

## ESTATE TAX REPEAL

**OBJECTIVE:** Full and permanent repeal of the estate tax allowing families to more easily pass their businesses on to the next generation.

**BACKGROUND:** The federal estate tax is levied on the intergenerational transfer of wealth. In 2013, Congress passed the *American Taxpayer Relief Act (ATRA)*, which included a permanent extension of the \$5 million exemption (\$10 million for couples), and indexed the exemption for inflation. For 2017, the exemption level is \$5.49 million for individuals and \$10.98 million for couples. The top estate tax rate under ATRA is 40 percent on the nonexempt amount of the estate. Under ATRA's portability provision, a surviving spouse may claim any exemption not previously used by the deceased.

Passage of ATRA was a significant step forward towards the eventual full repeal of the estate tax. By making estate tax policy permanent, it gave multi-generational family-owned businesses some certainty regarding estate tax planning, which results in less costly and more rational succession strategies for families and family-owned businesses.

The owner of a family-owned business must include the value of the business assets in calculating the value of his or her total estate. This applies to all business assets whether liquid assets (like cash) or non-cash assets (land, inventory, and equipment). For the majority of family-owned businesses, because most of the value is in these non-cash assets, estate taxes require the liquidation of capital assets. Any estate tax owed by a family member that exceeds the liquid assets of the business results in a heavy and disruptive burden on the remaining members of the business.

Even with the certainty of the estate tax in its current form, the necessary planning, legal and accounting fees drain important business resources that could otherwise be used for growth, employment and reinvestment.

**PROVIDES LESS THAN 1 PERCENT OF FEDERAL REVENUE:** According to the Tax Foundation, the U.S. has the fourth highest estate or inheritance tax rate of the Organization for Economic Cooperation and Development (OECD) countries at 40 percent—nearly three times the OECD simple average of 15 percent. Despite this high tax rate, the U.S. estate tax accounts for less than 1 percent of total federal revenue.

In 2014, the estate tax raised \$19.3 billion according to the Office of Management and Budget, or 0.6 percent of total federal revenue of over \$3 trillion.

Despite only a small number of estates actually paying the tax, many estates face administrative costs associated with planning around the tax. The economy experiences lost investment due to the tax.

Many countries have moved away from the estate tax as they recognize the lack of revenue the tax raises relative to the administrative and economic burden it creates. Since 2000, seven OECD countries have repealed their estate tax. Additionally, four other countries and two tax jurisdictions have eliminated their estate or inheritance taxes. In all, 15 OECD countries go without an estate or inheritance tax.

Full and permanent repeal of the estate tax would be good for U.S. economic growth. The Tax Foundation estimates that eliminating the estate tax would increase the size of the economy by 0.8 percent, boost investment by 2.2 percent and lead to 139,000 new jobs.

**LEGISLATION:** Rep. Kristi Noem (R-SD) and Sen. John Thune (R-SD) have introduced the *Death Tax Repeal Act* (H.R. 631, S. 205) that would permanently repeal the federal estate tax. NLBMDA has joined over 60 other national organizations in support of the legislation.

**NLBMDA POSITION:** NLBMDA supports full and permanent repeal of the estate tax. NLBMDA will consider partial reform proposals that recognize the high asset base of lumber and building material dealers' businesses and set the exemption level high enough to adequately cover the value of non-cash assets such as land, inventory and equipment.

**REQUEST:** NLBMDA encourages members of Congress to cosponsor and pass the *Death Tax Repeal Act*, eliminating the estate tax and its impact on family-owned businesses.

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