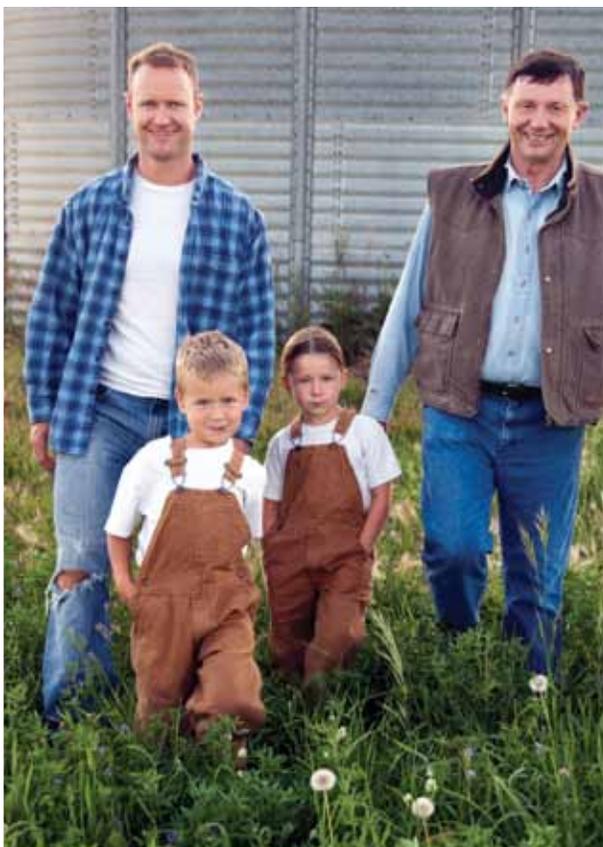




FBETC
Resource Guide
www.EstateTaxRelief.org



Family
Business
Estate Tax
Coalition





What is the estate tax and how does it hurt family-owned businesses?

The estate tax applies to the property transferred, after the death of the business owner, when the value of the property exceeds the estate tax exemption. The total cost of the estate tax not only comes from the cost of the tax, but also from the cost of estate tax planning.

The value of the family-owned business is usually tied to illiquid assets, such as land, buildings, and equipment, which can force the family to sell these assets in order to pay for the tax. This can cause the family to lose the business altogether. Protecting these family businesses from the estate tax is important in order to keep these businesses operating for future generations.

For many of these family-owned businesses, in order to keep their business operating after the death of the owner, they must plan for the estate tax. The planning costs associated with this tax are not only a drain on business resources, but also take money away from the day-to-day operations and investing in the business. These additional costs only make it more difficult for the business owner to expand and create new jobs.

Estate Tax By the Numbers

Estate tax hurts capital formation and job growth—

- Prior to 2001, the estate tax reduced capital formation in the economy by an estimated \$850 billion.¹
- 1.2 million jobs will be lost if the estate tax increases to 55%.²

Estate tax compliance is time consuming and expensive—

- For every \$1 of tax revenue raised from the estate tax, \$1 is wasted in compliance. For example, in 2006, it is estimated that family businesses spent \$27.8 billion just to comply with the law.³
- Less than 10% of small-business owners have a good understanding of estate tax rules. For that reason, those who are impacted by the estate tax must pay for expensive estate planning, such as hiring lawyers and accountants to comply with the tax's complex rules.⁴

Estate tax forces family businesses to sell their highly illiquid business assets—

- Since 84% of a farmer's assets are land based, farmers might be forced to sell their land in order to pay the estate tax.⁵
- The price of U.S. farmland has skyrocketed to its highest level since the 1970s. As a result, farmers are hiring financial advisors in order to avoid huge estate taxes on their increasingly valuable land.⁶

Estate tax creates more uncertainty for family businesses—

- Between 2002 and 2012, the exemption and tax rate have changed nine times.⁷
- Out of an estimated 2.5 million family businesses, 48% expect a family member to take over the business. Therefore, families want to plan ahead for the estate tax.⁸

¹ Joint Economic Committee, United States Congress, *Costs and Consequences of the Federal Estate Tax*, May 2006.

² American Family Business Foundation, *Changing Views of the Estate Tax: Implications for Legislative Options*, February 2009.

³ Joint Economic Committee, United States Congress, *Costs and Consequences of the Federal Estate Tax*, May 2006.

⁴ National Federation of Independent Business, *National Small Business Poll Tax Complexity and the IRS*, Volume 6, Issue 6, 2006.

⁵ American Farm Bureau Federation, *Estate Tax Reform*, January 2011.

⁶ Jessica Toonkel, Reuters, *Farmers turn to advisors to cash in, keep land*, November 25, 2011.

⁷ Joint Committee on Taxation, *History, Present Law, and Analysis of the Federal Wealth Transfer Tax System, History of the U.S. Wealth Transfer Tax System, Federal Taxes on Transfers at Death Before World War I*, November 13, 2007.

⁸ National Federation of Independent Business, *National Small Business Poll Families in Business*, Volume 2, Issue 6, 2002.

The **FBETC** represents **family-owned businesses** who are concerned that the estate tax will tax their family out of business. **These families want to share their stories—**



The **Katz** Family Denver, Colorado

The Katz family has operated Denver Hardware in Denver, Colo., for almost 70 years, employing 25 local workers. When Dan Katz's father passed away, he owed the IRS more than \$1 million in estate tax liabilities. Mr. Katz spent over 1,000 hours of his time complying with the tax, filling out the extensive forms, and working with his lawyer who charged him over \$60,000 in fees. Mr. Katz noted that he would have improved employee benefits if he did not have to pay the estate tax.



The **Kerckhoff** Family Belton, Missouri

The Kerckhoff family, owners of Rudroff Heating and A/C Inc. in Belton, Mo., demonstrates what a family business goes through to prepare for the estate tax. The Kerckhoff family built their small business from the ground up over many years of sacrifice, hard work, and dedication. Renee Kerckhoff has already started paying \$15,000 to \$20,000 per year in estate planning to protect her children in case something happens to her. She describes the current federal estate tax law as very unpredictable and believes that the resources to pay for estate planning could be better used on employee benefits or technology upgrades.

The **Barnard** Family St. Johns, Michigan

James Barnard, the owner of Barnard Manufacturing Co., in St. Johns, Mich., employs over 100 workers. Most of his assets are from land, a factory, equipment, and some cash on hand in order to meet the payroll for his employees. After his father passed away, Mr. Barnard paid nearly \$1 million in federal estate tax, not to mention thousands in attorney's fees, accountant's fees, and court costs. He states that the time, money, and resources spent to pay all the fees and the estate tax could have been used to expand the business and add more jobs to the community.

The **Sonderen** Family Spokane, Washington

Mark Sonderen, President of Sonderen Packaging in Spokane, Wash., inherited his business from his father, which now employs 148 workers. In the 20 years under Mark's leadership, the business has grown four times its original size. Mark's two children are working very hard in hope of becoming the next generation of owners. Unfortunately, Mark has to waste a lot of time, money, and resources between attorneys and insurance payments to make sure this transition successfully happens. With the projected growth of the asset value of this business in the next 10 years, Mark is very concerned about the company surviving the estate tax. According to Mark, "This company has produced a lot of tax revenue for over 44 years. The death tax is like killing the goose that lays the golden egg."

The **Wilson & Tracey** Family Annapolis, Maryland

Sarah Wilson would be a fifth-generation farmer in Annapolis, Md., if the estate tax had not prevented her family from keeping the farm in the family. When Sarah's great-grandparents passed away in the late 1990s, they left their half of the Maryland farm to her grandfather Arthur Tracey. Along with the farm, he was left a considerable amount of medical debt, funeral costs, and the most debilitating of all, estate taxes. He was forced to sell one-fourth of the farm to pay the taxes and keep part of the operation going. Every improvement project was put on hold, and they began to downsize, which prevented younger family members from joining the family business. Sarah and her husband decided to move to Jamestown, N.D., and work on his family farm. The estate tax has taught her a tough lesson, and she has started to plan for the estate tax in order to keep her husband's farm in the family.



The **Rooks** Family Inverness, Florida

Larry Rooks knows first-hand the effect the estate tax has on a family farm in Inverness, Fla. His grandfather died in 1957, and it took over 30 years to pay off the debt from the estate tax. They sold several thousand acres of land, hundreds of cattle, and all the mature timber they could scrape up. Eventually, the farm was divided by land, cattle, and debt amongst the family. The family told Larry to look for a career outside the family farm because they did not have enough money to hire more employees. After 32 years, the debt was finally paid off, and Larry was able to return to the family farm. The estate tax is still a major threat to their farm, and they have hired tax attorneys and estate planners to figure out the best plan for their family in the future.

The **Drummond** Family Philadelphia, Pennsylvania

The Drummond family went through estate tax planning 15 years ago with their floral shop, Plaza Flowers in Philadelphia, Pa. They were consumed with the amount of time and money it took for estate tax planning, which was a tremendous burden for their family and greatly hindered them from continuing to build their business. Their florist shop did not have any liquid assets to pay the estate tax, and they had to adjust the future of their business in order to survive. Before paying for the expensive estate tax planning and hefty legal and accounting fees, they planned on jumping on more opportunities, hiring more people, and expanding their business.

The **Ross** Family Centerville, Ohio

When Jenell Ross' father passed away unexpectedly, the family was unprepared for the financial realities of his death. Their family business in Centerville, Ohio, Ross Motor Cars, had been a successful business for 23 years before they were hit with this heavy tax. The estate tax caused the family to spend countless hours every week to deal with this burden. Instead of concentrating on growing the family business, they met regularly with a team of lawyers and insurance representatives to make sure a plan was in place to pay the taxes they owed and keep their employees working. The cost of the meetings alone was roughly \$300-\$400 a week, with annual costs totaling as much as \$50,000-\$75,000. The family still wonders what the possibilities could have been for their business if they were not faced with this burden.

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Our Mission

The Family Business Estate Tax Coalition (FBETC) is dedicated to the full and permanent repeal of the estate tax.

Our Goal

The goal of the FBETC has always been full repeal of the estate tax, and we still believe this is the best solution to protect all family-owned businesses from the estate tax. While we understand that full repeal may not be possible in the current environment, the FBETC supports permanently maintaining the current estate tax provision with an exemption level at \$5 million and the maximum rate of 35 percent. It is also imperative that any permanent relief related to the exemption is indexed to inflation, provides for spousal transfer and includes stepped-up basis.

Family Business Estate Tax Coalition



About Us

The Family Business Estate Tax Coalition (FBETC) is a grassroots coalition of over 50 national family-owned business organizations.

Air Conditioning Contractors of America
American Beverage Licensees
American Farm Bureau Federation ©
American International Automobile
Dealers Association
American Rental Association
American Trucking Associations Inc.
American Wholesale Marketers Association
AMT - The Association For Manufacturing Technology
Associated Builders and Contractors Inc.
Associated General Contractors (AGC) of America
Association of Equipment Manufacturers
Bowling Proprietors' Association of America
Communicating for America Inc.
Comporium Group
Food Marketing Institute
HARDI - Heating, Air-conditioning and Refrigeration
Distributors International
Independent Community Bankers of America
International Foodservice Distributors Association
International Franchise Association
International Sign Association

Marine Retailer Association of the Americas
Mason Contractors Association of America
Mortgage Bankers Association
National Association of Home Builders
National Association of Manufacturers
National Association of Wholesaler-Distributors
National Automobile Dealers Association
National Beer Wholesalers Association
National Black Chamber of Commerce ©
National Cattlemen's Beef Association
National Electrical Contractors Association
National Federation of Independent Business
National Funeral Directors Association
National Grocers Association
National Lumber and Building Material
Dealers Association
National Newspaper Association
National Restaurant Association
National Roofing Contractors Association
National Small Business Association
National Tooling and Machining Association
Newspaper Association of America

North American Die Casting Association
Petroleum Marketers Association of America
Plumbing-Heating-Cooling Contractors-
National Association
Policy and Taxation Group
Precision Machined Products Association
Precision Metalforming Association
Printing Industries of America
Service Station Dealers of America and Allied Trades
Society of American Florists
Sunrise Research Corporation
Tire Industry Association
U.S. Chamber of Commerce
Window and Door Manufacturers Association
WineAmerica
Wine and Spirits Wholesalers of America Inc.
Wine Institute

