 companies in the FTSE 100 make a TTC disclosure (PwC, 2022a), often as part of their sustainability and ESG reporting. While many family businesses do not face the same investor focus on ESG and contribution to society as listed companies, TTC can help to emphasise the key role that family businesses play in the UK economy. As the focus on tax transparency increases, it is important for family businesses in the UK to explore ways to engage in the public tax debate in a positive, transparent and informative manner.

Different stakeholders are demanding more visibility on the tax affairs of businesses and several tax policy initiatives have focused attention on these issues. For example:

- The European Parliament voted in favour of introducing public country-by-country reporting, applicable to large firms with operations in the EU (Council of the European Union, 2021).
- Tax has become a sustainability metric and the Global Reporting Initiative Tax standard requires greater disclosures over tax (Global Sustainability Standards Board, 2019).

Each participant firm in the study received a confidential individual report showing their TTC. Many companies tell us that they found these reports useful for communicating with internal and external stakeholders.

Comments from some of the participating companies are included at the end of this section.

Internally, TTC can be used to engage with management and employees to raise awareness of the taxes their company pays. It can be used in the management of taxes, to assess whether governance processes are sufficient for the broad range of taxes paid by the company. Information about a company's TTC can be a topic for discussion with sustainability teams, as part of its ESG performance and social impact. For large firms, TTC data can help to provide additional context for public country-by-country data, that is the requirement for large firms to publish details of tax paid and other financial information on a country-by-country basis (PwC, 2022b).

Externally, TTC data has a role to play in firms' relationships with their stakeholders, such as HMRC, to engage on tax policy questions or to highlight the taxes paid by family businesses. For family firms that are listed businesses, TTC can be used with investors and fund managers, given their increasing interest in ESG (PwC, 2022c), and such data can be used in family business forums to raise awareness of the contribution of family firms in taxes. Finally, participating family firms told us that they used TTC data in discussions with tax authorities and policymakers, as it highlights the full range of taxes they pay. And there are instances where firms have decided to publish their TTC data to highlight the positive impact of their business on the public finances.

For example, Wates Group[10] provides details of its TTC in the annual report. Figure 6 shows the TTC disclosure, including taxes borne and collected by Wates, highlighting the employment-related taxes and net VAT. In addition to this disclosure, which is in the Strategic Report section of the annual report, Wates Group also highlights its TTC in the Chairman's statement and in the financial overview.

Figure 6: Example of a public TTC disclosure

TAXES PAID IN THE YEAR (NOTE 1)	NOTE	2022 £000s	2021 £000s
Taxes borne by the Wates Group			
Corporate income tax payments		**928**	4,750
Employment-related taxes	2	**32,159**	26,196
Other taxes	3	**6,374**	4,763
		39,461	35,709
Taxes collected for HM government (in addition to taxes borne above)			
Employment-related taxes	4	**77,406**	62,828
Net VAT	5	**195,877**	134,133
		273,283	196,961
Total tax contribution (taxes generated by the Group from Wates Group activity)		**312,744**	232,670

Notes
1) All taxes are paid in the UK; none in other jurisdictions
2) Employer national insurance contributions, income tax paid on benefits in kind and apprenticeship and CITB levies
3) Business rates, insurance premium tax, stamp duty land tax, irrecoverable VAT, fuel duty and vehicle and other taxes
4) Income Tax and employee national insurance contributions deducted from salaries and wages
5) Net VAT collected and paid

Source: Wates Group 2022 annual report

We asked family businesses for their thoughts on the study.

"Taxation is a major cost to any business, however it is rare to see any significant analysis undertaken, therefore this study provided excellent insight into an under represented area of the profit & loss account"

Paul Cogan
Group Finance & Resources Director
Betty & Taylors Group

"The process of completing the TTC questionnaire as a business has allowed us to consider and define how we look to produce this data internally on an ongoing basis. It has provided an opportunity to consider and reflect on how current systems and data points could be improved to aid this going forward"

"The provision of the TTC document across a variety of family owned businesses gave us comfort and insight as well as statistics which aid our ongoing discussions with HMRC regarding the Group's TTC and allowed for a tangible discussion regarding the total tax position moving the discussion away from a pure VAT or Corporation Tax focus"

"In terms of seeing all our annual tax contribution in one place I think it's really interesting and beneficial to see this. However, the year in question that we looked at was 2021 which was heavily impacted by COVID and government support in VAT and business rates, so I don't think the data this year was particularly representative of our usual position. I think that once we see a comparative, more representative year then we would be able to better understand our position, and our position compared against other family businesses"

Dustin Harwood
Financial Controller
Westmorland Family

"A unique source of family business benchmark data that provides a really interesting perspective. I look forward to enhancing our Impact report with the outcomes going forward"

James Griffiths
CFO

"Inputting the data was straightforward and the system intuitive to use"

Paul Barnett
Group Financial Director
Hall & Woodhouse

8. CONCLUSION

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This is the first TTC study which examines the importance of the contribution that family businesses make to the UK Exchequer in taxes; we estimate that the sector generates more than a quarter of UK Government receipts from all taxes.

One of the competitive advantages of family businesses is the confidence that they inspire as highlighted in PwC's 11th Global Family Business Survey (PwC, 2023). The Edelman Trust Barometer confirms that family businesses are trusted more than other businesses: their trust score is 12 percentage points higher than that of businesses in general. Transparency is an essential ingredient to build this confidence and this report, providing greater visibility over the contribution in taxes made by the sector, can help to build that confidence. Some family businesses are doing more to amplify the message by publishing their own TTC, a key part of their ESG message.

It is not just through taxes that family firms contribute to the UK economy. They also contribute through the employment opportunities they generate (IFB Research Foundation and Oxford Economics, 2022) and many family firms act as mentors to trainees entering the workforce, for example through the apprenticeship scheme. Given family firms' propensity to adopt a long-term outlook, training the workforce of the future and engaging the next generation are important priorities for many family businesses.

In conclusion, policymakers are grappling with the stabilisation of the public finances in the aftermath of the COVID-19 pandemic, together with the headwinds of high UK inflation and the challenges posed by the conflict in Ukraine. This study provides new evidence on the full range of taxes that UK family businesses pay enabling us to better understand the critical role such firms play in the UK economy. Looking forward, there are some suggested next steps to build on this work:

- There are limited data to identify the percentage of private businesses that are family firms, with more than 250 employees, but less than £500m turnover. Further targeted research to estimate the prevalence of family involvement in businesses among these mid-sized firms (the UK *Mittelstand*) would be valuable.
- The tax contribution made by family business owners that take a dividend from the company, rather than a salary, has not been captured in the study. This could be a potential focus of future research.
- Participation often increases when TTC studies are repeated. This is because participants can see the value of the TTC data and understand how their data will be used for reporting purposes. A second version of the IFB Research Foundation study could be considered. It would be likely to increase participation and enhance the database to allow trend analysis.

The IFB Research Foundation and PwC would like to thank the family businesses that took the time to participate in this study and provide their TTC data. We hope that the evidence and insights generated will make a difference to the debate on the contribution of the family business sector in taxes.

APPENDICES

A1 LIST OF TAXES BORNE AND COLLECTED

Tables 2 and 3 show the taxes borne and collected reported by study participants in the year to 31 March 2022 (some taxes have been consolidated for confidentiality purposes). Table 2 shows total taxes borne of £580,973,957, Table 3 shows total taxes collected of £1,056,801,684. The Total Tax Contribution is £1,637,775,641.

Table 2: Taxes borne by study participants

Taxes borne		£
Profit taxes	Corporation tax	181,946,811
	Other profit taxes (tonnage tax, withholding tax, betting and gaming duty)	1,502,013
People taxes	Employers' NIC	182,345,295
	Apprenticeship levy	17,271,984
	PAYE settlement agreement	4,535,353
Product taxes	Irrecoverable VAT	9,457,343
	Customs duty	4,869,577
	Insurance premium tax	2,839,146
	Other product taxes (vehicle excise duty, air passenger duty)	49,194,647
Property taxes	Stamp duties	14,737,225
	Business rates	74,482,184
Planet taxes	Fuel duty	36,883,088
	Other planet taxes (climate change levy and carbon price, congestion charge)	909,291
Total taxes borne		580,973,957

Table 3: Taxes collected by study participants

Taxes collected		£
Profit taxes	Withholding tax deducted at source	5,968,832
People taxes	Employees' NIC	87,545,029
	Income tax	357,440,583
Product taxes	Net VAT	278,644,313
	Alcohol duty	303,311,378
Planet taxes	Other planet taxes	23,891,549
Total taxes collected		1,056,801,684

A2 DESCRIPTION OF TAXES BORNE AND COLLECTED

Table 4: Description of taxes borne and collected

Taxes borne include:	
Corporation tax	Corporation tax is the main tax on company profits in the UK.
Employers' national insurance contributions	Employers' NIC is paid by employers based on a percentage of wages paid.
PAYE settlement agreement	A PAYE settlement agreement enables employers to make a single annual payment to HMRC to settle all tax and NIC due on certain expenses and benefits provided to employees.
Apprenticeship levy	This is a levy on UK employers with annual pay bills in excess of £3m, at 0.5 per cent of the annual pay bill. The revenue from the apprenticeship levy is intended to fund new apprenticeships, and the amounts claimed by participants to pay for apprenticeship training is also captured by the TTC Framework. The net apprenticeship levy is the amount of levy paid less the amount of the levy used to fund apprenticeships.
Irrecoverable VAT	When a business supplies goods and services to its customers, it generally charges VAT, and offsets against this any VAT it has incurred on purchases used to run the business (input VAT). Where the services offered by a company are VAT exempt, VAT is not charged to customers, so these companies cannot recover their input VAT, leading to irrecoverable VAT.
Customs duty	Customs duty is paid when dutiable goods are imported into the UK.
Insurance premium tax	Insurance premium tax is levied on general insurance contracts and is a tax borne on insurance contracts taken out to insure a company's own corporate risk.
Vehicle excise duty	Vehicle excise duty is the road fund licence or tax disc.
Air passenger duty	Air passenger duty is a departure tax levied on most air travel and will be a tax borne on company employees' air travel.
Stamp duties	Stamp duty is a transaction-based tax, paid on transfers of land or shares.

Table 4 (continued): Description of taxes borne and collected

Taxes borne include:	
Business rates	Business rates are charged to businesses on non-domestic property, collected by local government.
Fuel duty	Excise duty is charged on fuel in the UK when fuel is bought for own consumption.
Climate change levy	Climate change levy is a levy on certain supplies of fuel for business and is a tax borne on a company's energy consumption.
Congestion charge	This is a levy for driving into central London.
Taxes collected include:	
Withholding tax deducted at source	Tax is deducted at source on payments made to certain parties, e.g. interest, royalties and sub-contractors.
Employees' NIC collected under PAYE	Employees' NIC is paid by employees and collected by employers from wages.
Income tax collected under PAYE	Income tax collected under PAYE is collected by the employer on income paid to individuals.
Net VAT	Companies account for VAT on their value added – that is, output VAT charged on the services sold (where these are not exempt services) less input VAT. Net VAT is treated as a tax collected.
Alcohol duty	Excise duty is charged on alcohol sold in the UK. Companies collect alcohol duties when alcohol is sold to customers.

A3 DEFINITION OF A FAMILY BUSINESS USED IN THIS STUDY

For the purposes of this study, the EU definition of a family business (European Commission, 2009) is used, which is the definition adopted by the IFB Research Foundation. This states that a firm, of any size, is defined as a family business, if:

- The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.
- The majority of decision-making rights are indirect or direct.
- At least one representative of the family or kin is formally involved in the governance of the firm.

Listed companies meet the definition of a family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital.

It should be noted that a small number of first-generation entrepreneurs are included in this study.

A small number of companies falling into the definition of a family business declined to take part in the study on the grounds that they did not consider themselves to be a family business. This issue occurred for large subsidiaries where the owning family is often located overseas and may occur because visibility of the owning family is removed from the subsidiary. Our extrapolation estimate includes companies identified as family firms using the definition above.

Sole traders are self-employed, running their own business as individuals and paying tax on their profits. For the purposes of this study, sole traders are not included in the definition of a family business. While the number of sole traders is high, the turnover per firm is low, meaning that many will be taxed at lower rates and some will fall under thresholds (e.g. VAT registration threshold). Unregistered businesses and sole traders (unregistered and registered) have not been included in the extrapolation estimate.

A4 EXTRAPOLATION ESTIMATE

It is possible to use the study data, together with government survey data on the family business sector as a whole, to estimate its contribution to the UK public finances.

1. The first step is to identify publicly available data relating to the size of private businesses in the UK. The Annual Business Survey (ABS) (ONS, 2018) is the primary source (UK Government, 2022) of registered business turnover data. The ABS is a comprehensive survey that collects detailed information on the structure, activity and performance of businesses operating in the UK. Every year, ABS questionnaires are sent by the ONS to around 62,000 UK registered businesses in the non-financial business economy. The survey covers a wide range of sectors and business sizes, providing insights into both large private businesses and small and medium enterprises. The latest data relate to the 2021 calendar year. For this analysis, we used turnover data by employee size band and industry (ONS, 2023).
2. The second step is to identify how many of the UK private businesses in step one are family owned. There are two data sources for this step.

   Micro, small and medium firms

   The percentage of micro-, small- and medium-sized private firms that are family businesses can be estimated from the Longitudinal Small Business Survey (LSBS) (BEIS, 2022a). This is an annual survey of private businesses that have fewer than 250 employees which is conducted via telephone. Table 22 of the LSBS (BEIS, 2022b) asks the question "Is your business a family-owned business, that is one which is majority owned by members of the same family?". We used the proportion of firms in each employment size band that responded "yes" to this question to estimate the proportion of family firms among private business in this size band. The latest data available are for fieldwork conducted in autumn 2021 to spring 2022. The headline estimates of family business prevalence among small and medium enterprises (SMEs) are shown in Table 5:

Table 5: Prevalence of family business among SMEs

Employee size band	Per cent
Micro businesses with 1–9 employees	82
Small businesses with 10–49 employees	69
Medium firms with 50–249 employees	57

Source: Longitudinal Small Business Survey (BEIS, 2022b)

Large firms

The percentage of large firms that are family owned has been estimated in another study by the IFB Research Foundation in analyses carried out by research consultancy RepGraph (RepGraph and IFB Research Foundation, 2020). This study estimated that 20.1 per cent of large UK registered private (parent) businesses are family owned. RepGraph's definition of "large" is based on turnover (over £500m) rather than employment size band (over 250 employees). There is likely to be some small understatement in the extrapolation since the prevalence of family firms increases as size falls. See suggestions for further research.

3. The third step is to assess how the ratio of TTC as a percentage of turnover ratio varies with size of firm. Analysis of the study data indicates that there is limited variation in the TTC/turnover ratio by size of firm in the study (sole traders are excluded). The ratios align to those from other UK TTC surveys (100 Group and PwC, 2022).
4. The fourth step is to assess how the ratio of TTC as a percentage of turnover varies with industry. As outlined in Section 2.3, participating firms covered a range of industries and for the purpose of the analysis, these are allocated to four broad categories with differing TTC profiles. The industries used in this analysis are as follows:

   - Industrial firms: construction, manufacturing businesses, usually with an element of value add.
   - Consumer firms: consumer, professional services, administrative businesses.
   - Retail firms: customer-facing businesses.
   - Financial services firms: asset management, real estate, banking, insurance.

Our analysis shows some stratification of TTC/turnover ratios for industrial, consumer and retail firms. A retail firm with high volume and high turnover will tend to have a lower TTC/turnover ratio than other industries; a consumer firm generates net VAT on the value added to its products, so will tend to have a higher TTC/turnover ratio than retailers; an industrial firm also generates net VAT but some exports will be zero rated for VAT with a lower TTC/turnover ratio. Average ratios for each industry from the study data are used to produce our estimates. These ratios align to those from other UK TTC surveys (100 Group and PwC, 2022).

Results

The estimated contribution of the family business sector in taxes to the UK public finances is shown in Table 6:

Table 6: Extrapolation estimate

£bn	Taxes borne	Taxes collected	Total
Total	74	151	225

Source: PwC analysis

The contribution from the family business sector to the Exchequer, using TTC/turnover ratios to represent the range of results, returned estimates in the range of £220bn to £237bn, so the reported estimate is considered to be prudent.

5. The final step in the extrapolation methodology is to validate the estimate using different data sources. HMRC releases data on corporation tax liabilities by employment size band and VAT paid by industry. BEIS releases details of employment by firm size and industry and the ONS produces estimates of the average wage by industry. Using these data, it is possible to estimate the TTC of the family business sector using different data sources to the ABS turnover data described above.

   - **Corporation tax:** HMRC releases data on corporation tax liabilities by firm size (HMRC, 2022b). Using the percentage of firms that are family businesses, we are able to estimate the corporation tax paid by family businesses.
   - **VAT:** HMRC releases data on VAT paid by industry (HMRC, 2022c). Using turnover by firm size as an indicator of VAT paid by firm size, and the percentage of firms that are family businesses by industry, we are able to estimate the VAT paid by family businesses.
   - **Employment taxes:** BEIS releases details of employment by firm size and industry (BEIS, 2022c) and the ONS produces estimates of the average wage by industry (ONS, 2022). It is possible to estimate the average employment tax per employee in each industry and the employment tax paid by family businesses.

   This generates a total of £197bn of TTC which is low since it focuses on major taxes only rather than all taxes included in the TTC. Business rates and other taxes not included in the validation calculation represent 28% of taxes borne in the study data and including an estimate of these taxes based on that percentage, brings the total to £222bn. This indicates that the extrapolation estimate is reasonable.

Table 7: Validation of the extrapolation estimate

£bn	Taxes borne	Taxes collected	Total
Total	76	146	222

Source: PwC analysis

Figure 7 illustrates the extrapolation graphically and the steps involved in the extrapolation methodology.

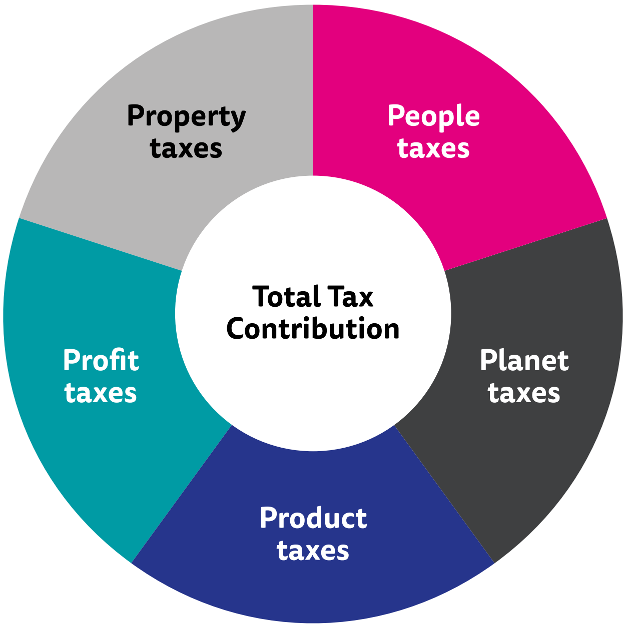
Figure 7: Methodology for the extrapolation estimate

1	How many private businesses are there in the UK? What is their turnover (TO)?	• Annual Business Survey breaks down turnover data for private businesses by employee size band and industry
2	What percentage of private businesses are family businesses?	• BEIS Longitudinal Small Business Survey • RepGraph
3	How does TTC vary by size of firm? Micro Small Medium Large	• IFB Research Foundation TTC study gives TTC/TO ratios by size
4	How does TTC vary by industry? Retail Consumer Industrial Financial services	• IFB Research Foundation TTC study gives TTC/TO ratios by industry
5	How can we validate the estimate?	• HMRC Corporation Tax receipts by employment size band • HMRC VAT receipts by industry • Business Population Estimates of number of employees by employment size band and industry and ONS wage per industry

A5 THE FIVE TTC TAX BASES (PwC, 2021)

The TTC Framework is structured around five tax bases as shown in Figure 8.

Figure 8: The five tax bases



People taxes include all taxes and social contributions in relation to the employment of staff. They cover both employment taxes and contributions borne by the company and those that are the cost of the employee and are administered by the employer by deduction through the payroll.

Planet taxes include taxes and duties levied on the supply, use or consumption of goods or services potentially harmful to the environment. They also contain taxes paid and collected on fuel.

Product taxes include taxes and duties levied on producing, selling or using goods and services, including taxes and duties levied on international trade and transactions.

Profit taxes include taxes on company income, profits and capital gains.

Property taxes include taxes levied on the acquisition, disposal, ownership or use of the tangible and intangible property.

A6 CALCULATION OF THE TOTAL TAX RATE

An example of the Total Tax Rate calculation is illustrated as follows.

Assumptions:

1. Profit before total taxes borne = £40.
2. Book-to-tax-adjustments = £10.
3. Statutory corporate income tax rate = 25.0 per cent.

For every £1 of corporate income tax paid, there is another £1 of other business taxes paid.

Table 8: Calculation of the Total Tax Rate

Profit before total taxes borne	£40	(A)
Other business taxes borne	£6	(B)
Profit before income tax	£34	(C) = (A)-(B)
Book-to-tax adjustments (the difference between profits for financial accounting purposes and profits subject to corporation tax)	£(10)	(D)
Taxable profit	£24	(E) = (C)+(D)
Statutory corporate income tax rate	25.0 per cent	(F)
Corporate income tax	£6	(G) = (E)*(F)
Total taxes borne	£12	(H) = (B)+(G)
Total Tax Rate	**30.0 per cent**	**(I) = (H)/(A)**

ENDNOTES

ENDNOTES

[1] References to the family business sector throughout the report exclude sole traders and unregistered businesses (see Appendix A3 for details).

[2] Employment size bands have been used as an indicator of size throughout the report. It is possible to measure size using turnover and assets but employment size bands are used in family business sector reference materials e.g. BEIS (2022a).

[3] ABS data for the 2021 year-end were published in May 2023 and is incorporated into this report.

[4] From 1 April 2023, corporation tax is charged at the main rate of 25.0 per cent for profits over £250,000 and at the small company rate of 19.0 per cent for profits under £50,000. Firms with profits between £50,000 and £250,000 pay tax at the main rate, reduced by a marginal relief which provides a gradual increase in the effective corporation tax rate.

[5] The average wage per employee is calculated taking the totals for the study population and dividing by the total number of employees. The mean wage per employee is £42,000 and the median is £33,000.

[6] The average employment tax per employee is calculated taking the totals for the study population and dividing by the total number of employees. The mean employment tax per employee is £14,495 and the median result is £9,748.

[7] Details of the Independent Family Brewers of Britain can be found on their website: https://www.familybrewers.co.uk/

[8] Data are not available for the 100 Group.

[9] Data are not available for the EBTF.

[10] Wates Group is one of the leading privately owned construction, residential development, and property services businesses in the UK.

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