ESTATE TAX RELIEF

ISSUE:

Federal estate [death] tax rates have increased significantly since their implementation in the early 1900’s. They are so high now that families must often sell their businesses in order to pay the taxes. This in turn creates disruption for the employees, customers and suppliers. When the owner of a construction company dies, the value of the company is added to the owner’s estate and is taxed after exemptions. Death taxes not only jeopardize the survival of family-owned construction companies, they also divert critical funds that could be invested in the business to estate planning costs. ABC is supportive of legislation that will relieve the death tax burden on businesses. Ultimately, ABC members would like to see death taxes eliminated.

IMPACT:

Construction companies are frequently family-owned and are particularly hard hit by the death tax burden since the value of these businesses is not in liquid assets. Studies indicate that the average family business spends nearly $20,000 in legal fees, $12,000 for accounting, and an additional $11,200 for other advisors preparing for death taxes. The current $600,000 exemption for business and personal assets is valuable. The lack of indexing and skyrocketing costs, however, have made further relief a necessity. A further increase in the unified credit -- to at least a level that keeps pace with inflation -- and family business exemption, as well as rate reductions, (which ABC strongly supports), would help ease the death tax burden.

PRO/CON:

Although small businesses are the backbone of our economy and have the greatest potential for creating jobs, more than 70 percent of all family businesses do not survive through the second generation. With federal death tax rates ranging from 37 percent to an extraordinary 55 percent, family businesses that have experienced an unfortunate death of an owner are often forced to break apart in order to pay the taxes, rather than keep operating, investing and creating jobs.

Family owned businesses give American families a sense of pride and accomplishment critical to the growth of free enterprise in our country. In the construction industry, they provide valuable jobs that are integral to building communities. ABC believes that these businesses are worth preserving for the next generation.

STATUS:

In June, the House of Representatives approved a phased-in repeal of the death tax over a ten-year period. H.R. 8, the Death Tax Elimination Act, garnered the support of 65 Democrats—the final vote was 279-136. The Senate passed a companion bill in July by a vote of 59-39. ABC’s government affairs department generated grass roots support for the issue and worked with House and Senate leaders to advance this bill through the political process. A significant victory for the business community, this year marks the first occasion death tax repeal was approved by both chambers of Congress. Unfortunately, President Clinton vetoed the legislation when it reached his desk and a veto override failed in the House.
by a vote of 274-157 on September 7, 2000. Thirteen Democrats and one Republican switched their position on the override vote.

Phased-in repeal of the death tax was also included in a broad-based, $792 billion tax-cut package approved by Congress in September 1999, but was vetoed by President Clinton. Additionally, estate tax relief was also provided in the 1997 Taxpayer Relief Act. The law increases the unified credit from the current $600,000 to $1,000,000, phased in by 2006. It also allows special estate tax testament for qualified “family-owned business interests” if such interests comprise more than 50 percent of an estate and certain other requirements are met. The maximum available under this provision would be $700,000 in 1998 and $300,000 in 2006, creating a maximum exemption amount of $1.3 million for family-owned businesses.

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