April 15, 2015

The Honorable John Thune
Business Income Tax Working Group
United States Senate
Washington, DC 20510

The Honorable Ben Cardin
Business Income Tax Working Group
United States Senate
Washington, DC 20510

Dear Chairman Thune and Senator Cardin:

Thank you for your letter seeking our input on tax reform.

The Family Business Coalition supports a common sense tax structure that promotes small business expansion and job growth. The current tax code puts family businesses, America's main job creating engines, at a competitive disadvantage to publicly owned corporations. Comprehensive tax reform must correct this incongruence in the tax code.

Family businesses are owned and often run by one or more members of the same family. Family businesses vary in size and tax classification, but most of the 33.6 million business returns filed with the IRS in 2009 were sole proprietors (22.7 m.), S corporations (4.1 m.), partnerships (3.2 m. including 2.0 m. Limited Liability Corporations), and farms (1.9 m.) (IRS, 2009). Most family businesses file as "pass-through entities," meaning they flow through their business income, deductions, and credits onto their federal Form 1040 income tax return.

Family businesses make up 90 percent of all businesses, contribute nearly $6 trillion to gross domestic product, and employ 62 percent of the US workforce (Astrachan, 2003). These statistics show that family businesses are truly the backbone of the American economy yet as it stands now more than 70 percent of family businesses do not survive to the second generation, and a full 90 percent of family businesses do not survive to the third. The Family Business Coalition believes that tax reform should promote growth in the most productive, job-creating sector of the economy.

Most businesses could greatly benefit from a comprehensive tax reform package that lowers marginal tax rates. While corporate rate reduction is a worthy goal, lowering taxes on private businesses will positively affect more workers in the US. Lowering the marginal tax rates for individuals and businesses will lead to an increase in employment. A study by Ernst & Young found that an entrepreneur's increase in after tax funds of 10 percent would increase the likelihood of hiring by 12 percent and increase the average wage by 3.7 percent (Carroll and Prante, 2012). Additionally, business receipts from an increase in after tax funds would increase business receipts by 8.4 percent, helping to increase consumption. An increase in wages and workers will better stimulate the economy than any increase in government spending.

Family businesses, farms, and ranches could also benefit from full repeal of the federal estate tax. Family business owners tend to be "asset rich and cash poor" which often leaves them with large estate tax liabilities but no cash on hand to pay the tax.

In Northwest Iowa, for example, the average value of quality farmland is $11,404 per acre and the average farm size is 333 acres. Once crops, machinery and homestead are included, an individual farmer can easily reach an estate valued over $5.43 million, the current estate tax exemption, with virtually no cash left over to pay the tax (Iowa State University, 2012). Across the Corn Belt, cropland prices increased an average of 20 percent from 2011 to 2012, according to the USDA (USDA-NASS, 2012), but 92 percent of all farms see less than $250,000 in annual sales to keep their farms operating (USDA-ERS, 2008).

Like family farms, many family businesses must keep inventories valued in the millions to service customers. This inventory often accounts for a vast majority of the family's assets. When the owner of the business dies, the family may be forced into selling equipment or liquidating the entire business in order to raise the cash for the estate tax. Selling the business to pay the estate tax bill could mean selling at a deep discount to find potential buyers.

Family businesses need a tax code that protects them and encourages them to grow and thrive in their communities. Family businesses provide the majority of jobs in the country but also provide many benefits to local communities, which do not show up in formal statistics. Family Business Coalition member businesses often sponsor the local little league baseball team, help build the new wing of the community hospital, and treat their employees in the community as extended family. Family business owners tighten their belts when times get tough instead of slashing employees to keep the stock price high like many multi-national corporations must.

Regarding your request for ideas for a corporate only tax reform package: we cannot entertain any simplification in filing or compliance which would lower our pass-through members' effective tax rates commensurate with the roughly 30% cut in the corporate tax rate contemplated by the President and Congressional leadership. True rate parity for family businesses is the only option when it comes to tax reform. The majority Family Business Coalition members function as pass-through entities and our coalition cannot responsibly support tax reform that ignores the majority of our member companies in the hope that a future administration may be more amenable to addressing individual rates.

We strongly recommend that you reform the tax code to help family businesses create more jobs and pass unharmed to the next generation of business owners. We look forward to working with you to create a pro-growth tax code, which protects family businesses.

The Family Business Coalition is a diverse collection of organizations and industry groups united for the common purpose of protecting America's family businesses across the country. Our members represent family businesses from many different industries including suppliers, wholesalers, manufacturers, car dealers, distributors, farmers, ranchers and many other industries with heavy family business ownership. The Family Business Coalition works to implement tax policies that help family businesses of all sizes employ more people and continue to the next generation.

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