

Succession not just a family affair: David Smorgon

PUBLISHED: 04 APR 2013 00:05:00 | UPDATED: 04 APR 2013 07:15:44



David Smorgon says Australia can't even agree on the definition of what a family business is. **Photo: Josh Robenstone**

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Businessman and former Western Bulldogs AFL club president David Smorgon considers himself a fit and active man but he agrees that, in the distant future at least, he will have to tackle the issue of succession.

This is the most critical issue for many family businesses and one that Mr Smorgon's investment company – owned with his three sons – faces too.

Some estimates show that 70 per cent of Australian businesses are family-owned and they employ more than half of the workforce.

"It's one of those thorny, very difficult issues that most families really struggle with, the world over," Mr Smorgon said.

It was just one aspect of family business completely overlooked by public policy, he added.

That could change, now that a House of Representatives inquiry has made 21 recommendations in a 248-page report released late in March to build the awareness of the needs of family businesses in Australia, including extending the potential life of family trusts.

The inquiry noted estimates that 61 per cent of family business owners planned to retire in the decade to 2016.

A member of the Smorgon family, whose multibillion-dollar industrial empire was split up and sold in 1995 – he has since started Generation Investments with his sons – David Smorgon gave evidence to the inquiry and was disappointed that other prominent family businesses did not.

"Family businesses are largely unrecognised – that's a damning fact," he said. "I'd love to have the figures to show how scandalous that is."

He means figures showing the ability of family businesses to better withstand downturns, the vast number of people they employ, and the contribution they make to the community.

The primary recommendation of the inquiry was for Canberra to set up an inter-departmental committee to work out how to define a family business and consider the issues they face. It could then collect data to build a picture.

Apart from giving recognition to the contribution made by family businesses, it could provide a platform for targeted policies to assist.

“There are other countries, particularly Scandinavian, that are doing a lot more to incentivise, support, assist family business to the benefit of the community, for the whole of society, Mr Smorgon said. “Certainly that’s not happening in Australia – we can’t even agree on what the definition is,” he said.

While imperative, he said he expected the recommendations would not be dealt with until after the election.

But he said family businesses had a role to play in agitating for change.

A quick look at the *BRW Rich List* shows family businesses are not always the small enterprises they’re labelled as: the Smorgon family are there, along with the Myer family and others.

The inquiry recommended considering law changes, including lifting the 50-shareholder limit for a private business and the 80-year maximum lifetime of a trust.

Deloitte consultancy tax partner David Pring said the 50-shareholder limit needed relaxing. “The intergenerational issue is going to become bigger in Australia,” he said.

While applauding the report, Mr Pring said it could have suggested a consolidated tax group, bundling trusts, property holdings and various entities.

“If you can view the whole family business as one, and ignore everything inside that box, you get rid of a lot of the issues that are frustrating family business.”

PwC partner Kel Fitzalan said that in the modern era there was no place for the 80-year life limit on trusts.

“It is forcing the transfer of wealth and therefore unnecessary income tax,” he said.

Firms were advising clients with ageing trusts to create new trusts to hold new assets or purchases, rather than putting it into the vehicle that has a limited time left, he said.

“It’s clunky and expensive.”

Whatever changes come, Mr Smorgon knows he’ll still have to tackle succession— assuming his sons want in.

“I would certainly hope they would,” he said. “When our family business was sold in the ’90s, it was a sad day.”

The Australian Financial Review

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