# PLANNING FOR THE DEATH TAX: CAN SMALL BUSINESS SURVIVE?

## HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH, TAX AND CAPITAL ACCESS

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

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# CONTENTS

## OPENING STATEMENTS



## WITNESSES



## APPENDIX

# PLANNING FOR THE DEATH TAX: CAN SMALL BUSINESS SURVIVE?

**THURSDAY, MAY 31, 2012**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON ECONOMIC GROWTH,
TAX AND CAPITAL ACCESS,
*Washington, DC.*

The Committee met, pursuant to call, at 10 a.m., in room 2360, Rayburn House Office Building. Hon. Joe Walsh (chairman of the subcommittee) presiding.

Present: Representatives Walsh, Chabot, King, Hanna, Schilling, Bartlett, Schrader, Clarke.

Chairman WALSH. Good morning and welcome. The hearing will come to order. I apologize to everyone at the outset. I have had a nasty head cold for a couple days. So if I sound like I am in a tunnel, I apologize.

I want to thank our distinguished panel of witnesses who have taken the time to be here today. Special thanks to Karen Madonia, who hails from the Eighth Congressional District of Illinois. We look forward to all of your testimony. I will begin with some brief comments.

Benjamin Franklin is believed to have written, "In this world, nothing can be certain but death and taxes." Now, it seems, nothing is certain but uncertainty. For many years, death and taxes have gone together in the United States, but the structure and rates of those taxes have varied greatly. For family-owned small businesses and farms, estate taxes are a significant concern.

Is it not enough for them to worry about new and higher taxes, compliance with the health care law, additional regulations, accessing capital, and simply staying afloat while they are alive? But these small business owners must also try to blunt the impact of estate taxes following their demise.

If Congress fails to act by the end of this year, the current federal estate tax law will revert to significantly higher pre-2001 levels. And that is not including any estate taxes imposed by states.

Many small companies have non-liquid assets—capital that is tied up in real property, machinery and equipment—so their heirs do not have cash to pay the estate taxes. Often, businesses must be sold—even at "fire sale" prices—so this estate tax can be paid. In fact, a Joint Economic Committee study found that, prior to 2001, the estate tax reduced capital formation by about $847 billion. Capital that must be paid in estate tax is capital that is not available to be invested back into the business, to create jobs, or to grow the economy.

Today, we will hear about the effects of the estate tax on small business owners. We very much look forward to this testimony.

I now yield to our ranking member for his opening remarks.

Mr. SCHRADER. Thank you, Mr. Chairman.

For many starting a successful business or a farm, actually, seeing it grow is the American dream. After all, the goal of most of these entrepreneurs is to build an estate that they can pass on to the next generation, carry on the family dream. But for many who have spent their whole lives building an enterprise, continuing that legacy tends to be very problematic given the estate tax.

For many family businesses, the estate tax is a major hurdle to overcome—very technical, very complex. Playing around such intricacies is expensive, time consuming, things that most small business folks do not have time or the money for at the end of the day. Additionally, it just adds anxiety. You have to constantly update your financial plan because of what we do or do not do here in the United States Congress.

And while the Estate Tax Reform was enacted in 2001, and allowed entrepreneurs to focus on growing their ventures, the reforms were only temporary. In 2010, we were able to give some estate tax relief but again, very temporary, just for two years. With the existing law expiring, as the chair pointed out at the end of the year, reduced exemption limits will take effect subjecting many, many more small businesses and farmers to the estate tax. So providing relief for thousands of small firms and farms is critical to continuing the recovery. However, we must be cautious how we do that because we do have a debt deficit issue that we are also concerned about.

As our economy continues its recovery, we must do everything possible to help small business job creators. We cannot do so at the expense of future generations. So today's hearing will assess the implications of the estate tax on small firms and farms and examine what the future of this law holds for them. Some are calling for a complete repeal of the estate tax; others suggest that Congress freeze the estate tax provisions in their current form. Nevertheless, one thing is clear; we need a permanent solution. So I look forward to hearing from each and every one of you what you think that might be.

Small businesses face enough hurdles to succeed without the estate tax. Protecting the family business so it can flourish is critical to creating American jobs and the future of this country. And by crafting an estate tax that works for small firms and farms, we can empower entrepreneurs to do what they do best, which is create jobs. So I look forward to hearing from each and every one. And I yield back, Mr. Chair.

Chairman WALSH. Thank you, Congressman Schrader.

If it is okay with you, Congressman King has to dash off to a meeting in a second and requested the ability to make an opening state.

Mr. SCHRADER. Sure.

Chairman WALSH. Congressman King.

Mr. KING. Thank you, Mr. Chairman. And Mr. Chairman, I very much appreciate you holding this hearing today. I think it is important that we have this discussion and I appreciate the witnesses a great deal.

I would like to start this out with a little piece of a narrative. And that was just a few years ago I received a phone call in an evening from an individual whom I knew to be one of several siblings in a well-to-do family not that far from where I live. And he started out with this: "Congressman, I drew the short straw and I am the one that has to call you. Our mother is in the hospital and we are making a decision on whether to put her on life support and I would like to know whether Congress is going to do something to fix the death tax."

Ladies and gentlemen, it is cruel and diabolical to put families through this and make death also a taxing decision. And it is cruel and diabolical to tap into the accumulation of the American dream. If we can tax it when they earn the income, we can find ways in our states especially to tax it when they spend it, we do not need to tax it if they accumulate it.

And I, as a founder of a construction business back in 1975, started out with a negative net worth and built a little bit of capital. Now, I have transitioned that into, well, one of my sons at a minimum, who has demonstrated to me that it is not just intergenerational capital that we develop, but we also accumulate intergenerational knowledge. You build a knowledge base within the family. They learned things at age 10 that I did not learn until I was 40, and that foundation of this—this is how you tie together the American dream. The American Dream is tied together. People come here to the United States to access the American dream. They are raised to access the American dream. The pillars of American exceptionalism are tied together to paint the foundation for the American dream. And what does the federal government do but go in and grab it at each transfer of the generations. And why do you build that? Why do people go to work after say age 50 or 55 if they are able to take care of themselves for the rest of their life? Why do they continue to work and succeed if the government is going to take the proceeds of that wealth?

And so this death tax, this estate tax that we are dealing with here today, it is a tax directly on the American dream. It takes the capital out, the formation out of the family. For example, a family farm. Just think of a family farm that over two or three or four generations has accumulated maybe 1,500 acres and set up a green light distribution system, storage system, and feed lots and pastures and all those things that go together to make a unit, and then that unit is broken up to pay the taxes and the entire family business is destroyed because what? Because of the political element in this country and in this Congress called class envy. We should cheer the people that are able to achieve and succeed in the American dream and understand that we want to encourage more of that—more capital formation, more wealth formation, more family businesses where you have the accumulation of intergenerational capital and the accumulation of intergenerational knowledge.

That is my message today, and I hope I can hear the witnesses' testimony. And I am hopeful that we will be able to move forward and one day see the end to this tax on the American dream called the estate tax.

Chairman WALSH. Thank you, Congressman King.

If other Subcommittee members have an opening statement prepared, I ask that they be submitted for the record.

**STATEMENTS OF NEIL D. KATZ, MANAGING PARTNER, KATZ, BERNSTEIN & KATZ, LLP; KAREN MADONIA, CHIEF FINANCIAL OFFICER, ILLCO, INC., TESTIFYING ON BEHALF OF HEATING, AIR-CONDITIONING, AND REFRIGERATION DISTRIBUTORS INTERNATIONAL; MICHAEL G. FLESHER, OWNER, TAYLOR RENTAL CENTER; THALA TAPERMAN ROLNICK, OWNER, THALA T. ROLNICK, CPA, PLLC.**

Chairman WALSH. To our witnesses, you will each have five minutes to deliver your testimony. Do your best to adhere to that time limit.

We will begin with our first witness, Neil Katz, who is managing partner of the law firm of Katz, Bernstein & Katz, in Syosset, New York. He specializes in federal and state income tax issues and matters affecting corporate partnership, estate, and gift taxation. Not only are his clients small business owners, but he is part owner of a small business himself. He practices law with his father.

Welcome, Mr. Katz. You have five minutes to present your testimony.

**STATEMENT OF NEIL D. KATZ**

Mr. KATZ. Good morning, Chairman Walsh, Ranking Member Schrader, and members of the Subcommittee. I appreciate the opportunity to address you today, and I thank you for taking time to learn about the difficulties faced by closely-held business owners as a result of the imposition of the estate tax on the business that they have worked tirelessly to create and grow.

Your hearing memorandum states in its conclusion that there is not a great deal of credible evidence about the effect of the estate tax on small businesses. While there may not be a significant number of empirical studies on this issue, the business owners who will testify today and the millions of small business owners across our country who are struggling with this issue are all the credible evidence that you should need.

Closely held businesses are an integral part of local economies throughout the country. Business owners spend their entire lives investing time, effort, and capital into making a business a success. Many of them would like nothing more than to be able to pass the fruits of their labor and capital onto the next generation. However, as business owners age, the complexities of owning and running a closely held business often become overshadowed by the burden of the estate tax looming on the horizon.

The issues faced by business owners and their families start long before death with the necessity of seeking out professionals to assist with planning to attempt to reduce the exposure that the heirs will face. This planning does not come without a price. To design and implement an estate plan can cost an individual anywhere from $5,000 to $50,000 or more. The plan may call for the transfer of interest in the business to future generations. Often, this decision is one that the owner may not be prepared emotionally or economically to make at that time. During the planning process, business owners are forced to familiarize themselves with the concept of estate tax valuation, and the families need to become prepared for the expediency with which estate taxes must generally be paid.

Estate tax value is a concept that accountants, attorneys, legislators, and the Treasury Department have struggled with for decades. There is no clear definition in the statute, and the only guidance we are given is the hypothetical willing buyer, willing seller language of the regulations. Tax experts often differ on the meaning of these rules, and to business owners this is often impossible to comprehend.

The real value of a closely held business is often tied directly to the owners. Ask most business owners what their business is worth in the market and they will say, “Without me, the business is worth nothing.”

Where estate tax valuation differs from reality, it only makes the burden on the business owner and their family even greater. When I was younger I started collecting baseball cards and today I still have much of that collection in my basement. Whenever I am asked why I do not throw out the baseball card collection I say that it is because it is worth a lot of money. To that my wife inevitably responds, “It is actually not worth anything unless you sell it.”

To most small business owners, the same principle applies. To them, the only value of the business is the check that they get to take home each week. However, the estate tax valuation concepts force an imposition of a tax as if the business were sold.

Further complicating matters is the requirement that the estate tax be paid within nine months of death. While extensions are available, they are often short-term solutions to a long-term problem. Even Internal Revenue Code Section 6166, the most significant estate tax extension, has its problems. Most businesses do not have the cash reserves or cash flow available to make the payments that are required in the timeframe, and many businesses do not qualify for this relief.

Planners with us often recommend that a business owner acquire life insurance to provide liquidity to pay the ultimate estate tax that will be due. This creates an added expense to the business. Depending upon the amount of insurance that is required, the premiums can run tens of thousands of dollars annually if the owner is even insurable.

Businesses today are operating on very tight margins. Adding the burden of estate tax to the cash flow of the business can make continuing the operation of the business impracticable. The new owner of the business can often not afford to pay taxes and still have money to pay business expenses and make a profit. Most individuals do not see working to solely pay off an estate tax obligation as the definition of the American dream. There is no benefit to a beneficiary if the assets that they inherit provide them with nothing other than the opportunity to work with no expectation of income. There needs to be some incentive for the owner.

As a final point, more than anything, what the small business owner needs is some clarity and certainty in the law. The constant changes in the estate tax law over the past 12 years, coupled with the uncertainty of the future rules is unworkable. Congress needs to once and for all establish rules that business owners can be assured will survive.

Since the enactment of ETR in 2001, we have been operating in an impossible environment. The chaos of 2010, which again stands before us on January 1, 2013, cannot be repeated. Business owners and all taxpayers need and deserve certainty.

Thank you again for the opportunity to speak today. I am happy to answer any questions the members may have.

Chairman WALSH. Thank you for your testimony, Mr. Katz.

Our next witness is Karen Madonia. Ms. Madonia is chief financial officer of Illco, Inc., a family-owned distributor of refrigeration, heating, air-conditioning PVF, plumbing, and hydronic supplies in Aurora, Illinois. She currently serves as co-chair of the Government Affairs Committee of the Heating, Air Conditioning, and Refrigeration Distributors International. She is testifying today on their behalf.

Welcome. You have five minutes to present your testimony.

## STATEMENT OF KAREN MADONIA

Ms. MADONIA. Chairman Walsh, Ranking Member Schrader, and members of the Subcommittee on Economic Growth, Tax, and Capital Access. My name is Karen Madonia and I am the chief financial officer and next generation of Illco, Inc., a Chicago-area distributor of heating, ventilation, air conditioning, and refrigeration equipment, parts and supplies. Thank you for giving me the opportunity to talk about the estate tax and its effect on the many small family businesses which make up the United States' economy. This is an issue that is very close to my heart as my family is in the midst of our own generational transfer.

As background, Illco was a very small company when my father purchased it back in 1973. At that time, my dad was only 32 years old, with a wife, three daughters, and a mortgage, but he knew he wanted something more than just a job. He wanted to use his passion to create something permanent, to be in control of his own destiny. With help from my grandfather, my dad decided to take a risk and go into business for himself.

In those early years, he worked every job at the company, and my mom filled in wherever needed. My dad worked seven days a week, 10 to 12 hours a day, but his passion for the industry, his commitment to his employees, and his drive to grow his company empowered him to push forward. And 40 years later, he has a business that employs over 90 people in three states and generates almost $40 million in revenue.

My sisters and I grew up understanding that if we wanted to be successful, we had to work hard and stay focused on our goals, and we carry that ethic with us every day as we work alongside our dad.

While I take great pride in my dad's story, I realize that it is not necessarily unique. There are thousands of families that have similar histories—families who have decided to risk everything to pursue the American dream. Like my dad, they want to create something that lasts, that can be passed down to their kids and grandkids. I am speaking today about my own family's experience, but I know that all family business owners have the same issue—

how do I pass this business on to future generations without losing some or all of it to the IRS in the form of estate taxes?

Each spring I come to Washington with our trade association, HARDI, to talk to our representatives and senators about the issues that are important to my company and our industry. Every year, estate tax is my top priority and I appreciate this Committee's interest in this issue. Far too often, small business owners feel that there is a lack of understanding about this tax and its impact on job creators. The reality is that we are not talking about passing on bank accounts with million dollar balances. These are businesses where most of the net worth is tied up in inventory, equipment, and real estate. In the case of Illco, we carry an inventory valued at $10,000,000, and accounts receivable of about $5,000,000.

Our inventory has to be high. We provide vital heating, air-conditioning, and refrigeration parts and supplies to hospitals, schools, nursing homes, and grocery stores. When the refrigeration system in a grocery store goes down, it needs to be repaired within hours or the food is lost. When the air-conditioning system in a hospital does not work, patients cannot be properly cared for until air is circulating again. The products that we sell must be on-hand in order to facilitate quick repairs and replacements, which means that we have to carry a heavy inventory.

We also own five buildings and operate a fleet of 26 trucks. After paying our taxes and making our annual profit sharing contribution, the income that is left is put right back into the company so we can continue to carry an extensive inventory, extend payment terms to our customers, and maintain our fleet and our buildings.

If something happened to my dad, we would literally have to sell parts of the company in order to pay the estate tax. That would likely mean shutting down branches, laying off workers, or liquidating inventory. Even worse, it could mean having to sell the entire company just to be able to pay a tax bill that only occurred because an owner died.

Over the last few years, my dad has spent countless hours and entirely too much money trying to navigate the estate planning waters. Instead of focusing on growing his business, he has had to strategize about how to pass his company onto his kids without having to dismantle it. And if that is not enough of a challenge, he has had to do it within an ever-changing tax landscape. We have gone from an exemption of $2 million and a tax rate of 45 percent in 2008, to an exemption of $3.5 million and a tax rate of 45 percent in 2009, to a full estate tax repeal in 2010, to an exemption of $5 million and a tax rate of 35 percent in 2011 and 2012. In 2013, the exemption is scheduled to fall back to a million dollars with a tax rate of 55 percent. How can anyone formulate an estate plan if the rules are changing every year?

In the business world, we need to think beyond the current year if we want our companies to thrive. We are typically looking 5 to 10 years out in our strategic plans, trying to move all the pieces on the board to better our chances for growth and prosperity. That is very difficult to do even in the best circumstances, but it is nearly impossible when Washington keeps changing the rules.

The estate tax places an immense burden on small business owners by taxing them for creating and growing a business that outlasts them. In my opinion, it is a fundamentally flawed tax that discourages entrepreneurship, and it should be totally repealed. Absent that, I would ask that Congress consider maintaining the current personal exemption and gift and estate tax rates, and equally important, establish a more permanent solution to the estate tax issue.

Small business owners take tremendous risk at great personal sacrifice and they truly are the backbone of the American economy. They should be appreciated and encouraged. Allowing the estate tax exemption to fall back to a million dollars and the rate to climb to 55 percent would absolutely devastate a great number of families who are currently working on generational transfers.

I respectfully urge you to carefully consider all the ramifications of estate tax policy and establish a long-term solution that will allow for generational transfers of family businesses. And I thank you for allowing me to put a more personal perspective on the issue for you.

Chairman WALSH. Thank you, Ms. Madonia.

I now yield to Mr. Hanna, who will introduce our next witness.

Mr. HANNA. Hello, Mr. Flesher. How are you today?

Our next witness is Mike Flesher. Mr. Flesher is president of the American Rental Association. Mike Flesher was born and raised in the southern tier of New York. I have the privilege of representing many communities there. He operates two Taylor Rental Center franchises in upstate New York, truly family-owned businesses. They provide taxes and opportunity and jobs in those communities. Last week, I had the opportunity to visit his business in Vestal, New York, to discuss the impact of taxes and his ability to hire and grow and plan.

Welcome, Mr. Flesher. You have five minutes.

**STATEMENT OF MICHAEL G. FLESHER**

Mr. FLESHER. Thank you, Chairman Walsh and Ranking Member Schrader. And thank you, Representative Hanna, for that generous introduction.

Mr. Chairman and members of the Subcommittee, I am Mike Flesher, president of Taylor Rental in Vestal, New York, and president of the American Rental Association. I am here today to testify on the effects of the federal estate tax on small businesses.

Taylor Rental is a small, family-owned business, with two locations in Vestal and Ithaca, New York. Taylor Rental is a typical rental business. We employ 16 full-time and four part-time employees and up to 15 seasonal employees. ARA has approximately 4,000 members in the United States, and the overwhelming majority of them are businesses just like mine. We rent equipment and tools to contractors and homeowners, and we rent party and event equipment to individuals and corporate clients.

ARA supports a permanent extension of current estate tax law, which allows a $5 million per person exemption indexed for inflation, and a 35 percent rate on the remaining assets in the estate. Current law also provides for a stepped up basis on assets in the estate. It is critical for Congress to pass a permanent extension so that small businesses have the certainty we need to plan for the future. We are concerned about the federal estate tax reverting to the $1 million per person exemption and 55 percent rate that existed in 2000.

My testimony shows the number of rental business locations and the economic impact of the rental industry for each state represented by a member of the Small Business Committee illustrating how ubiquitous the equipment rental industry is throughout the United States. According to IHS Global Insight, the equipment rental industry in the U.S. will generate $31.2 billion this year and $49.8 billion by 2016. The industry is currently growing four times faster than the U.S. GDP. Much of this growth is from the expansion of small businesses within the industry.

What does it take to generate billions of dollars in rental revenue? It takes capital, and a lot of it. Collectively, ARA members have billions of dollars invested in the equipment our customers want and need. An 80- by 160-foot tent that gives a young couple the dream wedding they always wanted costs me $60,000. Taylor Rental has hundreds of tents that range from $1,000 to $60,000 each. Other equipment, like small Bobcat loaders cost $34,000, and aerial work platforms can cost $50,000 to $100,000. Larger equipment, like track excavators, can cost well over $150,000 per unit.

Equipment rental companies make ongoing capital investments to survive and grow because customers demand the latest and best equipment. When you rent a car you do not usually get a 1990 Buick; you get a new car with low mileage. The same is true in the equipment rental industry. My customers do not equipment. They want new equipment, and I must invest in that equipment to satisfy my customers. U.S. equipment rental companies are investing $10 billion in new equipment this year and almost $20 billion annually by 2015.

Along with the billions invested in equipment, we own real estate and buildings that house our rental stores and equipment. Many small equipment rental businesses have substantial, but illiquid assets.

This is precisely why ARA is concerned about the possibility that the current estate tax law will expire on December 31, 2012, and revert to 2000 levels. If the estate tax reverts to 2000 levels, my estate would be severely impacted. Sixteen good people, who have given our company many years of good service, may no longer have a job. The businesses that sold products and services to our company could lose a good customer, but foremost, the economic security of my family will be uncertain.

Mr. Chairman, there is a lot of rhetoric about how the estate tax really only affects rich people. I do not consider myself or my family rich. For the past 43 years I have gone to work every day to earn a living. I have invested my resources in a company that has grown and been successful despite some tough times recently. My estate is my company. I do not have assets that can easily be liquidated to pay estate taxes. My company will have to be sold.

Reverting to a policy that was outdated 12 years ago would, in my opinion, be a disaster for many small business owners like me, and the number one goal that I have worked for will be in jeopardy—to provide financial security for my family. In addition, the current situation makes business planning almost impossible. We need certainty on the estate tax, and we need it now.

Let me be clear. ARA would eliminate the federal estate tax. It is a tax on capital, pure and simple. However, the need for certainty on this issue has led us to a position of supporting a permanent extension of current law. We believe the current $5 million exemption with a 35 percent rate and stepped up basis is a policy that will help sustain small businesses for years to come.

Thank you, Mr. Chairman. That concludes my statement. I will be happy to answer any questions you may have.

Chairman WALSH. Thank you, Mr. Flesher. I now yield to Ranking Member Schrader, who will introduce our final witness.

Mr. SCHRADER. Thank you very much, Mr. Chairman.

It is my pleasure to introduce Thala Rolnick, certified public accountant, with offices in Arizona. Her practice concentrates on tax planning and compliance for high net worth individuals, partnerships, and closely-held businesses. Ms. Rolnick also chairs the IRS Liaison Committee and serves as a member of the Board of Directors for Valley Estate Planners. Thank you for being here.

**STATEMENT OF THALA TAPERMAN ROLNICK**

Ms. ROLNICK. Thank you. Chairman Walsh and Ranking Member Schrader, thank you for inviting me. As has been said, I have been practicing in Phoenix, Arizona, dealing with estate issues for the last 16 years.

The estate tax has been with us since the early Egyptians in 700 B.C. first initiated it. The first U.S. estate tax dates back to 1797.

Those in favor say it is an effective tool to raise needed revenue and to prevent the concentration of wealth and power in a few families. Others believe it discourages capital accumulation and curbs national economic growth.

The question with us today is "can a small business survive the estate tax?" And the answer is "it depends." The estate tax has been a moving target since 2002, when the amount that could pass estate tax free first increased from $600,000 per person to the current $5,120,000 per person. At the end of this year, it will drop back to $1 million unless Congress acts. The exclusion amount enacted will determine how many businesses are actually affected.

In 2010, when the exclusion amount was $3.5 million, according to IRS statistics, 4,425 small business owners' estates paid some sort of estate tax. This is approximately .02 percent of all business owners, yet the total estate tax collected was over $69 billion. At a $5 million exclusion, even fewer businesses will be subject to the tax. If Congress allows the exclusion to revert back to $1 million, based on 2002 numbers, almost 26,000 small businesses will be subject to the tax every year and now it becomes a small business issue.

When the current estate law was passed in 2010, it attempted to reduce the need for some of the more complex estate planning techniques. It tried to make the exclusion amount more of a family amount by allowing for portability.

While the idea was admirable, the legislation is flawed in many ways. First, it only applies to the estate tax and not to the Generation Skipping Tax. So if I want to leave assets to my grandchildren, they will be taxed. Second, to be eligible, the estate must file an estate tax return Form 706. This is very complex and takes a lot of time and energy. The statute of limitations then remains open on this for the life of the surviving spouse. That could be 5, 10, or even 15 years, long after any documentation for how the values were determined are gone. If the surviving spouse remarries, the inherited additional exclusion may be lost. Finally, if the inherited assets increase in value, the surviving spouse's estate may be subject to estate tax that would not have been subject to estate tax had those assets been placed in an irrevocable trust at the time of the first death.

The current code provides favorable provisions for small businesses. Section 2032A provides that land used in a business or a farm can be valued at its current use rather than its highest value. If the land stops being used in this way or sold within 10 years, the additional estate tax is assessed. Section 6166 allows the estate to pay a portion of their estate tax attributable to a farm or closely-held business over a 15 year period if the value is greater than 35 percent of the estate. Section 2057 is currently obsolete but if the estate tax reverts back to $1 million it will become active again. It provides an additional exemption to small business owners but the calculation cannot be done prior to death and therefore, cannot be relied on during estate planning stages.

In addition to the items identified, a number of important estate issues will also expire and I have those listed in my written testimony. Most business owners are very resourceful and find ways to resolve business issues, but when they do not know what to plan for, planning becomes impossible. There can be no planning until we have some permanence.

Therefore, I recommend enactment of a permanent estate and gift tax with an exclusion someplace between 3.5 million and 5 million adjusted for inflation along with step up in basis.

Permanently rejoin the gift and estate tax.

Make portability permanent, but also correct the existing statute to allow a surviving spouse to accumulate up to a full second exclusion. Allow portability for Generation Skipping Tax. Change the statute of limitations for these returns to three years. Recommend the IRS develop a simple Form 706.

Preserve reasonable valuation discounts for operating businesses where the death of an owner truly reduces the value of the business.

Pass a simpler, easier provision to provide small businesses with an additional exclusion. My recommendation is in my written testimony.

Pay for these provisions by restoring progressivity to the estate tax at levels above the exclusion amount.

Reform the Grantor Retained Annuity Trust (GRAT) provisions to disallow excess discounts where the trust holds primarily liquid assets.

Thank you for your time, and I would be glad to answer any questions.

Chairman WALSH. Thank you, Ms. Rolnick. I appreciate your testimony.

I will begin with a couple questions and then I want to hear from the rest of the Committee.

This issue of the estate tax is probably an issue that I hear of and about when I am back home probably as much, if not more, than any other issue. I spend a lot of time, as many members of Congress do, speaking to small business owners and this is always top of mind with them.

Why is that? Well, because they feel it. There is a real negative impact. Mr. Flesher, you said it. I am going to borrow that line from you. "My estate is my company." Bingo. I hear that constantly. So this is a tax that directly impacts small business owners.

The other reason though why I think this tax is such a big tax with people back home is just philosophically it makes people scratch their heads. Look, we are taxed when we make money. We are taxed when we grow businesses. We are taxed when we buy things. We are taxed when we invest. When we die? Just the thought that when we die, Ms. Madonia, when your dad works his tail off for 30 to 40 years to grow a business, why? Why does the government get to put their hands on any of that money.

I think it is the broader philosophical question that annoys a lot of people, even people who are not impacted by this tax. I hear that constantly. The amount of money that the government raises with this tax is not a large amount, but the headaches that we put people through to do it is just amazing to me.

Can anybody answer that question? Just philosophically, what is the rational for this tax? And like everything in Washington, we get right down into the Xs and the Os. Well, we can improve it. We need to extend it by five years, drop the exemption down to here, maybe—I do not even want to play that game. I will not with my questioning. Why do we even have this tax? Can anybody make the case on principle that it is a good thing for the government to take money from you when you die? Does anybody want to take a stab at that? Mr. Katz, you know you are itching to answer.

Mr. KATZ. I am not sure that I can necessarily answer it philosophically but I think that I can at least give some insight as to the historical perspective of it. I think when the estate tax was first enacted there was a tremendous sense of needing it for redistribution of wealth; for avoiding some of the accumulation, the mass accumulation of wealth by some of the larger land-owning and wealth-owning families in the country. And I think to some extent the estate tax has survived all of these years, not based upon its economic impact upon the tax coffers, if you will, but it has survived based upon the theory that there needs to be some way to move wealth from those that continue to accumulate it to those other.

Chairman WALSH. Why? Why?

Mr. KATZ. I think to some extent it is the same reason why there is larger income tax rates on people who earn more money. It is the same theory that, you know, goes back years and years of trying to move money down to fund social projects, to be able to have funds available to help those who have not, for whatever reason, been able to help themselves. And I think to some extent the estate tax has the same impact as the progressive income tax.

Chairman WALSH. Well, I think you are right. And I think the reason this resonates with people is because of when it occurs. I mean, that is basically the basis for most taxes in this country. But this really hits a number of intersections because you are talking about something so personal, so intimate. A family's death, a business owner's death, and at that moment here comes the hand of government in to grab something.

Ms. Rolnick, is there any just overarching justification? Anything you want to add?

Ms. ROLNICK. I basically agree with Mr. Katz. Basically, it was set up to go ahead and prevent certain families from accumulating the most amount of wealth and the most amount of power. And therefore, going ahead and allowing two classes of people—those with and those without.

Chairman WALSH. So the world now has changed because now we are at a point where Ms. Madonia said—and how poignant is this—if something happened to my dad we would have to sell the business. How in God's name have we gotten to that point in this country? Maybe with the best of intentions we have this thing called the death tax where you have to look a member of Congress in the face and say if something happens to your dad you are going to have to sell your business. How is that a good thing? How is that a good thing?

And so is the answer, Mr. Flesher and Ms. Madonia—I will let you two chime in here—is the answer to tinker with it so that maybe your dad, maybe your family does not have to pay that consequence—tinker with it, improve it? Or has the world changed that now so impacts small business owners that we should just get rid of it? Mr. Flesher.

Mr. FLESHER. Well, I support a full repeal. I have paid income tax over the life of my equipment and I have paid state sales tax to the state every time I run a piece of equipment. We have been taxed over and over again on the life of that equipment and my entire business. I do not believe we should be taxed again.

We support the current bill because we think that is a possibility. And we think that would help the majority of our members in ARA.

Chairman WALSH. Ms. Madonia, what is your thought or recommendation there?

Ms. MADONIA. I guess I would just share a story. I have a nephew. Our family business is my parents, my sisters. We have a next generation of eight grandkids, and one of those grandkids said at one point—we talk a lot about this in our family—and one of them said to my dad, "Why would I want to do this? Why would I want to start my own business? Why would I want to work really hard like you have if it is just going to be taken away from me when I am done? Why not just be another guy? Why not just work for somebody else?

And that is really sad. This is the United States of America. It is the land of opportunity. It is where people can have a dream and turn it into reality. And to discourage that in any way, and I think the estate tax is a major discouragement to that, I just think it is fundamentally wrong.

Chairman WALSH. Well, and you are right in that studies would buttress your argument. The estate tax has a major negative impact on entrepreneurial activity. And again, that just makes sense.

If you are going to, again, work your tail off year after year to grow a business and then as you all said, you need to begin to play this game, Mr. Katz, where every year you have got to spend money to figure out how, when the ultimate happens, you can, as much as possible, pass money down to your kids and your family, you have to spend resources to try to do that. That is mindboggling to me.

I will end there and turn to Ranking Member Schrader for his questions.

Mr. SCHRADER. Thank you, Mr. Chairman.

One alternative I will point out is you sell your business that you built over time. That is what I ended up doing. A small businessman. I had a small veterinary practice and either I was not home enough or did not view my kids enough with a faith in veterinary medicine. They were not interested in following so I ended up selling mine. And it was my retirement as many of you have talked about, either through an estate planning technique or, as in my case, resell it. But that is another thought for the younger generation so he is not totally discouraged with being an entrepreneur at the end of the day.

Great testimony. And one of the takeaways I have from this, Mr. Chair, is it is a little similar to what we had in the last Congress when we talked about the estate tax. While many, if not everyone at the dais would probably want to repeal the estate tax if at all possible, we are facing deficit issues trying to balance our own checkbook here, believe it or not, the United States government. It is encouraging to hear that the values that were enacted in 2010, albeit temporary, were of value to your different constituencies. Could Mr. Flesher, Ms. Madonia, Mr. Katz talk about, real quick, about the $5 million, $10 million, the stepped up basis, and the 35 percent? In terms of the number of businesses like yours you think, you know, you said majority, Mr. Flesher, is at 60 percent, 50 percent? Just guessing. I understand.

Mr. FLESHER. We think in our case the $5 million would cover a very high percentage of our members. Maybe 90 to 95 percent. The majority of our members are in the $500 to $3 million range. But, of course, being indexed, that would help those businesses continue to grow.

If it reverted back, that is a hard, you know, we have revenue numbers but we do not know their value. So it is hard to say what that number would be.

Mr. SCHRADER. How about Ms. Madonia, if we kept at least the current area?

Ms. MADONIA. Well, I think part of the equation also has to be that that $5 million is not just the value of your business; that is the value—that is your value. So now you are talking about somebody's profit sharing and 401(k) that they have accumulated over the course of time. You are talking about their house. All of that has to fall in that $5 million. So again, I think it is a fundamentally flawed tax that should be repealed all together. Is $5 million more workable than $3.5 million or a million? Absolutely. But it is still not as much as you think it is when you have got a small business and then you have got your retirement savings and your house and any other assets you have accumulated.

Mr. SCHRADER. Sure. Mr. Katz.

Mr. KATZ. Being from the metropolitan New York area, I think things are slightly different and slightly skewed in my view. People who live in my area, you take the businesses that they have and add the value of those businesses to the value of their homes and the value of the other assets that we need to accumulate in order to be able to afford to live in the area that we live in. Although $5 million is certainly helpful, there is still going to be a large number of people that are going to be subject to the continued estate tax, which is why I think that moving more towards some of the discussion that Ms. Rolnick talked about earlier in her testimony relating to some special exemptions for small businesses to try to remove the value of some or all of the small business out of the computation of the estate tax would be helpful. If we had a $5 million exemption to cover home and personal savings and 401(k)s and all of those types of things and then on top of that——

Mr. SCHRADER. It is my understanding actually that the 401(k)s and the homes are already deductible from the estate tax.

Mr. KATZ. No.

Mr. SCHRADER. They are included?

Mr. KATZ. They are absolutely included.

Mr. SCHRADER. That is good to know.

Mr. KATZ. So if we had that exemption to cover those assets and then an additional exemption to cover part or all of the value of a closely held business, I think to that extent we would be able to solve some of the problems.

Mr. Flesher talked about his estate being his business. If you have multiple exemptions or an exemption just for that business, he is not going to have the problems that he is facing right now.

Mr. SCHRADER. So to follow up then, Ms. Rolnick gave some great recommendations which I really appreciate at the end of her testimony in written form and alluded to them in her oral discussion. Have you guys had a chance to read those at all? I, for one, Mr. Chairman, would be interested in your comments. We can make sure you have access to her testimony because it covers a lot of the things that Mr. Katz, Ms. Madonia, and Mr. Flesher are talking about. It might be things we would want to recommend to our Finance Committee folks, our Ways and Means folks, to look at as we get down to crunch time, at some point, hopefully before Armageddon sets in and we actually do some things with our tax code that are absolutely critical, even beyond the estate tax itself.

So with that I guess I will yield back, Mr. Chair.

Chairman WALSH. Thank you, Mr. Schrader.

I now turn to Mr. Hanna from New York.

Mr. HANNA. Mr. Katz, you and I both live in New York. I know the answer to this but I want to hear you say it. What is the lifetime exemption for New York?

Mr. KATZ. The lifetime exemption, it is a combination lifetime and death time exemption, is $1 million.

Mr. HANNA. Right. What is the marginal rate on that for a deceased in a family?

Mr. KATZ. The highest estate tax rate in New York is 16 percent.

Mr. HANNA. So the possibility exists that in New York, for Mr. Flesher, where it looks like 35 percent at $5 million is really a minimum of 16 once you reach a threshold of $1 million and so his effective rate will be 16 percent on that additional 4 million, plus 51 percent on everything over that 5. You may want to reconsider, Mr. Flesher, whether you like the 5 or not. Were you aware of that, Mr. Flesher?

Mr. FLESHER. I was, but I did not consider it in part of this testimony here.

Mr. HANNA. Right. Right. The interesting thing is New York State has lost a lot of its population over the last few years. It is certainly not growing as fast as other states. And one of the reasons is that there are other places that are more inherently tax friendly. So the people have accumulated wealth have a disincentive to stay in New York, and I imagine it is generally that way. Any state in the country that has a higher, rather than lower inheritance tax.

The limit seems to be the problem.

Certainly, people who have a billion dollars or multiple billion dollars, you may want to think differently about that. I know, like, for example, Bill Gates' father is very much in favor of an inheritance tax, but what we are talking about here is small businesses and how to preserve them and their wealth accumulating, job hiring machinery. There is also a cost to society in general to the money that Ms. Rolnick was talking about the government collects. Because if you dismantle a business that has been 40 years in the making, how have you really helped your community or your country?

So I wonder about the $5 million limit, if it is enough and if it is really the question. Perhaps a larger question is do we want to tax it at all? Apparently, some people do not. I am open to discussion about that, but I do think that even $5 million is a low limit. And to fix it at that limit and you talk about irrevocable life insurance trusts, these are huge expenses. I personally have friends who spend hundreds of thousands of dollars trying to figure out how to protect their estate through multiple gyrations and put themselves at risk, give away property before they are ready to do it because, you know, they are still alive and they would really like to stay in control but our government does not allow them to do that efficiently.

Is there anything you would like to say about that, Mr. Katz, being from New York?

Mr. KATZ. Well, I think one of the other issues that in the way Congress hurts states like New York was when they modified the estate tax law to eliminate the state death tax credit and changed it to a state death tax deduction. Prior to the change in the law, whatever you had paid to a state like New York would come 100 percent off the top of the estate tax bill that you would pay to the federal government. By changing those rules and making it now just a deduction, you are only getting the effective rate benefit of that costing people that live in states like New York and other states that do have their own independent estate tax, significantly more money.

Mr. HANNA. Effectively paying a tax on a tax?

Mr. KATZ. Effectively.

Mr. HANNA. Thank you very much. I yield back.

Chairman WALSH. Thank you, Mr. Hanna. I now turn to Ms. Clarke from New York.

Ms. CLARKE. Thank you, Mr. Chairman. And I thank the ranking member. I thank all of you for your testimony here today. I find it a very good and very important conversation. The testimony here today will help inform many of us as we look at how we address this issue going forward.

Economic certainty is something that we all desire, particularly for small business where we recognize the value that you have in all of our communities across the nation. And I want to just say that what is so unique about our nation is that it provides this opportunity for entrepreneurship like no other nation. And it is the American dream. It is the reason why the United States, I believe, is one of the greatest—is the greatest nation on the planet.

But having said that I have a question, and I think it may even go to the philosophical to a certain degree. Do you—and this is directed to the entire panel—do you think that the unique opportunity provided by our nation has a value beyond compounded wealth accumulation? Or do you believe that those who have benefitted the most from this unique nature of the United States owe something back to the country that provided them the opportunity to enrich themselves?

I heard Ms. Rolnick's requirements in her proposal, but from everyone else, and I am sorry, Mr. Katz, I came in during your testimony, I heard that nothing should be paid. So I just wanted to get some further insights from you. Because of the unique nature of our nation, the way that we can basically build ourselves from the ground up—sweat equity builds and accumulates wealth over time. Is there something that we feel obligated to in terms of the nation? And how does that reconcile itself with this demand for the estate tax?

Ms. MADONIA. I will start. I guess I would argue that small business owners are already giving back because we are employing people. We are buying equipment from companies that are employing people. I mean, by the very nature of being a business owner you are giving back. I mean, you are paying your taxes all along the way as you are earning money. We have got 90 employees that are part of our family. You know, we take care of those employees. We provide their health insurance. We, you know, contribute to their retirement accounts. We are already giving back.

Ms. CLARKE. So it is your opinion that your employees also help you to be a thriving business?

Ms. MADONIA. Absolutely.

Ms. CLARKE. So it is a symbiotic relationship and they, too, are paying taxes. Right?

Ms. MADONIA. Absolutely.

Ms. CLARKE. Okay.

Mr. FLESHER. I agree with that. That was a great comment. I think, you know, we are putting back and giving back every single day economically. But I am very proud of my country. I served in the military and we do have to do our part. There is no question about that. But there is a limit to it. And when you are taxed over and over again and then you get what is left, you want to hang onto that. And I think that is a situation here. And it is pretty simple. I mean, we have paid taxes over and over again and we do not want to not pay any taxes. We do not want to not do our part. We want to be part of the United States, the country that we are so proud of. But we do not want to be taken advantage of either.

Mr. KATZ. From a philosophical point of view I guess I need to run it right down the middle for a few seconds because clearly there is an obligation on behalf of all of us who have managed to accumulate, to try and help those who are less fortunate than us. I certainly understand the business owner's perspective of they have worked hard. Ms. Madonia's father worked seven days a week, 12 hours a day, you know, to accumulate wealth and should have the opportunity to be able to maintain as much of that as possible.

I think there are probably economists that are a lot smarter than myself who would be able to go through and tell you what the economic aspects of all of this are, but what I can tell you is that from what I see, as much as anything, it is the administration of the rules and the uncertainty of the rules that have created so much problem for people. Business owners do budgeting, do planning. They do it every day.

If a business owner were to know exactly what their opportunities were and know that if something happened in 2012 it would be a certain rule and if something happened in 2013 it would be a certain rule, what happened in 2010 was chaotic. Changing rules in December, in the middle of December going back to January of that year, we cannot operate like that. You cannot ask business owners to be able to plan and budget for rent and health insurance and all the other things but at the same time not know what the tax is going to be at the end.

So whatever Congress ultimately decides, whether it is 3.5, whether it is 5, just pick something. Just pick something and let that be the rule. And let everybody who is sitting at this table and all the people around the country who are operating businesses and all the accountants and lawyers who are advising people, know what the rules are and know how the rules are going to be applied.

Ms. CLARKE. I thank you for your testimony. I think this gets to the heart of the challenge that we face as legislators, understanding and relating to all that you give. And then looking at what we can do in terms of fairness. I think at the end of the day we want to be fair. We know that you are the economic engines of our communities.

I come from an entrepreneurial family as well. You know, I also understand the obligation that we have one to another and would want to try to maintain those obligations as best we can given where we are economically as a nation. So thank you for your testimony.

Chairman WALSH. Thank you, Ms. Clarke. And I would only add that Ms. Madonia, I want to keep saying this, so I apologize, "If something happens to your dad you would have to sell your company." Ninety employees. So I do not know how having to let 90 employees go is anybody's definition of giving back.

Let us turn to Mr. Bartlett of Maryland.

Mr. BARTLETT. I am honored, sir, that you let me sit in on your Subcommittee. I think protocol says that I go last.

Chairman WALSH. Okay. Thank you. Rookie chairman.

Let us turn—hey, Bobby, you are up. Let us turn to Mr. Schilling of Illinois.

Mr. SCHILLING. Thank you, Chairman. I would like to thank each and every one of you for being here today. I am also, like a few of them, a small business owner. And one of the things that I find very frustrating is the fact that the federal government can come in and take 55 percent of your estate. I used to do death tax planning, and you know what? We have got to stop calling it estate tax. Call it what it is. It is a death tax. The last person dies, a survivor dies, you have to go in there. And so many times I would go out and I would see the families have to go in and spend $10,000, $20,000, $30,000, $50,000 a year to make sure that they could keep their business or their farm.

I guess the first question that I would like to have, and any of the folks on the panel could answer this for me, is do you believe that the death tax hurts or helps businesses in the United States of America? Let us go with Mr. Flesher.

Mr. FLESHER. It absolutely hurts them. I mean, you talk about the planning process and having certainty. Even with that certainty we still have to plan and we have to adjust. We do not know how long we are going to live. And our estates still change every year. So it is like a double whammy. I mean, it is tough to plan for that future anyway. But with the uncertainty of having this tax over your head it is impossible. You cannot do it.

Mr. SCHILLING. Yes.

Ms. MADONIA. I was just going to add that it takes a lot of time and resources away from your business, too, in those years where you are trying to figure it all out, trying to figure out how to pass it on. I mean, my dad has spent a significant amount of time over the last few years just trying to figure this whole thing out and find a way to pass on his company. That effort could have been spent focusing more on the business. Those resources could have been used to expand the business, hire more people, buy more equipment, open another branch. So it does, you know, it is not just money; it is time, too, that is taken away.

Mr. SCHILLING. Right. And Mr. Katz is probably upon on this. If life insurance is not properly owned that also gets included into the federal estate. So some people think that they are properly planning and in actuality they are actually adding to the 55 percent or whatever that number is.

One of the other questions I have, and I think one of the things we see is the heirs are sometimes forced to break apart the family business in order. And is that basically what you are saying? If something happens to your father, basically it is——

Ms. MADONIA. Yes. There is not a big bank account somewhere with enough money in it to pay the estate tax, so we would have to come up with it somewhere. We would have to, I do not know, you would have to get out of certain lines of business. Maybe liquidating some of the inventory that we have. You would have to close down a branch. Somehow you have to come up with that money and it is not just sitting there. It is all invested back into the business.

Mr. SCHILLING. So your brothers and sisters, would you be willing to say that they would do better with that up to 55 percent of that money? Or would the federal government do better with that?

Ms. MADONIA. I think we could handle it a little bit better. Yes.

Mr. SCHILLING. These are tricky questions, I know.

Ms. ROLNICK. I would like to make a comment, if possible.

Mr. SCHILLING. Yes, ma'am.

Ms. ROLNICK. We keep talking about how it is going to affect all these small businesses, and it does affect some small businesses. But according to the statistics, as I said, when there was a 3.5 million exemption, only 4,425 small businesses were subject to the estate tax, while there were over 22 million small businesses filing income tax returns. So although it does affect some, and I appreciate how it affects them, but it is not every single small business. And most small businesses have been made so fearful that even the corner barbershop is afraid that he is going to lose his business to the estate tax and he is not even going to be subject to it.

Mr. SCHILLING. Very good. I appreciate that comment.

I have got one minute left here. If maybe we go to Mr. Flesher on this one. If the death tax was fully repealed, would you use the capital to hire more workers, purchase more equipment, or otherwise invest in your business?

Mr. FLESHER. Well, we would continue to invest in our business and grow our business. You know, not only our families, but we have long-term employees. I have got employees that have been with me 26 years, 24 years, 20 years, 18 years. It is not just one or two. So, and these employees are fully vested in this business and may have an opportunity to take over that business or part of that business as well. So the ongoing investment in the business would be a definite.

Mr. SCHILLING. You know, it is one of those things if you want less of something you tax it more. And unfortunately, none of us in this room are going to get out of this world alive. But I thank you all for coming. Thanks. I yield back, Chairman.

Chairman WALSH. Thank you, Mr. Schilling.

I now turn to Mr. Chabot from the great state of Ohio.

Mr. CHABOT. Thank you, Mr. Chairman.

Well, the first thing that comes to mind, the democratic witness for the death tax here just made a statement basically saying that there are not that many businesses that after all have to deal with this. We are talking about 3,000 plus. But it is my understanding it really affects a lot more than that in a lot of different ways. Would any of the other witnesses like to respond to that argument that we hear periodically that it really does not matter that much because there are only a few businesses that it really applies to so it does not affect anybody else. Could anybody else respond to that?

Ms. MADONIA. Well, to those of us that would be affected, it is a big deal. So the fact that there are 3,000 family businesses that are affected, you know, maybe to the average American is like, well, that is just 3,000 people. To us it is our business and it is those 90 families that are employed by us and it is our customers and our vendors. It is a much bigger piece of the pie than just saying, well, it is just this one family.

Mr. CHABOT. Mr. Flesher, I see you nodding. Would you like to respond?

Mr. FLESHER. Well, you know, speaking for our association, we are a very capital-intensive business. So every one of our businesses not only has their properties but the expense of running that business. We do not just have an office set up and run a computer; we have to buy equipment and replace equipment every year. Every year, just to stay even, we have to reinvest 10 to 15 or even 20 percent just to maintain our inventory. And then when you consider during better economic periods we are going to try to create more growth, we have to invest heavily year after year. So almost every one of our businesses is definitely affected by this law.

Mr. CHABOT. Mr. Katz, did you want to say something?

Mr. KATZ. Although only 3,000 or 4,000 businesses are affected on an annual basis, that does not mean that all of the other businesses are not out there dealing with this. In our law firm we do a tremendous amount of planning—succession planning and planning for closely held businesses. And even to those people that are not necessarily affected on an annual basis, they are involved. They are involved in planning. They are involved in spending money on attorneys, thankfully. They are involved in spending money on insurance premiums to be able to deal with liquidity issues. It does take up a lot of time and effort and energy. And it can create some incredible stress. Having to sit in front of somebody, like Ms. Madonia's father and say to him the only way for you to really deal with this is for you to transfer interest in your business to the next generation now, to start to take advantage of some of the rules that are out there. And to have him look at you and say, "Well, that is all fine and nice but I rely on this business to live. This is my income. If you start moving interests around, how am I supposed to survive?" I do not want to, and with all due respect, I do not want to ask my daughter for money when I need it.

So while there may only be 3,000 or 4,000 small business owners who die during the year who are impacted by this estate tax, it is impacting a lot of people. There are a lot of people planning and dealing with this every single day. There are conferences for lawyers who do estate planning, thousands and thousands of lawyers learning about this. If there are thousands of lawyers learning about this, there are hundreds of thousands of people that are dealing with this every day.

Mr. CHABOT. Thank you. Is it fair to say that particularly in a tough economy like we have now and have had for a number of years now, at a time when businesses are trying to stay in business and be competitive and focus on what it is that they do to create money and wealth and jobs for their employees, that a lot of these business owners, their time would be more efficiently spent concentrating on their business and how to make it better, and therefore, we more successful and hire more people than to perhaps have to focus so much time on how to keep the government from taking this form them at some point in the life of this business? Would anyone want to address that? Or you can just say, "Yep, that was a good point, Congressman."

Mr. KATZ. That was an excellent point, Congressman.

Mr. CHABOT. Thank you very much.

Mr. KATZ. I certainly think that that goes without saying.

Mr. CHABOT. I have only got a couple seconds left, so I thank all the panel members here for their input in this. I know I have been speaking about this for a long, long time, and I would argue that you all know a whole lot better how to spend your money than the federal government does. And we ought to let you keep it and get this economy moving and hire more people. Thank you.

Chairman WALSH. Thank you. I now turn to Mr. Bartlett of Maryland.

Mr. BARTLETT. Thank you. You know, if an enemy had the ability to an etherway to permeate our minds and induce us to do something really hurtful to ourselves he might find it difficult and do better than the death tax.

Chairman Walsh and Ranking Member Schrader, thank you for allowing me to participate in this hearing. As we have heard, the state tax has disastrous consequences and is the most unfair tax that the government imposes. At a time when we in government should be removing obstacles to small business growth, the estate tax provides a roadblock to small business survival.

But there are solutions, and I am particularly pleased to recognize Mr. Jack Fitzgerald, who is here today. Jack is a prominent Maryland businessman and friend of mine who studied the estate tax problem from the business point of view. He founded Americans Standing for the Simplification of the Estate Tax (ASSET) in 2010 in order to change the collection method for the estate tax. He believes that as long as the IRS requires the estate tax to be paid there is a simpler, more compassionate way to collect the tax that would reduce the impact of the tax and avoid the loss of the family-owned businesses at a time when they are already dealing with the loss of a loved one.

I would like to congratulate him for putting together a grassroots group, which includes private businesses, family farms, and individuals. I think that the ASSET solution as a bridge to phasing out the estate tax is well worth studying, and I am pleased that the Committee has agreed to include it in the record of this hearing.

In his testimony submitted for the record, Mr. Fitzgerald notes that he has paid nearly $700,000 a year in after-tax dollars for life insurance to cover the possible estate tax liability arising out of his automobile dealerships. Mr. Fitzgerald and others have maintained that many small businesses over purchase life insurance in order to prepare for the estate tax. In your experience, is this a common occurrence in the small business sector?

Mr. KATZ. I cannot say that I have a lot of clients who have spent that much on insurance every year but, yes, it is a common occurrence for people to look to find a way to create liquidity to be able to deal with estate tax obligations. And one of the most significant ways to do so is to acquire life insurance, properly owned life insurance, and to hold that life insurance to deal with the estate tax obligations.

Now, not everybody is insurable and not everybody has that opportunity to buy insurance. Not everybody has the cash flow necessary to pay the insurance premiums each and every year. So while insurance is a solution, it is not the only solution to the problem.

Mr. BARTLETT. The case for tax reform is dramatically illustrated by reviewing the data cited by the Congressional Joint Economic Committee in May of 2006. And what they found generally was that the cost of compliance was just about equal to the revenues the federal government collected from this. Could there be a dumber tax than this where the cost of compliance equals the amount of money which the government collects from this? Can you please share with the subcommittee your assessment of the conclusions by the Joint Economic Committee?

Ms. ROLNICK. I personally do not understand where that number came from. I mean, I know that there are things that have to be done. There are things like trusts which should be done, whether there is an estate issue or not, which I have documented in my written testimony. There are documents that need to be done if they are doing partnerships. We have trust returns. But I know what estate tax returns cost and I have yet to file an estate tax return that costs more than the amount of tax collected.

Mr. BARTLETT. Well, I was quoting from their Cost and Consequences to the Federal Estate Tax page 17. And you might check that if you question their study.

The Subcommittee has received testimony for the record from Mr. Jack Fitzgerald, founder of the ASSET Coalition, which advocates reform of the current estate tax on behalf of small business owners. In his testimony, Mr. Fitzgerald asserts that private capital is locked up in unproductive trusts to escape estate tax liability, meaning that many of the best business minds in our nation are forced to sit idly by and cannot create new wealth with their assets because they must lock them away for their heirs to inherit. In your experience, is this a common experience in the small business sector?

Ms. ROLNICK. Again, when the first person dies, we usually fund a B Trust. We call it a B Trust. And assets are put into that trust up to an exemption amount. There is a problem, as I see, when you have to fund that trust with a closely held business stock because you do not get the dividends passed out or the income passed out to the surviving spouse who may be looking for a way to supplement their income that they have lost when their spouse died. But there is no provision in the code that prevents that trust from owning another business, starting another business, or investing that in some way to help business growth.

Mr. BARTLETT. Thank you very much for letting me sit in on your Subcommittee. Thank you.

Chairman WALSH. Thank you, Mr. Bartlett. Thank you all for participating today. The state tax is a critically important issue for small businesses. As evidence of that, the Subcommittee received numerous requests from associations representing small businesses, including the National Federation of Independent Business, the Food Marketing Institute, the American Trucking Association, the American Wholesalers Markets Association, the International Sign Association, and the Marine Retailers Association, that their statements about the negative impact of the estate tax be included in today's record.

I ask unanimous consent that members have five legislative days to submit statements and supporting materials for the record. Without objection, so ordered.

The hearing is now adjourned.

[Whereupon, at 11:17 a.m., the Subcommittee was adjourned.]

# TESTIMONY BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES

## COMMITTEE ON SMALL BUSINESS

## SUBCOMMITTEE ON ECONOMIC GROWTH, TAX AND CAPITAL ACCESS

***"Planning for the Death Tax: Can Small Businesses Survive?"***

Testimony of:

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May 31, 2012

Chairman Walsh, Ranking Member Schrader and the members of the Subcommittee. My name is Neil Katz and I am the managing partner of Katz, Bernstein & Katz, LLP, a law firm that specializes in tax matters, including estate planning and representing closely held and family businesses.

I appreciate the opportunity to address the subcommittee with regard to the difficulties faced by closely held business owners as a result of the imposition of the estate tax on the value of the business that those owners have worked tirelessly to create.

**Introduction**

Closely held businesses are an integral part of local economies throughout the country. Business owners spend their entire lives investing time, effort and capital into making their businesses a success. Most business owners, that you speak with, would like nothing more than to be able to pass the fruits of their labor and capital on to future generations. These future generations will then have "privilege" of spending their time, effort and capital to carry on the legacy that has been left to them and to try to grow the business so it will continue as a viable enterprise for them and those who follow them.

As business owners age the complexities of owning and running a closely held business often become overshadowed by the burden that the estate tax looming in the future will create on the business and to the business owner's family. Running a closely held business is becoming increasingly difficult with the rising costs associated with the business, combined with the tightening of available financing and the pressure that the economic times put on customers and collections. I have seen cases where the added burden of planning for or dealing with the estate tax burden has become so overwhelming that it can have an adverse and often devastating effect on the business.

**Planning for the Estate Tax Impact**

The issues faced by business owners and their families start long before death. With the threat of an estate tax looming, the family will often require sophisticated planning to attempt to reduce the exposure that the heirs will face. This planning does not come without a price. To design and implement an estate tax plan can cost an individual anywhere from $5,000 to $50,000 (or more). The end result of such planning is often the creation of trusts to hold business interests which makes the running of the business more complicated. To most, however, the cost of the planning is only a minor issue. A more significant problem may be created if part of the planning recommendation includes transferring interests in the business to future generations. Often, this decision is one that the owner may not be prepared, emotionally or economically, to make at the time.

Almost on a daily basis, in our practice, we are faced with the emotional issues that are part of the decision to transfer business interests to children or trusts for children's benefit. Where the decision is principally for tax planning reasons the emotions involved can become overwhelming and for many the decision is so difficult that they are paralyzed into inaction. Individuals who have built businesses with years of hard work are all too often reluctant to transfer interests to future generations unless there is an overriding business or economic reason to do so. To those it is quite disconcerting to be faced with the decision of whether to pass interests on before they are ready to do so or risk the destruction of the business due to the imposition of the estate tax upon their death.

For many the emotional aspect is coupled with an economic concern. The business owners rely on their interest in the business as their sole source of income. Tax rules prevent businesses from paying excessive salaries and for many business entities distributions cannot be made in any manner other than pro-rata to the owners. These rules could combine to negatively impact the annual income of a business owner who is advised in planning to transfer business interests to others. Often this factor alone causes the planning to be abandoned.

**Valuation Issues**

Where transfers of business interests are not an option, or where the transfer is not sufficient to eliminate all of the potential impact of estate taxes, business owners are then faced with understanding how the tax system works. They need to be familiar with the concept of estate tax valuation and the family needs to be prepared for the expediency with which estate taxes must generally be paid.

Estate tax value is a concept that attorneys, accountants, Legislators and the Treasury Department have struggled with for decades. There is no clear definition in the statute and the only guidance we are given is the "hypothetical willing buyer/willing seller" language of the regulations. Business owners cannot comprehend this standard. The real value of small, closely-held businesses is often tied directly to the owners. Ask most business owners what their business is worth on the open market and they will say "without me the business is worth nothing." While it is clear that that statement is not 100% accurate and that businesses generally have some intrinsic value, the valuation concepts applied by appraisers and by the Treasury Department often stray dramatically from real world value. Family members often say to us "if the IRS thinks the business is worth that much, please have them write a check to us because we will take it". Where estate tax valuation differs from reality, it only makes the burden on the business owner and their family even greater. Anyone who has a collection of anything (stamps, baseball cards, dolls) has been told by someone else that their collection is not worth anything unless and until it is sold. To most small business owners the same principal applies. The only true value of their business is the income they receive from it, yet the estate tax is imposed on a value as if the business is sold. Something the business owner would not have wanted if they were still alive.

**Funding the Estate Tax Payment**

In addition, the estate tax rules call for payment of estate taxes within 9 months of the date of death. While certain extensions are available, they are often short term solutions to a long term problem. Internal Revenue Code §6166, the most significant estate tax extension has its problems as well and those will be addressed shortly. A general rule of 9 months to pay the significant estate taxes on business assets is an incredible burden. Most businesses do not have the cash reserves or cash flow available to make this payment in that short a time frame. Even those that do have reserves, the use of those reserves for estate taxes can cause the business to suffer irreparable damage if the original intent of the reserve was ever to come to fruition. If a company were to reserve specifically for estate taxes, the accumulated reserves would add to the value of the entity and increase the estate tax due.

In order to deal with this significant burden, planners often recommend that a business owner acquire life insurance to provide liquidity to pay the ultimate estate tax that will be due. Obviously this creates an added expense to the business. Depending upon the amount of insurance that is required the premiums can run tens of thousands of dollars. The business may not be able to afford to make these payments each year. To some the expense is not a concern, rather the use of insurance is not available due to the uninsurability of the business owner. To those that are not insurable and for those to whom the cost is prohibitive there may be no option.

Following the death of the business owner the imposition of the estate tax creates a myriad of problems to the family or successor owners of the business.

Where the business is equipment or real estate intensive, the business may not have the cash or cash flow to cover the tax payments. To deal with this, Congress has enacted §6166 to provide a 15 year extension of time to pay the estate taxes. However, this solution is not always available in all circumstances. To utilize this provision, the business must be over 35% of the value of the estate. That is not always the case. Many would say that if the business is not over 35% of the estate then the other assets would be available to pay the tax. However, that would only be the case if the beneficiary of the business were to also be receiving liquid assets from the estate. Often in family businesses there is one member of the family who is involved in the business with other members not active. The business owner parent may decide to leave the business assets to one child and the liquid assets to other children. In this situation, if the business does not qualify for the extended the payment then the beneficiary faces an incredible burden with no relief.

Even where the relief under §6166 is available, it is far from true "relief". The estate tax due becomes a debt against the business which the business may not be able to service. If you look at basic accounting principles, when a business borrows money (and thus creates a requirement to service a debt) a corresponding asset (the cash proceeds from the loan) is created and the net worth of the business is not adversely affected. However, a long-term estate tax payment liability creates no offsetting asset and thus is a direct reduction of the value of the entity, a reduction that is often too burdensome for the business to survive. We are presently representing an estate with a significant estate tax payment due which has been extended under §6166. For the first few years, during the interest only period, the cash flow is sufficient to cover the required payment. However, when the tax debt becomes self-amortizing it is not. The new owner is trying to create cash reserves to be available to reduce the tax burden, but business exigencies have caused the use of much of those reserves. As we near the time that the debt must be amortized the business owner is faced with having to find a bank to lend them money (to provide a longer term payout and an amortization that is workable given the cash flow) or to begin to sell off the business assets. Bank loans are unfortunately difficult to obtain in the present economic times, and even where they are obtainable the terms are often not favorable and the costs associated with the loan can be excessive. The decedent started this business over 50 years ago and the thought of having to liquidate this business to pay estate taxes is devastating to his daughter.

Businesses today are operating on very tight margins. Adding the burden of estate taxes to the cash flow of the business is often not feasible. The new owner of the business can often not afford to pay the taxes and still have money to pay expenses of the business and make a profit. Most individuals do not see business ownership as solely about working to pay off an estate tax obligation. There is no "benefit" to the beneficiary if the asset that they inherit provides them with nothing other than the opportunity to work with no expectation of income. There needs to be some incentive for the owner. For pass-thru entity owners this burden is heightened by the fact that they may need to use business profits to pay estate taxes but first have to pay income taxes on those profits with no deduction for any of the estate taxes paid.

**The Problem of Multiple Owners**

Where there are multiple owners of an entity, the estate tax burden created by the death of one owner can often have an impact on other owners as well. We recently completed the representation of the daughter of an individual who passed away. The bulk of the assets that this daughter inherited were business assets which the father owned as partners with his nephew. The daughter who inherited the assets had no liquid assets with which to pay her share of the estate taxes and §6166 was not available to her. Her options were limited. She could borrow against the business assets or she could sell all or some of the business assets. Her preference was to not sell the assets, however, in order to borrow against the assets she would need the cooperation of her cousin (the co-owner of the business). Each bank that she went to would have required the cousin to provide a personal guarantee for the loan. One individual's estate tax burden would now create a situation where a person not involved as a beneficiary would have to provide a personal guarantee of a loan from which that individual received no proceeds.

If the cousin in the above example had not been willing to provide the guarantee that client would have been faced with only one option. An option that too many people are forced to pursue: the sale of the business assets. This is the greatest burden (both emotionally and economically) that is caused by the imposition of the estate tax against small businesses. Family members are forced to liquidate business assets that their relatives spent their entire lives building. The market for closely held business interests is often limited and where a sale is available, often the only buyers are those looking for a bargain. With the estate tax payment needed to be made family members are in a terrible position to make a deal and often have to sell at forced or "fire sale" prices. Unless done quickly, this forced sale price often bears no relationship to estate tax value causing the family to have to pay estate taxes on a business valued at significantly more than what it is sold for. While the family may have a resulting capital loss on the sale, this loss cannot be used to reduce the estate tax burden and is often unusable by the family members on their income tax returns.

**Conclusion**

Small businesses are struggling in today's economy to meet their obligations and provide for the business owners and their families. Adding the burden of an estate tax to be due, or one currently due as a result of the death of the former business owner, can make the operation of a small business a nearly impossible task.

While the estate tax can cause an incredible burden on the small business owner, the constant changes in the estate tax law over the last 12 years, coupled with the uncertainty of the future rules, have made it even more difficult. This point cannot be overemphasized. If Congress could establish rules that business owners could be assured would survive for a period of 10-15 years then they would at least have a chance (albeit a difficult battle) to plan for the tax burden. The world of the unknown that Congress has created since the enactment of EGTRRA, in 2001, has created an unworkable scenario for business owners.

Thank you for the opportunity to address the Subcommittee. I appreciate you taking your time to understand and address the issues that small business owners face.

Testimony of

Karen Madonia

Chief Finanical Officer
Illco, Inc.
Aurora, IL

On Behalf of

Heating, Air-Conditioning and Refrigeration Distributors International
(HARDI)

HARDI
Heating, Air-conditioning & Refrigeration Distributors International

Submitted to the
Subcommittee on Economic Growth, Tax and Capital Access

Hearing on

Planning for the Death Tax: Can Small Businesses Survive?

2360 Rayburn House Office Building

May 31, 2012

Chairman Walsh, Ranking Member Schrader, and members of the Subcommittee on Economic Growth, Tax and Capital Access, my name is Karen Madonia, and I am the Chief Financial Officer of Illco, Inc., a Chicago-area distributor of heating, ventilation, air-conditioning and refrigeration equipment, parts and supplies. Thank you for giving me the opportunity to talk about the estate tax and its effect on the many small family businesses which make up the United States economy. This is an issue that is very close to my heart as my family is in the midst of our own generational transfer.

Let me provide you with some background: Illco was a very small company with only seven employees when my father, John Glass, purchased it back in 1973. At that time, my dad was only 32 years old, with a wife, three daughters and a mortgage, but he knew he wanted something more than just a job. He wanted to use his passion to create something permanent, to be in control of his own destiny. With help from my grandfather, my dad decided to take a risk and go into business for himself. A community bank took my grandfather's assets, my dad's assets and a guarantee from a vendor as collateral for a $340,000 loan to purchase the company.

In those early years, my dad worked every job at Illco. During the day, he went to see customers and secure orders, then went back to the warehouse to pull and package them. The next day, he would make deliveries using my mom's station wagon before visiting more customers and taking more orders. Eventually, he was able to buy a truck and hire a driver, which left the station wagon free for my mom to pick up merchandise from Illco vendors while my sisters and I were at school. After the doors closed at 5:00, my dad would go to his office to perform both the accounts payable and accounts receivable functions. Every bit of profit he made got funneled back into the company so he could hire more people, buy more trucks and expand his inventory. My dad worked seven days a week, and most nights he did not get home until long after most people had finished their dinners. He had to give up any hobbies which took too much time away from his business, and our family vacations were mostly extended weekends because a week was simply too long for him to be away. Many weekends were spent entertaining customers, mostly over home-cooked meals, because that was the only way my parents could afford to wine and dine the people that were so necessary to the success of the business. But my dad's passion for the industry, his commitment to his employees, and his drive to grow his company empowered him to keep pushing even when interest rates hovered in the high teens during the late 1970's and early 1980's and things looked pretty ominous. Forty years later, he has a business with eight branches in three states, 92 employees and almost $40,000,000 in revenue.

My sisters and I grew up understanding that if we wanted to be successful at anything, we had to work hard and stay focused on our goals. We are all proud to work alongside our dad now, and look forward to making our own mark on the family business in the coming years. Hopefully, we have passed the strong work ethic that our parents displayed on to our own kids, who may decide to join us and carry the torch even further.

While I take great pride in my family's story, I realize that it is not really unique. There are thousands of families that have similar histories – families who have decided to put everything on the line to pursue the American dream. Like my dad, they want to create something that lasts, something that can be passed down to their kids, something that future generations can build upon to create their own legacies. While I am speaking today about my own family's experience, I know that all family business owners have the same issue: how do I pass this business on to future generations without losing some or all of it to the IRS in the form of estate taxes?

For the last few years, I have come to Washington with our trade association, HARDI, to talk to Members of the House and Senate about the issues that are important to our companies and our industry. Every year, estate tax is on the top of my list of topics to discuss. I personally find it fundamentally wrong to place a tax on death. If a person is able to accumulate wealth through hard work, and if that person pays his fair share of taxes on his income as it is earned, I do not understand how the government can justify taking a significant portion of what he has left simply because he opted to save and re-invest rather than consume. The United States has already benefited from that person's success because he has employed people who pay taxes, bought buildings on which he has paid property taxes and bought inventory and supplies from other companies, which can then afford to employ more people who pay taxes. He has created opportunity for the nation as a whole while creating prosperity for himself. We all benefit when a small businessperson succeeds. It seems counterintuitive to do anything to discourage the entrepreneurial spirit. To me, and probably to a large portion of the generation behind me, the estate tax serves as a tremendous disincentive. Why work harder than the next guy to build something big if it is likely to die when you do? Why not be just another worker, make just enough money to live comfortably, and not worry about generating any more wealth than that? Is this really the lesson we want to teach our young people?

I've heard the argument that we need to keep the estate tax so that we discourage family dynasties in the United States, and I've heard the argument that even though the estate tax was intended to be a temporary way to fund World War II, it now generates enough income for the Treasury that it will never eliminated. What I haven't heard from most lawmakers is that they understand the difficulty that imposing this tax presents to small businesses. In most cases, we're not talking about passing on bank accounts with multi-million dollar balances. We're talking about businesses where most of the net worth is tied up in inventory, accounts receivable, equipment and real estate. At Illco, for example, we carry an inventory valued at $10,000,000 and accounts receivable of about $5,000,000. Our inventory has to be high – we provide vital heating, air-conditioning and refrigeration parts and supplies to hospitals, schools, nursing homes and grocery stores. When the refrigeration system in a grocery store goes down, it needs to be repaired within hours or the food is lost. When the air conditioning system in a hospital doesn't work, patients cannot be appropriately cared for until air is circulating again. The parts and supplies that we sell must be on hand in order to facilitate quick repairs and replacements, which means that we must carry a heavy inventory. We also own five buildings and operate a fleet of twenty-two trucks, some of which cost upwards of $250,000. After paying our taxes and making our annual profit sharing contribution, the income that's left is put right back into the company so we can continue to carry an extensive inventory, extend payment terms to our customers and maintain our fleet and our buildings. If something happened to my dad and we were left with a large estate tax bill, we would literally have to sell parts of the company in order to pay it. That would likely mean shutting down branches, laying off workers or liquidating inventory just to be able to pay a tax bill that only occurred because an owner died. Even worse, our company might have to be sold outright, which would likely mean that instead of our employees being part of our small business family, they would become part of a larger company that likely would have no ties to the community. That certainly would not benefit them, and I would argue that it wouldn't benefit the economy as a whole either. America is depending on its small businesses to give wings to this recovery. Small businesses employ over half of the nation's private sector workforce and create the vast majority of new jobs. Especially in our current economy, government should be encouraging us to grow and prosper. Instead, Washington continues to force us to spend too much time and money focusing on things that have nothing to do with our businesses.

Over the last few years, my dad has spent countless hours and entirely too much money trying to navigate the estate planning waters. Instead of focusing on growing his business so he can open more branches and employ more people, he has had to strategize about how to pass his company on to his kids without having to dismantle it. And if that isn't enough of a challenge, he has had to do it with an ever-changing tax landscape. Since he started this process in 2008, there have been several changes in estate tax law. We've gone from an exemption of $2,000,000 and a tax rate of 45% in 2008, to an exemption of $3,500,000 and tax rate of 45% in 2009, to a full estate tax repeal in 2010, to an exemption of $5,000,000 and a tax rate of 35% in 2011 and 2012. In 2013, the exemption is scheduled to fall back to $1,000,000 with a tax rate of 55%. How can a business owner actually formulate an estate plan if the rules change every year? In the business world, we need to think beyond the current year if we want our companies to thrive. We're typically looking five to ten years out in our strategic plans, trying to move all the pieces on the board to better our chances of growth and prosperity. That is very difficult to do even in the best circumstances, but nearly impossible to do when Washington keeps changing the rules.

Unless the effect of the estate tax is thoroughly examined, it is very difficult to understand the immense burden it places on small business owners by taxing them for creating and growing a business that outlasts them. In my opinion, it is a fundamentally flawed tax because it is, by definition, double taxation and it discourages entrepreneurship. It should be totally repealed. Absent that, I would ask that Congress consider maintaining the current personal exemption and gift and estate tax rates, and equally important, establish a more permanent solution to the estate tax issue. The United States has always been the land of opportunity. Small business owners take tremendous risk at great personal sacrifice, and they truly are the backbone of the American economy. They should be appreciated and encouraged. Allowing the estate tax exemption to fall back to $1,000,000 and the rate to climb to 55% would absolutely devastate a great number of families who are currently working on generational transfers. Imagine the owner of a small hardware store, who after years and years of making mortgage payments, finally owns his own home. Under the $1,000,000/55% scenario, the value of his home, his business and any other assets he might have accumulated, including his retirement savings, cannot exceed $1,000,000 or he'll pay a significant estate tax. We've all heard about the questionable future of our entitlement programs. With that in mind, shouldn't we encourage people to save for their own retirements, rather than allowing them to bank on the government taking care of them once they stop working? When you consider the completely unforeseeable cost of healthcare that many will experience in their senior years, and how long most people live post-retirement, how can government do anything to discourage people from planning and saving for those expenses themselves? If we want to encourage people to be self-sufficient, we should allow them to save as much as they can in their working years so that government will not have to step in and take care of them in retirement. And we should allow them to do that without the underlying fear that if they overestimate what they will need, they and their families will be rewarded with a tax bill.

I respectfully urge you to carefully consider all the ramifications of estate tax policy and establish a long term solution that will allow for generational transfers of family businesses, and I thank you for allowing me to put a more personal perspective on the issue for you. With that I will conclude my comments and would be happy to answer any questions you may have.

American Rental Association

**Testimony of Michael G. Flesher**
**President, American Rental Association**
**Before the Committee on Small Business**
**Subcommittee on Economic Growth, Tax and Capital Access**
**United States House of Representatives**
**May 31, 2012**

Chairman Walsh and Ranking Member Schrader, thank you for the opportunity to provide testimony to the House Committee on Small Business, Subcommittee on Economic Growth, Tax and Capital Access, on the effects of the federal estate tax on small businesses. I am Mike Flesher, President of the Taylor Rental Center in Vestal, New York and President of the American Rental Association (ARA) for 2012.

My business, Taylor Rental Center, is by every definition a small family-owned business. We have two locations, the one in Vestal, New York and a second in Ithaca, New York. Taylor Rental Center is a very typical rental business. ARA has approximately 4,000 members in the United States and the overwhelming majority of these members are businesses just like mine. We employ sixteen full-time employees in our business and four part-time employees. During the spring and summer we bring on additional employees to meet the seasonal demands of our business. Like other ARA members, Taylor Rental Center rents equipment and tools to contractors and homeowners along with party and event equipment and services to individuals and corporate clients.

In order to tell you more about our industry, I have attached information to my testimony about the equipment rental industry in the United States. These attachments include the number of rental business locations in each Congressional district and economic data on the size and impact of the equipment rental industry for the nation and for the states of each Member of the full Committee on Small Business. This information includes the revenues generated from renting construction and industrial equipment, tools, and party and event equipment along with direct and indirect employment impacts, the impact on national and state industrial production as well as tax and income benefits. I will refer to this information throughout my testimony.

I want to begin by stating ARA's current position on the federal estate tax. ARA supports a permanent extension of current law which allows a $5,000,000 per person exemption indexed for inflation and a 35 percent rate on the remaining assets in the estate. Current law also provides for a stepped-up basis on all assets in the estate. We believe it is critical to pass this permanent extension so that small businesses like mine have the certainty we need to plan for the future. The remainder of my testimony will provide details about my business that are typical of the equipment rental industry and show why we are so concerned about the federal estate tax reverting to the $1,000,000 per person exemption and 55 percent top rate that existed in 2000.

For the past seven years, ARA has been working with IHS Global Insight, the largest economic forecasting firm in the world to develop industry research. This research allows us to determine and forecast annual revenues for our industry by rental segment nationally, by census region and by state. We also track and forecast the level of investment in new equipment by equipment rental companies. This information, which is presented in the first two charts in the attachments, allows us to use economic impact analysis to determine the economic impact the equipment rental industry has at the national, regional and state levels.

Data on the number of rental stores per Congressional district illustrates just how ubiquitous the equipment rental industry is throughout the United States. These numbers include ARA members and nonmembers as well as branch locations. For example, in Representative Hanna's district, New York 24, we have 42 rental store locations; two of which are mine. In the state of New York we have 892 rental store locations.

There is economic strength in numbers. In the first chart entitled *Total U.S. Equipment Rental Revenues*, IHS Global Insight estimates the equipment rental industry in the U.S. generated $28.6 billion in rental revenues in 2011 and we expect that to increase to $31.2 billion this year and $49.8 billion by 2016. The equipment rental industry is currently growing at four times the rate of U.S. gross domestic product. Much of this revenue growth is due to the expansion of small businesses within the industry. In fact, a recent analysis by ARA shows that less than 15 percent of total rental revenues are generated by the four biggest U.S. rental companies.

What does it take for equipment rental companies to generate billions of dollars of revenue? Mr. Chairman, it takes capital, and a lot of it. Collectively, ARA members have billions of dollars invested in the products it takes to provide our customers with the equipment and services they want and need. A large aerial work platform that is used to refurbish a building like this one can cost $50,000 to $100,000. An 80 foot by 160 foot tent that gives a young couple the dream wedding they always wanted costs me $60,000. Taylor Rental Center has hundreds of tents that range from $25,000 to $60,000 each. Other equipment like small Bobcat loaders cost $34,000 each, small excavators are around $39,000 and trenchers runs at least $10,000. Most of my equipment is small; larger equipment like track excavators can cost well of $150,000 per unit.

Equipment rental companies need to make capital investments to survive and grow. Moreover, these investments are ongoing because customers demand the latest and best equipment for their money. You know, when you rent a car from one of our friends in that industry, you do not usually get a 1990 Buick. No, you get a new car with low mileage. It is the same in the equipment rental industry. My customers do not want a 1990 trencher or a ten-year-old tent; they want new equipment, and I need to make the investments in that equipment to satisfy my customers. Indeed, in the second chart entitled *U.S. Rental Industry Investment*, IHS Global Insight estimates that equipment rental companies are investing $10 billion in new equipment this year and that level is expected to approach $20 billion annually by 2015.

We have about 4,000 ARA members investing billions of dollars each year in equipment along with significant investment in real estate and buildings that are necessary to house our rental stores and to store our equipment. This means that we have a lot of small equipment rental businesses with substantial but illiquid assets. Equipment rental is a capital-intensive business and the only way to grow an equipment rental business is to invest in and accumulate equipment inventory.

This is precisely why I am personally concerned, as are many ARA members like me, about the possibility that the current estate tax law will expire on December 31, 2012. Under current law the federal estate tax exempts the first $5,000,000 of an estate's value. Any assets of the estate beyond $5,000,000 are taxed at a top rate of 35 percent. If Congress does not act, the federal estate tax will return to the level it was at in 2000 with a $1,000,000 exemption and a top rate of 55 percent. The difference is clear. Under current law, which is also indexed for inflation, my estate would not be subject to any federal estate tax in the event of my death. If the exemption levels returned to 2000 levels, my estate would be liable for hundreds-of-thousands of dollars in estate taxes.

What are the consequences of these two different cases? Under current law my heirs would be able to continue to operate the business keeping sixteen full time employees working and supporting their families. The business would continue to invest in new equipment and to provide services to the community where it is located. And most importantly for me, my heirs would be able to have the financial security I have spent the past 40 years working to provide for them.

If the estate tax reverts to the levels of 2000, my estate would be severely impacted. That could mean that sixteen good people who have given our company many years of service would no longer have a job. The businesses that provide products and services to our company could lose a good customer. But foremost, the economic security of my heirs will be uncertain. Of course, I can mitigate some of this effect by doing exactly what I am doing right now, buying large amounts of life insurance. But all that does is create a current expense out of a future liability, and it takes money away from my business, money I could use to hire employees or buy more equipment. Over the years, this adds up to a large fiscal drag on my business and that of many other small businesses that are able to buy life insurance protection.

All of the economic impacts that you see illustrated on the state impact analysis papers we have included in our submitted testimony will be affected, not just by the impact this policy change will have on me and my company, but by many thousand times over. Employment goes down, taxes paid by businesses to state and local governments go down, the multiplier effects of investment and employment decline when the estate tax is increased on small businesses. Mr. Chairman, there is a lot of rhetoric about how the estate tax really only affects rich people. Let me say here for the record, I do not consider myself or my family rich. Every day for the past 43 years I have gotten out of bed and gone to work to make a living. I have invested my resources into a company that has grown and has been successful despite some tough times over the past few years. My estate is my company, I do not have a large amount of liquid assets that can easily be sold to pay estate taxes; my company will have to be sold.

Going back to a policy that was outdated 12 years ago would, in my opinion, be a disaster for many small business owners like me, putting the number one goal that I have worked for all of my life in jeopardy– providing financial security for my wife, our children and grandchildren. In addition, the current situation makes business planning almost impossible. We need certainty on the estate tax and we need it now.

Let me be clear. If ARA could write the policy, we would eliminate the federal estate tax completely. It is a tax on capital pure and simple and I, as a businessman, believe that strongly. However, it is obvious to ARA that our preferred position is not politically achievable, so we have modified our position over time because we want certainty on this issue. ARA has been a member of the Family Business Estate Tax Coalition for the past ten years. In 2008, ARA adopted the position that is held by the Coalition, supporting current law. We believe the current $5,000,000 federal estate tax exemption indexed for inflation and with a 35 percent top rate on the remaining assets of the estate with a stepped-upped basis is a policy that will help sustain America's small businesses for years to come, and ARA supports efforts to make current law permanent.

American Rental Association

**ATTACHMENTS TO**

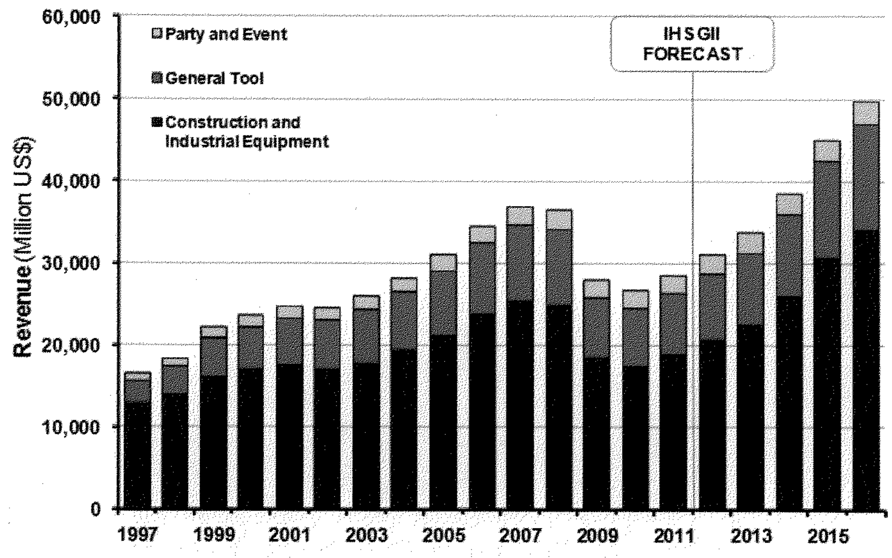
**Testimony of Michael G. Flesher**
**President, American Rental Association**
**May 31, 2012**

Rental MANAGEMENT

American Rental Association

IHS GLOBAL INSIGHT

# Total U.S. Equipment Rental Revenue



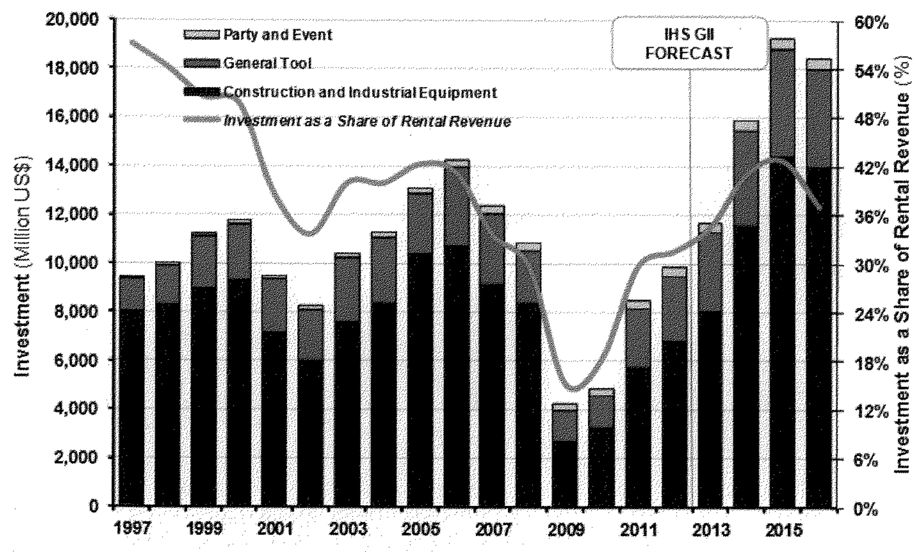

 19 May 2012

Rental MANAGEMENT

American Rental Association

IHS GLOBAL INSIGHT

## U.S. Rental Industry Investment




  May 2012

# UNITED STATES – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

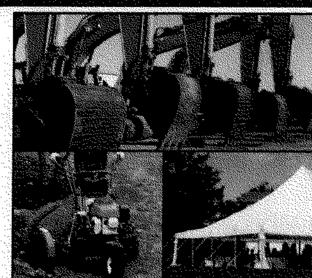
The rental industry in the United States can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the United States rental market was estimated to be $28,570 million in 2011. The construction and industrial equipment segment had the largest share (66% or $18,793 million), followed by the general tool (26% or $7,438 million) and party and event (8% or $2,339 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the United States rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the United States economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the United States rental industry's economic impact for 2011.

| ECONOMIC IMPACT SUMMARY* Rental Revenue: $28,570 million (2011) | |
|---|---|
| **EMPLOYMENT** | **333,347** |
| **INDUSTRY OUTPUT** (MILLION US$) | **60,344** |
| **VALUE ADDED** (MILLION US$) | **31,071** |
| **Labor Income** | **18,503** |
| **Indirect Business Taxes** | **3,109** |
| **Business Income** | **9,459** |



To summarize, in 2011 the rental industry in the United States:

- Created 333,347 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $60,344 million to the economy's total production (output);
- Resulted in $18,503 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $3,109 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $9,459 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

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* Estimated based on data available as of March 2011.

# DEFINITIONS

## Rental Segments

**Construction and Industrial Equipment**
Construction equipment is almost exclusively rented by construction firms or contractors, e.g., earthmoving equipment, access equipment, pumps and generators. Earthmoving equipment includes loaders, excavators and articulated dump trucks; access equipment includes aerial work platforms, scaffolding and telehandlers. Industrial equipment comprises a broad range of equipment used in the production or movement of other goods and services. It is often mechanical and controlled by trained operators, although this need not always be the case. Examples of the wide range of equipment include oil field and refinery equipment, manufacturing machinery, transportation (such as airfields and warehousing) equipment and medical equipment as well as rental equipment and tools used for plant maintenance and repairs. It is rented by both construction and industrial end users.

**General Tool**
The general tool segment includes items usually rented by professional contractors and do-it-yourself homeowners for light construction, including building renovations and additions, concrete work and landscaping. Examples include small hand-held tools, yard-care equipment, jackhammers, concrete and tile saws, pressure washers, small generators, scaffolding, walk-behind trenchers and small skid-steers.

**Party and Event**
This segment covers rental of products to homeowners and consumers for celebrations such as weddings, graduations and private parties, and to corporations for promotional, recreational and special events such as product launches, company celebrations and groundbreaking ceremonies. It includes such items as linens and tableware, tents, tables and chairs, and other equipment specifically rented for a party or special event.

## Economic Impacts

**Direct Effect**
Direct effect refers to the response of the economy to the change in the final demand of the rental industry. For example, if a firm in the construction rental segment rents an excavator to a building construction company and pays indirect taxes on its profit, then these indirect taxes are considered to be part of the direct economic effect of the rental industry.

**Indirect Effect**
Indirect effect refers to the response of the economy to the change in the final demand of the industries that are dependent on the rental industry for their input. In the example presented for direct effect, the building construction company uses the excavator it rented and makes profit on such activities. Any indirect taxes paid by the building construction firm are regarded as the indirect effects of the rental industry.

**Induced Effect**
Induced effect refers to the response of the economy to changes in household expenditure as a result of income generated by the direct and indirect effects of the rental industry. In the example presented, the employees in both firms receive wages in return for their services. They spend their wages on various items such as groceries, which contributes to the profit of grocery retailers. The indirect taxes paid by grocery retailers as a result of the profit made are an example of an induced effect.

## Value Added

Value added is payment to labor and capital used in the production of an industry. It is defined as the sum of labor income, indirect business taxes and business income.

# CALIFORNIA – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

The rental industry in California can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the California rental market was estimated to be $2,993 million in 2011. The construction and industrial equipment segment had the largest share (65% or $1,941 million), followed by the general tool (26% or $777 million) and party and event (9% or $275 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the California rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the California economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the California rental industry's economic impact for 2011.

**ECONOMIC IMPACT SUMMARY*
Rental Revenue: $2,993 million (2011)**

| | |
|---|---|
| EMPLOYMENT | 25,264 |
| INDUSTRY OUTPUT (MILLION US$) | 5,395 |
| VALUE ADDED (MILLION US$) | 3,000 |
| Labor Income | 1,870 |
| Indirect Business Taxes | 236 |
| Business Income | 893 |

To summarize, in 2011 the rental industry in California:

- Created 25,264 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $5,395 million to the economy's total production (output);
- Resulted in $1,870 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $236 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $893 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## California

**Rental Stores in CA:** **1842**

**U.S. Senators:**

Barbara Boxer (D)
202-224-3553
http://boxer.senate.gov

Dianne Feinstein (D)
202-224-3841
http://feinstein.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 83 | Mike Thompson (D)<br>202-225-3311 http://mikethompson.house.gov |
| Congressional District 2 | 72 | Wally Herger (R)<br>202-225-3076 http://www.house.gov/herger |
| Congressional District 3 | 38 | Dan E. Lungren (R)<br>202-225-5716 http://lungren.house.gov |
| Congressional District 4 | 66 | Tom McClintock (R)<br>202-225-2511 http://mcclintock.house.gov |
| Congressional District 5 | 36 | Doris O. Matsui (D)<br>202-225-7163 http://matsui.house.gov |
| Congressional District 6 | 48 | Lynn C. Woolsey (D)<br>202-225-5161 http://www.woolsey.house.gov |
| Congressional District 7 | 35 | George Miller (D)<br>202-225-2095 http://georgemiller.house.gov |
| Congressional District 8 | 27 | Nancy Pelosi (D)<br>202-225-4965 http://www.house.gov/pelosi |
| Congressional District 9 | 16 | Barbara Lee (D)<br>202-225-2661 http://lee.house.gov |
| Congressional District 10 | 30 | John Garamendi (D)<br>202-225-1880 http://www.garamendi.house.gov |
| Congressional District 11 | 49 | Jerry McNerney (D)<br>202-225-1947 http://mcnerney.house.gov |

# Rental Stores by Congressional District

## California

| | | |
|---|---|---|
| Congressional District 12 | 27 | Jackie Speier (D)<br>202-225-3531 http://speier.house.gov |
| Congressional District 13 | 40 | Pete Stark (D)<br>202-225-5065 http://stark.house.gov |
| Congressional District 14 | 14 | Anna G. Eshoo (D)<br>202-225-8104 http://eshoo.house.gov |
| Congressional District 15 | 16 | Mike M. Honda (D)<br>202-225-2631 http://honda.house.gov |
| Congressional District 16 | 32 | Zoe Lofgren (D)<br>202-225-3072 http://zoelofgren.house.gov |
| Congressional District 17 | 36 | Sam Farr (D)<br>202-225-2861 http://www.farr.house.gov |
| Congressional District 18 | 36 | Dennis A. Cardoza (D)<br>202-225-6131 http://cardoza.house.gov/ |
| Congressional District 19 | 45 | Jeff Denham (R)<br>202-225-4540 http://denham.house.gov/ |
| Congressional District 20 | 40 | Jim Costa (D)<br>202-225-3341 http://www.costa.house.gov |
| Congressional District 21 | 43 | Devin Nunes (R)<br>202-225-2523 http://nunes.house.gov |
| Congressional District 22 | 64 | Kevin McCarthy (R)<br>202-225-2915 http://kevinmccarthy.house.gov |
| Congressional District 23 | 46 | Lois Capps (D)<br>202-225-3601 http://www.house.gov/capps |
| Congressional District 24 | 33 | Elton Gallegly (R)<br>202-225-5811 http://www.house.gov/gallegly |
| Congressional District 25 | 42 | Buck P. McKeon (R)<br>202-225-1956 http://mckeon.house.gov |
| Congressional District 26 | 34 | David Dreier (R)<br>202-225-2305 http://dreier.house.gov |
| Congressional District 27 | 33 | Brad Sherman (D)<br>202-225-5911 http://bradsherman.house.gov |

# Rental Stores by Congressional District

## California

| | | |
|---|---|---|
| Congressional District 28 | 29 | Howard L. Berman (D)<br>202-225-4695 http://www.house.gov/berman |
| Congressional District 29 | 19 | Adam B. Schiff (D)<br>202-225-4176 http://schiff.house.gov |
| Congressional District 30 | 18 | Henry A. Waxman (D)<br>202-225-3976 http://waxman.house.gov |
| Congressional District 31 | 14 | Xavier Becerra (D)<br>202-225-6235 http://becerra.house.gov |
| Congressional District 32 | 20 | Judy Chu (D)<br>202-225-5464 http://www.chu.house.gov |
| Congressional District 33 | 23 | Karen Bass (D)<br>202-225-7084 http://karenbass.house.gov/ |
| Congressional District 34 | 17 | Lucille Roybal-Allard (D)<br>202-225-1766 http://www.house.gov/roybal-allard |
| Congressional District 35 | 19 | Maxine Waters (D)<br>202-225-2201 http://waters.house.gov |
| Congressional District 36 | 19 | Janice Hahn (D)<br>202-225-8220 http://hahn.house.gov/ |
| Congressional District 37 | 36 | Laura Richardson (D)<br>202-225-7924 http://richardson.house.gov |
| Congressional District 38 | 40 | Grace F. Napolitano (D)<br>202-225-5256 http://napolitano.house.gov |
| Congressional District 39 | 21 | Linda T. Sanchez (D)<br>202-225-6676 http://www.lindasanchez.house.gov |
| Congressional District 40 | 46 | Ed R. Royce (R)<br>202-225-4111 http://www.royce.house.gov |
| Congressional District 41 | 34 | Jerry Lewis (R)<br>202-225-5861 http://www.house.gov/jerrylewis |
| Congressional District 42 | 29 | Gary G. Miller (R)<br>202-225-3201 http://garymiller.house.gov |
| Congressional District 43 | 34 | Joe Baca (D)<br>202-225-6161 http://www.house.gov/baca |

# Rental Stores by Congressional District

## California

| | | |
|---|---|---|
| Congressional District 44 | 40 | Ken Calvert (R)<br>202-225-1986 http://calvert.house.gov |
| Congressional District 45 | 35 | Mary Bono Mack (R)<br>202-225-5330 http://bono.house.gov |
| Congressional District 46 | 26 | Dana Rohrabacher (R)<br>202-225-2415 http://rohrabacher.house.gov |
| Congressional District 47 | 16 | Loretta Sanchez (D)<br>202-225-2965 http://www.lorettasanchez.house.gov |
| Congressional District 48 | 29 | John Campbell (R)<br>202-225-5611 http://campbell.house.gov |
| Congressional District 49 | 37 | Darrell E. Issa (R)<br>202-225-3906 http://issa.house.gov |
| Congressional District 50 | 47 | Brian P. Bilbray (R)<br>202-225-0508 http://www.house.gov/bilbray |
| Congressional District 51 | 40 | Bob Filner (D)<br>202-225-8045 http://www.house.gov/filner |
| Congressional District 52 | 46 | Duncan D. Hunter (R)<br>202-225-5672 http://www.hunter.house.gov |
| Congressional District 53 | 27 | Susan A. Davis (D)<br>202-225-2040 http://www.house.gov/susandavis |

# COLORADO – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

The rental industry in Colorado can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Colorado rental market was estimated to be $583 million in 2011. The construction and industrial equipment segment had the largest share (68% or $397 million), followed by the general tool (25% or $147 million) and party and event (7% or $39 million) segments.

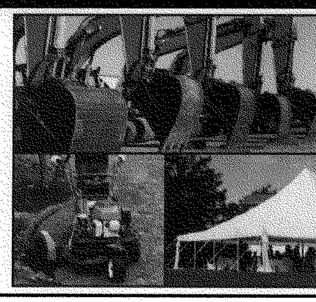
## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Colorado rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Colorado economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Colorado rental industry's economic impact for 2011.

**ECONOMIC IMPACT SUMMARY*** 
**Rental Revenue: $583 million (2011)**

| | |
|---|---|
| **EMPLOYMENT** | 5,744 |
| **INDUSTRY OUTPUT** (MILLION US$) | 999 |
| **VALUE ADDED** (MILLION US$) | 594 |
| **Labor Income** | 336 |
| **Indirect Business Taxes** | 59 |
| **Business Income** | 200 |



To summarize, in 2011 the rental industry in Colorado:

- Created 5,744 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $999 million to the economy's total production (output);
- Resulted in $336 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $59 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $200 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Colorado

**Rental Stores in CO:** **402**

**U.S. Senators:**

Michael F. Bennet (D)
202-224-5852
http://www.bennet.senate.gov

Mark Udall (D)
202-224-5941
http://markudall.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 35 | Diana DeGette (D)<br>202-225-4431 http://degette.house.gov |
| Congressional District 2 | 37 | Jared Polis (D)<br>202-225-2161 http://www.polis.house.gov |
| Congressional District 3 | 107 | Scott R. Tipton (R)<br>202-225-4761 http://tipton.house.gov/ |
| Congressional District 4 | 66 | Cory Scott Gardner (R)<br>202-225-4676 http://gardner.house.gov/ |
| Congressional District 5 | 59 | Doug Lamborn (R)<br>202-225-4422 http://lamborn.house.gov |
| Congressional District 6 | 42 | Mike Coffman (R)<br>202-225-7882 http://www.coffman.house.gov |
| Congressional District 7 | 56 | Ed Perlmutter (D)<br>202-225-2645 http://perlmutter.house.gov |

# FLORIDA – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental MANAGEMENT

IHS GLOBAL INSIGHT

## THE RENTAL INDUSTRY

The rental industry in Florida can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Florida rental market was estimated to be $1,623 million in 2011. The construction and industrial equipment segment had the largest share (64% or $1,039 million), followed by the general tool (28% or $449 million) and party and event (8% or $136 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Florida rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Florida economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Florida rental industry's economic impact for 2011.

| ECONOMIC IMPACT SUMMARY* Rental Revenue: $1,623 million (2011) | |
|---|---|
| **EMPLOYMENT** | 21,817 |
| **INDUSTRY OUTPUT** (MILLION US$) | 2,842 |
| **VALUE ADDED** (MILLION US$) | 1,677 |
| Labor Income | 1,062 |
| Indirect Business Taxes | 201 |
| Business Income | 415 |

To summarize, in 2011 the rental industry in Florida:

- Created 21,817 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $2,842 million to the economy's total production (output);
- Resulted in $1,062 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $201 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $415 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

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* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Florida

**Rental Stores in FL:** **1314**

**U.S. Senators:**

Bill Nelson (D)
202-224-5274
http://billnelson.senate.gov

Marco Rubio (R)
202-224-3041
http://rubio.senate.gov/

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 60 | Jeff B. Miller (R)<br>202-225-4136 http://jeffmiller.house.gov |
| Congressional District 2 | 59 | Steve Southerland II (R)<br>202-225-5235 http://southerland.house.gov/ |
| Congressional District 3 | 68 | Corrine Brown (D)<br>202-225-0123 http://www.house.gov/corrinebrown |
| Congressional District 4 | 62 | Ander Crenshaw (R)<br>202-225-2501 http://crenshaw.house.gov |
| Congressional District 5 | 55 | Richard B. Nugent (R)<br>202-225-1002 http://nugent.house.gov/ |
| Congressional District 6 | 61 | Cliff B. Stearns (R)<br>202-225-5744 http://stearns.house.gov |
| Congressional District 7 | 59 | John L. Mica (R)<br>202-225-4035 http://mica.house.gov |
| Congressional District 8 | 73 | Daniel Webster (R)<br>202-225-2176 http://webster.house.gov/ |
| Congressional District 9 | 26 | Gus Michael Bilirakis (R)<br>202-225-5755 http://bilirakis.house.gov |
| Congressional District 10 | 31 | C.W. Young (R)<br>202-225-5961 http://www.house.gov/young |
| Congressional District 11 | 48 | Kathy Castor (D)<br>202-225-3376 http://castor.house.gov |

# Rental Stores by Congressional District

## Florida

| | | |
|---|---|---|
| Congressional District 12 | 58 | Dennis A. Ross (R)<br>202-225-1252 http://dennisross.house.gov/ |
| Congressional District 13 | 44 | Vern Buchanan (R)<br>202-225-5015 http://buchanan.house.gov |
| Congressional District 14 | 68 | Connie Mack (R)<br>202-225-2536 http://mack.house.gov |
| Congressional District 15 | 46 | Bill Posey (R)<br>202-225-3671 http://www.posey.house.gov |
| Congressional District 16 | 61 | Thomas Joe Rooney (R)<br>202-225-5792 http://www.rooney.house.gov |
| Congressional District 17 | 34 | Frederica S. Wilson (D)<br>202-225-4506 http://wilson.house.gov/ |
| Congressional District 18 | 45 | Ileana Ros-Lehtinen (R)<br>202-225-3931 http://ros-lehtinen.house.gov |
| Congressional District 19 | 41 | Ted E. Deutch (D)<br>202-225-3001 http://www.deutch.house.gov |
| Congressional District 20 | 33 | Debbie Wasserman Schultz (D)<br>202-225-7931 http://wassermanschultz.house.gov |
| Congressional District 21 | 74 | Mario Diaz-Balart (R)<br>202-225-4211 http://mariodiazbalart.house.gov/ |
| Congressional District 22 | 51 | Allen B. West (R)<br>202-225-3026 http://west.house.gov/ |
| Congressional District 23 | 68 | Alcee L. Hastings (D)<br>202-225-1313 http://www.alceehastings.house.gov |
| Congressional District 24 | 53 | Sandy Adams (R)<br>202-225-2706 http://adams.house.gov/ |
| Congressional District 25 | 36 | David Rivera (R)<br>202-225-2778 http://rivera.house.gov/ |

# ILLINOIS –
# 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

The rental industry in Illinois can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Illinois rental market was estimated to be $1,017 million in 2011. The construction and industrial equipment segment had the largest share (64% or $653 million), followed by the general tool (26% or $269 million) and party and event (9% or $95 million) segments.

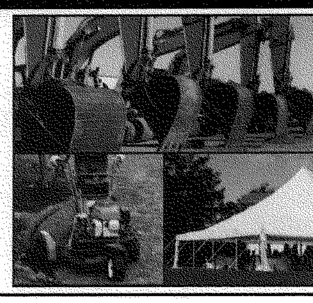
## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Illinois rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Illinois economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Illinois rental industry's economic impact for 2011.

**ECONOMIC IMPACT SUMMARY***
**Rental Revenue: $1,017 million (2011)**

| | |
|---|---|
| EMPLOYMENT | 13,848 |
| INDUSTRY OUTPUT (MILLION US$) | 2,407 |
| VALUE ADDED (MILLION US$) | 1,353 |
| Labor Income | 807 |
| Indirect Business Taxes | 131 |
| Business Income | 415 |



To summarize, in 2011 the rental industry in Illinois:

- Created 13,848 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $2,407 million to the economy's total production (output);
- Resulted in $807 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $131 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $415 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

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* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Illinois

**Rental Stores in IL:** **802**

**U.S. Senators:**

Richard J. Durbin (D)
202-224-2152
http://durbin.senate.gov

Mark Steven Kirk III (R)
202-224-2854
http://kirk.senate.gov/

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative | |
|---|---|---|---|
| Congressional District 1 | 17 | Bobby L. Rush (D)<br>202-225-4372 | http://www.house.gov/rush |
| Congressional District 2 | 15 | Jesse L. Jackson Jr. (D)<br>202-225-0773 | http://www.house.gov/jackson |
| Congressional District 3 | 36 | Daniel Lipinski (D)<br>202-225-5701 | http://www.lipinski.house.gov |
| Congressional District 4 | 19 | Luis V. Gutierrez (D)<br>202-225-8203 | http://luisgutierrez.house.gov |
| Congressional District 5 | 17 | Mike Quigley (D)<br>202-225-4061 | http://www.quigley.house.gov |
| Congressional District 6 | 77 | Peter J. Roskam (R)<br>202-225-4561 | http://roskam.house.gov |
| Congressional District 7 | 15 | Danny K. Davis (D)<br>202-225-5006 | http://www.house.gov/davis |
| Congressional District 8 | 60 | Joe Walsh (R)<br>202-225-3711 | http://walsh.house.gov/ |
| Congressional District 9 | 19 | Jan D. Schakowsky (D)<br>202-225-2111 | http://schakowsky.house.gov |
| Congressional District 10 | 32 | Bob J. Dold (R)<br>202-225-4835 | http://dold.house.gov/ |
| Congressional District 11 | 69 | Adam Kinzinger (R)<br>202-225-3635 | http://kinzinger.house.gov/ |

2/27/2012

# Rental Stores by Congressional District

## Illinois

| | | |
|---|---|---|
| Congressional District 12 | 36 | Jerry F. Costello (D)<br>202-225-5661 http://costello.house.gov |
| Congressional District 13 | 55 | Judy Biggert (R)<br>202-225-3515 http://judybiggert.house.gov |
| Congressional District 14 | 59 | Randy M. Hultgren (R)<br>202-225-2976 http://hultgren.house.gov/ |
| Congressional District 15 | 48 | Timothy V. Johnson (R)<br>202-225-2371 http://timjohnson.house.gov |
| Congressional District 16 | 61 | Don A. Manzullo (R)<br>202-225-5676 http://manzullo.house.gov |
| Congressional District 17 | 57 | Bobby T. Schilling (R)<br>202-225-5905 http://schilling.house.gov/ |
| Congressional District 18 | 59 | Aaron Schock (R)<br>202-225-6201 http://www.schock.house.gov |
| Congressional District 19 | 51 | John Shimkus (R)<br>202-225-5271 http://shimkus.house.gov |

# IOWA – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

The rental industry in Iowa can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Iowa rental market was estimated to be $351 million in 2011. The construction and industrial equipment segment had the largest share (69% or $242 million), followed by the general tool (24% or $85 million) and party and event (7% or $24 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Iowa rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Iowa economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Iowa rental industry's economic impact for 2011.

| ECONOMIC IMPACT SUMMARY* Rental Revenue: $351 million (2011) | |
|---|---|
| **EMPLOYMENT** | **5,945** |
| **INDUSTRY OUTPUT** (MILLION US$) | **724** |
| **VALUE ADDED** (MILLION US$) | **293** |
| **Labor Income** | **167** |
| **Indirect Business Taxes** | **27** |
| **Business Income** | **99** |

To summarize, in 2011 the rental industry in Iowa:

- Created 5,945 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $724 million to the economy's total production (output);
- Resulted in $167 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $27 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $99 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## **Iowa**

**Rental Stores in IA:** **292**

**U.S. Senators:**

Chuck E. Grassley (R)
202-224-3744
http://grassley.senate.gov

Tom Harkin (D)
202-224-3254
http://harkin.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 57 | Bruce L. Braley (D)<br>202-225-2911 http://braley.house.gov |
| Congressional District 2 | 60 | Dave Loebsack (D)<br>202-225-6576 http://loebsack.house.gov |
| Congressional District 3 | 58 | Leonard L. Boswell (D)<br>202-225-3806 http://boswell.house.gov |
| Congressional District 4 | 59 | Tom Latham (R)<br>202-225-5476 http://www.tomlatham.house.gov |
| Congressional District 5 | 58 | Steve A. King (R)<br>202-225-4426 http://steveking.house.gov |

# LOUISIANA – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

## THE RENTAL INDUSTRY

The rental industry in Louisiana can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Louisiana rental market was estimated to be $662 million in 2011. The construction and industrial equipment segment had the largest share (63% or $415 million), followed by the general tool (31% or $205 million) and party and event (6% or $42 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Louisiana rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Louisiana economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Louisiana rental industry's economic impact for 2011.

| ECONOMIC IMPACT SUMMARY* Rental Revenue: $662 million (2011) | |
|---|---|
| EMPLOYMENT | 5,082 |
| INDUSTRY OUTPUT (MILLION US$) | 966 |
| VALUE ADDED (MILLION US$) | 504 |
| **Labor Income** | 267 |
| **Indirect Business Taxes** | 58 |
| **Business Income** | 178 |

To summarize, in 2011 the rental industry in Louisiana:

- Created 5,082 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $966 million to the economy's total production (output);
- Resulted in $267 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $58 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $178 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

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* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Louisiana

**Rental Stores in LA:** **462**

**U.S. Senators:**

Mary L. Landrieu (D)
202-224-5824
http://landrieu.senate.gov

David Vitter (R)
202-224-4623
http://vitter.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 71 | Steve J. Scalise (R) 202-225-3015 http://www.scalise.house.gov |
| Congressional District 2 | 34 | Cedric L. Richmond (D) 202-225-6636 http://richmond.house.gov/ |
| Congressional District 3 | 98 | Jeffrey M. Landry (R) 202-225-4031 http://landry.house.gov/ |
| Congressional District 4 | 41 | John C. Fleming (R) 202-225-2777 http://www.fleming.house.gov |
| Congressional District 5 | 41 | Rodney Alexander (R) 202-225-8490 http://alexander.house.gov |
| Congressional District 6 | 85 | Bill Cassidy (R) 202-225-3901 http://www.cassidy.house.gov |
| Congressional District 7 | 92 | Charles W. Boustany Jr. (R) 202-225-2031 http://boustany.house.gov |

# MARYLAND – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

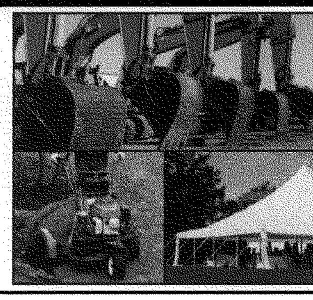
The rental industry in Maryland can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Maryland rental market was estimated to be $587 million in 2011. The construction and industrial equipment segment had the largest share (62% or $363 million), followed by the general tool (31% or $180 million) and party and event (7% or $43 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Maryland rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Maryland economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Maryland rental industry's economic impact for 2011.

| ECONOMIC IMPACT SUMMARY* Rental Revenue: $587 million (2011) | |
|---|---|
| EMPLOYMENT | 6,000 |
| INDUSTRY OUTPUT (MILLION US$) | 878 |
| VALUE ADDED (MILLION US$) | 580 |
| Labor Income | 371 |
| Indirect Business Taxes | 54 |
| Business Income | 155 |



To summarize, in 2011 the rental industry in Maryland:

- Created 6,000 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $878 million to the economy's total production (output);
- Resulted in $371 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $54 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $155 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

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* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Maryland

**Rental Stores in MD:** **302**

**U.S. Senators:**

Benjamin L. Cardin (D)
202-224-4524
http://cardin.senate.gov

Barbara A. Mikulski (D)
202-224-4654
http://mikulski.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 48 | Andrew P. Harris (R)<br>202-225-5311 http://harris.house.gov/ |
| Congressional District 2 | 50 | C.A. Dutch Ruppersberger (D)<br>202-225-3061 http://www.dutch.house.gov |
| Congressional District 3 | 39 | John P. Sarbanes (D)<br>202-225-4016 http://sarbanes.house.gov |
| Congressional District 4 | 30 | Donna F. Edwards (D)<br>202-225-8699 http://www.donnaedwards.house.gov |
| Congressional District 5 | 42 | Steny H. Hoyer (D)<br>202-225-4131 http://hoyer.house.gov |
| Congressional District 6 | 48 | Roscoe G. Bartlett (R)<br>202-225-2721 http://www.bartlett.house.gov |
| Congressional District 7 | 23 | Elijah E. Cummings (D)<br>202-225-4741 http://www.house.gov/cummings |
| Congressional District 8 | 22 | Chris Van Hollen (D)<br>202-225-5341 http://vanhollen.house.gov |

# MASSACHUSETTS – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

The rental industry in Massachusetts can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Massachusetts rental market was estimated to be $600 million in 2011. The construction and industrial equipment segment had the largest share (68% or $406 million), followed by the general tool (24% or $141 million) and party and event (9% or $53 million) segments.

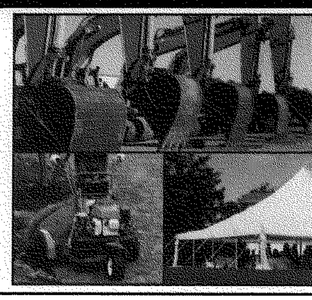
## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Massachusetts rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Massachusetts economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Massachusetts rental industry's economic impact for 2011.

**ECONOMIC IMPACT SUMMARY***
**Rental Revenue: $600 million (2011)**

| | |
|---|---|
| **EMPLOYMENT** | **7,354** |
| **INDUSTRY OUTPUT** (MILLION US$) | **1,552** |
| **VALUE ADDED** (MILLION US$) | **751** |
| **Labor Income** | **474** |
| **Indirect Business Taxes** | **59** |
| **Business Income** | **218** |



To summarize, in 2011 the rental industry in Massachusetts:

- Created 7,354 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $1,552 million to the economy's total production (output);
- Resulted in $474 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $59 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $218 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Massachusetts

**Rental Stores in MA:** **424**

**U.S. Senators:**

Scott P. Brown (R)
202-224-4543
http://www.scottbrown.senate.gov/public/

John F. Kerry (D)
202-224-2742
http://kerry.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 41 | John W. Olver (D)<br>202-225-5335 http://olver.house.gov |
| Congressional District 2 | 52 | Richard E. Neal (D)<br>202-225-5601 http://www.house.gov/neal |
| Congressional District 3 | 51 | James P. McGovern (D)<br>202-225-6101 http://mcgovern.house.gov |
| Congressional District 4 | 35 | Barney Frank (D)<br>202-225-5931 http://www.house.gov/frank |
| Congressional District 5 | 37 | Niki Tsongas (D)<br>202-225-3411 http://tsongas.house.gov |
| Congressional District 6 | 39 | John F. Tierney (D)<br>202-225-8020 http://www.tierney.house.gov |
| Congressional District 7 | 34 | Ed J. Markey (D)<br>202-225-2836 http://markey.house.gov |
| Congressional District 8 | 15 | Michael E. Capuano (D)<br>202-225-5111 http://www.house.gov/capuano |
| Congressional District 9 | 55 | Stephen F. Lynch (D)<br>202-225-8273 http://www.house.gov/lynch |
| Congressional District 10 | 65 | William R. Keating (D)<br>202-225-3111 http://keating.house.gov/ |

# MICHIGAN –
# 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental MANAGEMENT

IHS GLOBAL INSIGHT

### THE RENTAL INDUSTRY

The rental industry in Michigan can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Michigan rental market was estimated to be $707 million in 2011. The construction and industrial equipment segment had the largest share (66% or $466 million), followed by the general tool (24% or $169 million) and party and event (10% or $72 million) segments.

### THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Michigan rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Michigan economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Michigan rental industry's economic impact for 2011.

ECONOMIC IMPACT SUMMARY*
Rental Revenue: $707 million (2011)

| | |
|---|---|
| EMPLOYMENT | 9,442 |
| INDUSTRY OUTPUT (MILLION US$) | 2,677 |
| VALUE ADDED (MILLION US$) | 795 |
| Labor Income | 491 |
| Indirect Business Taxes | 80 |
| Business Income | 224 |

To summarize, in 2011 the rental industry in Michigan:

- Created 9,442 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $2,677 million to the economy's total production (output);
- Resulted in $491 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $80 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $224 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Michigan

**Rental Stores in MI:** **847**

**U.S. Senators:**

Carl Levin (D)
202-224-6221
http://levin.senate.gov

Debbie Stabenow (D)
202-224-4822
http://stabenow.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 85 | Daniel Benishek (R)<br>202-225-4735 http://benishek.house.gov/ |
| Congressional District 2 | 54 | Bill Huizenga (R)<br>202-225-4401 http://huizenga.house.gov/ |
| Congressional District 3 | 68 | Justin Amash (R)<br>202-225-3831 http://amash.house.gov/ |
| Congressional District 4 | 79 | Dave Camp (R)<br>202-225-3561 http://camp.house.gov |
| Congressional District 5 | 51 | Dale E. Kildee (D)<br>202-225-3611 http://www.house.gov/kildee |
| Congressional District 6 | 49 | Fred Upton (R)<br>202-225-3761 http://www.house.gov/upton |
| Congressional District 7 | 63 | Tim L. Walberg (R)<br>202-225-6276 http://walberg.house.gov/ |
| Congressional District 8 | 69 | Mike Rogers (R)<br>202-225-4872 http://www.mikerogers.house.gov |
| Congressional District 9 | 45 | Gary C. Peters (D)<br>202-225-5802 http://www.peters.house.gov |
| Congressional District 10 | 80 | Candice S. Miller (R)<br>202-225-2106 http://candicemiller.house.gov |
| Congressional District 11 | 79 | Thaddeus McCotter (R)<br>202-225-8171 http://mccotter.house.gov |

2/27/2012

# Rental Stores by Congressional District

## Michigan

| | | |
|---|---|---|
| Congressional District 12 | 42 | Sander M. Levin (D)<br>202-225-4961 http://www.house.gov/levin |
| Congressional District 13 | 16 | Hansen Clarke (D)<br>202-225-2261 http://hansenclarke.house.gov/ |
| Congressional District 14 | 20 | John Conyers Jr. (D)<br>202-225-5126 http://www.house.gov/conyers |
| Congressional District 15 | 47 | John D. Dingell (D)<br>202-225-4071 http://www.house.gov/dingell |

# MISSOURI – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

The rental industry in Missouri can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Missouri rental market was estimated to be $556 million in 2011. The construction and industrial equipment segment had the largest share (65% or $364 million), followed by the general tool (27% or $148 million) and party and event (8% or $45 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Missouri rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Missouri economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Missouri rental industry's economic impact for 2011.

| ECONOMIC IMPACT SUMMARY* Rental Revenue: $556 million (2011) | |
|---|---|
| EMPLOYMENT | 11,186 |
| INDUSTRY OUTPUT (MILLION US$) | 1,162 |
| VALUE ADDED (MILLION US$) | 544 |
| Labor Income | 337 |
| Indirect Business Taxes | 52 |
| Business Income | 155 |

To summarize, in 2011 the rental industry in Missouri:

- Created 11,186 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $1,162 million to the economy's total production (output);
- Resulted in $337 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $52 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $155 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Missouri

**Rental Stores in MO:** **431**

**U.S. Senators:**

Roy Blunt (R)
202-224-5721
http://www.blunt.senate.gov

Claire McCaskill (D)
202-224-6154
http://mccaskill.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 35 | William Lacy Clay (D)<br>202-225-2406 http://lacyclay.house.gov |
| Congressional District 2 | 39 | Todd Akin (R)<br>202-225-2561 http://akin.house.gov |
| Congressional District 3 | 34 | Russ Carnahan (D)<br>202-225-2671 http://carnahan.house.gov |
| Congressional District 4 | 52 | Vicky Hartzler (R)<br>202-225-2876 http://hartzler.house.gov/ |
| Congressional District 5 | 47 | Emanuel Cleaver II (D)<br>202-225-4535 http://www.house.gov/cleaver |
| Congressional District 6 | 54 | Sam B. Graves (R)<br>202-225-7041 http://www.house.gov/graves |
| Congressional District 7 | 65 | Billy Long (R)<br>202-225-6536 http://long.house.gov/ |
| Congressional District 8 | 52 | Jo Ann Emerson (R)<br>202-225-4404 http://www.house.gov/emerson |
| Congressional District 9 | 53 | Blaine Luetkemeyer (R)<br>202-225-2956 http://www.luetkemeyer.house.gov |

# NEW YORK – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

### THE RENTAL INDUSTRY

The rental industry in New York can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the New York rental market was estimated to be $1,625 million in 2011. The construction and industrial equipment segment had the largest share (66% or $1,069 million), followed by the general tool (25% or $408 million) and party and event (9% or $149 million) segments.

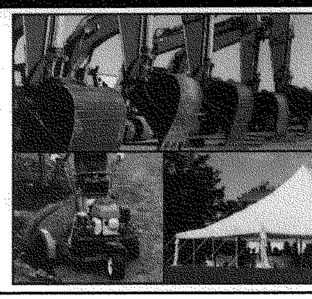
### THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the New York rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the New York economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the New York rental industry's economic impact for 2011.

**ECONOMIC IMPACT SUMMARY***
**Rental Revenue: $1,625 million (2011)**

| | |
|---|---|
| **EMPLOYMENT** | 21,134 |
| **INDUSTRY OUTPUT** (MILLION US$) | 3,028 |
| **VALUE ADDED** (MILLION US$) | 2,214 |
| **Labor Income** | 1,249 |
| **Indirect Business Taxes** | 243 |
| **Business Income** | 721 |



To summarize, in 2011 the rental industry in New York:

- Created 21,134 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $3,028 million to the economy's total production (output);
- Resulted in $1,249 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $243 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $721 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## New York

**Rental Stores in NY:** **892**

**U.S. Senators:**

Kirsten E. Gillibrand (D)
202-224-4451
http://gillibrand.senate.gov

Charles E. Schumer (D)
202-224-6542
http://schumer.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 47 | Timothy H. Bishop (D)<br>202-225-3826 http://timbishop.house.gov |
| Congressional District 2 | 49 | Steve J. Israel (D)<br>202-225-3335 http://israel.house.gov |
| Congressional District 3 | 23 | Peter T. King (R)<br>202-225-7896 http://peteking.house.gov |
| Congressional District 4 | 33 | Carolyn McCarthy (D)<br>202-225-5516 http://carolynmccarthy.house.gov |
| Congressional District 5 | 10 | Gary L. Ackerman (D)<br>202-225-2601 http://www.house.gov/ackerman |
| Congressional District 6 | 10 | Gregory W. Meeks (D)<br>202-225-3461 http://www.house.gov/meeks |
| Congressional District 7 | 15 | Joseph Crowley (D)<br>202-225-3965 http://crowley.house.gov |
| Congressional District 8 | 25 | Jerrold Nadler (D)<br>202-225-5635 http://nadler.house.gov |
| Congressional District 9 | 5 | Robert L. Turner (R)<br>http://www.house.gov/ |
| Congressional District 10 | 6 | Edolphus Towns (D)<br>202-225-5936 http://www.house.gov/towns |
| Congressional District 11 | 5 | Yvette D. Clarke (D)<br>202-225-6231 http://clarke.house.gov |

# Rental Stores by Congressional District

## New York

| | | |
|---|---|---|
| Congressional District 12 | 17 | Nydia M. Velazquez (D)<br>202-225-2361 http://velazquez.house.gov/index.shtml |
| Congressional District 13 | 17 | Michael G. Grimm (R)<br>202-225-3371 http://grimm.house.gov/ |
| Congressional District 14 | 19 | Carolyn B. Maloney (D)<br>202-225-7944 http://maloney.house.gov |
| Congressional District 15 | 1 | Charles B. Rangel (D)<br>202-225-4365 http://www.rangel.house.gov |
| Congressional District 16 | 4 | Jose E. Serrano (D)<br>202-225-4361 http://serrano.house.gov |
| Congressional District 17 | 24 | Eliot L. Engel (D)<br>202-225-2464 http://engel.house.gov |
| Congressional District 18 | 21 | Nita M. Lowey (D)<br>202-225-6506 http://lowey.house.gov |
| Congressional District 19 | 56 | Nan A.S. Hayworth (R)<br>202-225-5441 http://hayworth.house.gov/ |
| Congressional District 20 | 75 | Christopher P. Gibson (R)<br>202-225-5614 http://gibson.house.gov/ |
| Congressional District 21 | 48 | Paul D. Tonko (D)<br>202-225-5076 http://tonko.house.gov |
| Congressional District 22 | 50 | Maurice D. Hinchey (D)<br>202-225-6335 http://www.house.gov/hinchey |
| Congressional District 23 | 58 | Bill L. Owens (D)<br>202-225-4611 http://www.owens.house.gov |
| Congressional District 24 | 42 | Richard L. Hanna (R)<br>202-225-3665 http://hanna.house.gov/ |
| Congressional District 25 | 49 | Ann Marie Buerkle (R)<br>202-225-3701 http://buerkle.house.gov/ |
| Congressional District 26 | 46 | Kathy Courtney Hochul (D)<br>202-225-5265 http://hochul.house.gov/ |
| Congressional District 27 | 40 | Brian M. Higgins (D)<br>202-225-3306 http://higgins.house.gov |

# Rental Stores by Congressional District

## New York

| | | |
|---|---|---|
| Congressional District 28 | 33 | Louise M. Slaughter (D)<br>202-225-3615 http://www.louise.house.gov |
| Congressional District 29 | 64 | Tom Reed (R)<br>202-225-3161 http://reed.house.gov/ |

# NORTH CAROLINA – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental MANAGEMENT

IHS GLOBAL INSIGHT

## THE RENTAL INDUSTRY

The rental industry in North Carolina can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the North Carolina rental market was estimated to be $955 million in 2011. The construction and industrial equipment segment had the largest share (69% or $658 million), followed by the general tool (23% or $223 million) and party and event (8% or $74 million) segments.

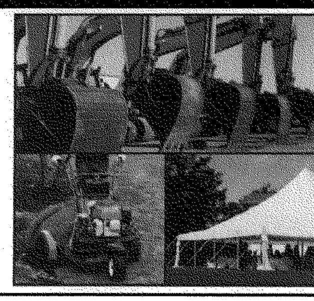
## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the North Carolina rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the North Carolina economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the North Carolina rental industry's economic impact for 2011.

**ECONOMIC IMPACT SUMMARY*<br>Rental Revenue: $955 million (2011)**

| | |
|---|---|
| EMPLOYMENT | 9,763 |
| INDUSTRY OUTPUT (MILLION US$) | 1,963 |
| VALUE ADDED (MILLION US$) | 922 |
| Labor Income | 572 |
| Indirect Business Taxes | 78 |
| Business Income | 272 |



To summarize, in 2011 the rental industry in North Carolina:

- Created 9,763 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $1,963 million to the economy's total production (output);
- Resulted in $572 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $78 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $272 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## North Carolina

**Rental Stores in NC:** **706**

**U.S. Senators:**

Richard Burr (R)
202-224-3154
http://burr.senate.gov

Kay R. Hagan (D)
202-224-6342
http://hagan.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 53 | G.K. Butterfield (D)<br>202-225-3101 http://butterfield.house.gov |
| Congressional District 2 | 42 | Renee L. Ellmers (R)<br>202-225-4531 http://ellmers.house.gov/ |
| Congressional District 3 | 59 | Walter B. Jones (R)<br>202-225-3415 http://jones.house.gov |
| Congressional District 4 | 53 | David E. Price (D)<br>202-225-1784 http://www.price.house.gov |
| Congressional District 5 | 43 | Virginia Foxx (R)<br>202-225-2071 http://www.foxx.house.gov |
| Congressional District 6 | 34 | Howard Coble (R)<br>202-225-3065 http://coble.house.gov |
| Congressional District 7 | 70 | Mike McIntyre (D)<br>202-225-2731 http://mcintyre.house.gov |
| Congressional District 8 | 39 | Larry Kissell (D)<br>202-225-3715 http://www.kissell.house.gov |
| Congressional District 9 | 61 | Sue Myrick (R)<br>202-225-1976 http://myrick.house.gov |
| Congressional District 10 | 45 | Patrick T. McHenry (R)<br>202-225-2576 http://mchenry.house.gov |
| Congressional District 11 | 72 | Heath Shuler (D)<br>202-225-6401 http://shuler.house.gov |

2/27/2012

# Rental Stores by Congressional District

## North Carolina

| | | |
|---|---|---|
| Congressional District 12 | 79 | Mel L. Watt (D)<br>202-225-1510 http://watt.house.gov |
| Congressional District 13 | 56 | Brad Miller (D)<br>202-225-3032 http://bradmiller.house.gov |

# OHIO – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

The rental industry in Ohio can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Ohio rental market was estimated to be $923 million in 2011. The construction and industrial equipment segment had the largest share (66% or $611 million), followed by the general tool (24% or $226 million) and party and event (9% or $86 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Ohio rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Ohio economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Ohio rental industry's economic impact for 2011.

**ECONOMIC IMPACT SUMMARY***
**Rental Revenue: $923 million (2011)**

| | |
|---|---|
| **EMPLOYMENT** | 12,047 |
| **INDUSTRY OUTPUT** (MILLION US$) | 2,607 |
| **VALUE ADDED** (MILLION US$) | 1,180 |
| **Labor Income** | 627 |
| **Indirect Business Taxes** | 97 |
| **Business Income** | 455 |

To summarize, in 2011 the rental industry in Ohio:

- Created 12,047 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $2,607 million to the economy's total production (output);
- Resulted in $627 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $97 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $455 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Ohio

**Rental Stores in OH:** **889**

**U.S. Senators:**

Sherrod Brown (D)
202-224-2315
http://brown.senate.gov

Rob Portman (R)
202-224-3353
http://portman.senate.gov/

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 32 | Steve Chabot (R)<br>202-225-2216 http://chabot.house.gov/ |
| Congressional District 2 | 53 | Jean Schmidt (R)<br>202-225-3164 http://www.house.gov/schmidt |
| Congressional District 3 | 46 | Michael R. Turner (R)<br>202-225-6465 http://turner.house.gov |
| Congressional District 4 | 54 | Jim Jordan (R)<br>202-225-2676 http://jordan.house.gov |
| Congressional District 5 | 61 | Bob E. Latta (R)<br>202-225-6405 http://latta.house.gov |
| Congressional District 6 | 58 | Bill Johnson (R)<br>202-225-5705 http://billjohnson.house.gov/ |
| Congressional District 7 | 36 | Steve Austria (R)<br>202-225-4324 http://www.austria.house.gov |
| Congressional District 8 | 64 | John A. Boehner (R)<br>202-225-6205 http://johnboehner.house.gov |
| Congressional District 9 | 55 | Marcy Kaptur (D)<br>202-225-4146 http://www.kaptur.house.gov |
| Congressional District 10 | 42 | Dennis J. Kucinich (D)<br>202-225-5871 http://kucinich.house.gov |
| Congressional District 11 | 35 | Marcia L. Fudge (D)<br>202-225-7032 http://fudge.house.gov |

2/27/2012

# Rental Stores by Congressional District

## Ohio

| | | |
|---|---|---|
| Congressional District 12 | 40 | Patrick J. Tiberi (R)<br>202-225-5355 http://tiberi.house.gov |
| Congressional District 13 | 58 | Betty Sutton (D)<br>202-225-3401 http://sutton.house.gov |
| Congressional District 14 | 55 | Steven C. LaTourette (R)<br>202-225-5731 http://latourette.house.gov |
| Congressional District 15 | 68 | Steve Stivers (R)<br>202-225-2015 http://stivers.house.gov/ |
| Congressional District 16 | 45 | James B. Renacci (R)<br>202-225-3876 http://renacci.house.gov/ |
| Congressional District 17 | 33 | Tim Ryan (D)<br>202-225-5261 http://timryan.house.gov |
| Congressional District 18 | 54 | Bob Gibbs (R)<br>202-225-6265 http://gibbs.house.gov/ |

# OREGON – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

The rental industry in Oregon can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Oregon rental market was estimated to be $368 million in 2011. The construction and industrial equipment segment had the largest share (67% or $245 million), followed by the general tool (25% or $92 million) and party and event (8% or $31 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Oregon rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Oregon economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Oregon rental industry's economic impact for 2011.

| ECONOMIC IMPACT SUMMARY* Rental Revenue: $368 million (2011) | |
|---|---|
| EMPLOYMENT | 4,679 |
| INDUSTRY OUTPUT (MILLION US$) | 890 |
| VALUE ADDED (MILLION US$) | 396 |
| Labor Income | 247 |
| Indirect Business Taxes | 41 |
| Business Income | 108 |

To summarize, in 2011 the rental industry in Oregon:

- Created 4,679 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $890 million to the economy's total production (output);
- Resulted in $247 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $41 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $108 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Oregon

**Rental Stores in OR:** **341**

**U.S. Senators:**

Jeff Merkley (D)
202-224-3753
http://merkley.senate.gov

Ron Wyden (D)
202-224-5244
http://wyden.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 56 | Suzanne Bonamici (D) |
| Congressional District 2 | 90 | Greg Walden (R)<br>202-225-6730 http://walden.house.gov |
| Congressional District 3 | 79 | Earl Blumenauer (D)<br>202-225-4811 http://blumenauer.house.gov |
| Congressional District 4 | 59 | Peter A. DeFazio (D)<br>202-225-6416 http://www.defazio.house.gov |
| Congressional District 5 | 57 | Kurt Schrader (D)<br>202-225-5711 http://www.schrader.house.gov |

# PENNSYLVANIA – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

The rental industry in Pennsylvania can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Pennsylvania rental market was estimated to be $1,169 million in 2011. The construction and industrial equipment segment had the largest share (66% or $772 million), followed by the general tool (26% or $299 million) and party and event (8% or $98 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Pennsylvania rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Pennsylvania economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Pennsylvania rental industry's economic impact for 2011.

| ECONOMIC IMPACT SUMMARY* Rental Revenue: $1,169 million (2011) | |
|---|---|
| **EMPLOYMENT** | **13,520** |
| **INDUSTRY OUTPUT** (MILLION US$) | **2,349** |
| **VALUE ADDED** (MILLION US$) | **1,525** |
| **Labor Income** | **920** |
| **Indirect Business Taxes** | **153** |
| **Business Income** | **453** |

To summarize, in 2011 the rental industry in Pennsylvania:

- Created 13,520 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $2,349 million to the economy's total production (output);
- Resulted in $920 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $153 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $453 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Pennsylvania

**Rental Stores in PA:** **920**

**U.S. Senators:**

Robert P. Casey Jr. (D)
202-224-6324
http://casey.senate.gov

Patrick J. Toomey (R)
202-224-4254
http://toomey.senate.gov/

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 13 | Robert A. Brady (D)<br>202-225-4731 http://www.brady.house.gov |
| Congressional District 2 | 6 | Chaka Fattah (D)<br>202-225-4001 http://www.house.gov/fattah |
| Congressional District 3 | 59 | Mike Kelly (R)<br>202-225-5406 http://kelly.house.gov/ |
| Congressional District 4 | 69 | Jason Altmire (D)<br>202-225-2565 http://www.altmire.house.gov |
| Congressional District 5 | 65 | Glenn W. Thompson (R)<br>202-225-5121 http://www.thompson.house.gov |
| Congressional District 6 | 54 | Jim W. Gerlach (R)<br>202-225-4315 http://gerlach.house.gov |
| Congressional District 7 | 51 | Patrick Meehan (R)<br>202-225-2011 http://meehan.house.gov/ |
| Congressional District 8 | 59 | Michael G. Fitzpatrick (R)<br>202-225-4276 http://fitzpatrick.house.gov/ |
| Congressional District 9 | 50 | Bill Franklin Shuster (R)<br>202-225-2431 http://www.house.gov/shuster |
| Congressional District 10 | 62 | Tom Marino (R)<br>202-225-3731 http://marino.house.gov/ |
| Congressional District 11 | 48 | Louis J. Barletta (R)<br>202-225-6511 http://barletta.house.gov/ |

2/27/2012

# Rental Stores by Congressional District

## Pennsylvania

| | | |
|---|---|---|
| Congressional District 12 | 45 | Mark S. Critz (D)<br>202-225-2065 http://www.critz.house.gov |
| Congressional District 13 | 32 | Allyson Y. Schwartz (D)<br>202-225-6111 http://schwartz.house.gov |
| Congressional District 14 | 32 | Mike F. Doyle (D)<br>202-225-2135 http://doyle.house.gov |
| Congressional District 15 | 49 | Charles W. Dent (R)<br>202-225-6411 http://dent.house.gov |
| Congressional District 16 | 47 | Joseph R. Pitts (R)<br>202-225-2411 http://www.house.gov/pitts |
| Congressional District 17 | 58 | Tim Holden (D)<br>202-225-5546 http://www.holden.house.gov |
| Congressional District 18 | 64 | Tim F. Murphy (R)<br>202-225-2301 http://murphy.house.gov |
| Congressional District 19 | 57 | Todd Russell Platts (R)<br>202-225-5836 http://www.house.gov/platts |

# RHODE ISLAND – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental Management

IHS Global Insight

## THE RENTAL INDUSTRY

The rental industry in Rhode Island can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Rhode Island rental market was estimated to be $84 million in 2011. The construction and industrial equipment segment had the largest share (66% or $56 million), followed by the general tool (24% or $20 million) and party and event (9% or $8 million) segments.

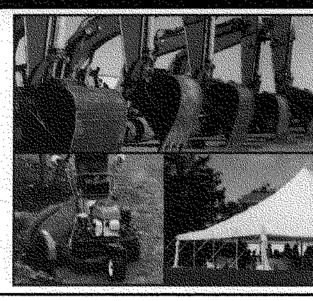
## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Rhode Island rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Rhode Island economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Rhode Island rental industry's economic impact for 2011.

**ECONOMIC IMPACT SUMMARY*<br>Rental Revenue: $84 million (2011)**

| | |
|---|---|
| **EMPLOYMENT** | **1,058** |
| **INDUSTRY OUTPUT** (MILLION US$) | **183** |
| **VALUE ADDED** (MILLION US$) | **97** |
| **Labor Income** | **62** |
| **Indirect Business Taxes** | **9** |
| **Business Income** | **26** |



To summarize, in 2011 the rental industry in Rhode Island:

- Created 1,058 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $183 million to the economy's total production (output);
- Resulted in $62 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $9 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $26 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Rhode Island

**Rental Stores in RI:** **65**

**U.S. Senators:**

Jack F. Reed (D)
202-224-4642
http://reed.senate.gov

Sheldon Whitehouse (D)
202-224-2921
http://whitehouse.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 27 | David N. Cicilline (D)<br>202-225-4911 http://cicilline.house.gov/ |
| Congressional District 2 | 38 | James R. Langevin (D)<br>202-225-2735 http://langevin.house.gov |

# SOUTH CAROLINA – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental MANAGEMENT

IHS GLOBAL INSIGHT

## THE RENTAL INDUSTRY

The rental industry in South Carolina can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the South Carolina rental market was estimated to be $441 million in 2011. The construction and industrial equipment segment had the largest share (68% or $299 million), followed by the general tool (24% or $107 million) and party and event (8% or $35 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the South Carolina rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the South Carolina economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the South Carolina rental industry's economic impact for 2011.

**ECONOMIC IMPACT SUMMARY***
**Rental Revenue: $441 million (2011)**

| | |
|---|---|
| **EMPLOYMENT** | **4,527** |
| **INDUSTRY OUTPUT** (MILLION US$) | **879** |
| **VALUE ADDED** (MILLION US$) | **372** |
| **Labor Income** | **231** |
| **Indirect Business Taxes** | **41** |
| **Business Income** | **99** |

To summarize, in 2011 the rental industry in South Carolina:

- Created 4,527 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $879 million to the economy's total production (output);
- Resulted in $231 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $41 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $99 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

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* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## South Carolina

**Rental Stores in SC:** **359**

**U.S. Senators:**

Jim DeMint (R)
202-224-6121
http://demint.senate.gov

Lindsey O. Graham (R)
202-224-5972
http://lgraham.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 83 | Tim E. Scott (R)<br>202-225-3176 http://timscott.house.gov/ |
| Congressional District 2 | 67 | Joe Wilson (R)<br>202-225-2452 http://joewilson.house.gov |
| Congressional District 3 | 36 | Jeff D. Duncan (R)<br>202-225-5301 http://jeffduncan.house.gov/ |
| Congressional District 4 | 61 | Trey Gowdy (R)<br>202-225-6030 http://gowdy.house.gov/ |
| Congressional District 5 | 52 | Mick Mulvaney (R)<br>202-225-5501 http://www.house.gov/Welcome.shtml |
| Congressional District 6 | 60 | James E. Clyburn (D)<br>202-225-3315 http://clyburn.house.gov |

# WASHINGTON – 2011 ECONOMIC IMPACT OF THE RENTAL INDUSTRY

American Rental Association

Rental MANAGEMENT

IHS GLOBAL INSIGHT

## THE RENTAL INDUSTRY

The rental industry in Washington can be divided into three broad categories – rental of construction and industrial equipment, general tool, and party and event equipment. The total size of the Washington rental market was estimated to be $679 million in 2011. The construction and industrial equipment segment had the largest share (68% or $463 million), followed by the general tool (24% or $166 million) and party and event (7% or $50 million) segments.

## THE ECONOMIC IMPACT

The economic impact of an industry in a particular region is defined as the contribution of that industry to the overall economic activity. It is possible to assess the effect the Washington rental industry has on the total employment, output and value added.

The total economic impact of the rental industry on the Washington economy includes direct, indirect and induced effects (see definitions section). The table below presents a summary of the Washington rental industry's economic impact for 2011.

**ECONOMIC IMPACT SUMMARY***
**Rental Revenue: $679 million (2011)**

| | |
|---|---|
| **EMPLOYMENT** | 6,885 |
| **INDUSTRY OUTPUT** (MILLION US$) | 2,120 |
| **VALUE ADDED** (MILLION US$) | 645 |
| Labor Income | 382 |
| Indirect Business Taxes | 79 |
| Business Income | 184 |

To summarize, in 2011 the rental industry in Washington:

- Created 6,885 jobs for the economy, including both full-time and part-time employees, as well as the self-employed;
- Contributed $2,120 million to the economy's total production (output);
- Resulted in $382 million in labor income – wages and salaries, benefits (such as health insurance) and payment to the self-employed;
- Generated $79 million in indirect taxes (excised taxes, property taxes, fees, sales taxes, etc.) for local, state and federal governments; and
- Created $184 million worth of business income in form of rents, royalties, dividends and profits earned by corporations.

* Estimated based on data available as of March 2011.

# Rental Stores by Congressional District

## Washington

**Rental Stores in WA:** **516**

**U.S. Senators:**

Maria Cantwell (D)
202-224-3441
http://cantwell.senate.gov

Patty Murray (D)
202-224-2621
http://murray.senate.gov

**Rental Stores by District**

| Congressional District | # of Stores | U.S. Representative |
|---|---|---|
| Congressional District 1 | 38 | Jay Inslee (D)<br>202-225-6311 http://www.house.gov/inslee |
| Congressional District 2 | 72 | Rick Larsen (D)<br>202-225-2605 http://www.house.gov/larsen |
| Congressional District 3 | 50 | Jamie Herrera Beutler (R)<br>202-225-3536 http://herrerabeutler.house.gov/ |
| Congressional District 4 | 75 | Doc Hastings (R)<br>202-225-5816 http://hastings.house.gov |
| Congressional District 5 | 73 | Cathy McMorris Rodgers (R)<br>202-225-2006 http://www.mcmorrisrodgers.house.gov |
| Congressional District 6 | 49 | Norman D. Dicks (D)<br>202-225-5916 http://www.house.gov/dicks |
| Congressional District 7 | 50 | Jim McDermott (D)<br>202-225-3106 http://mcdermott.house.gov |
| Congressional District 8 | 37 | Dave G. Reichert (R)<br>202-225-7761 http://reichert.house.gov |
| Congressional District 9 | 72 | Adam Smith (D)<br>202-225-8901 http://adamsmith.house.gov |

# Testimony

Statement of Thala Taperman Rolnick, CPA

On

# Planning for the Death Tax: Can Small Businesses Survive?

Before the

US House of Representatives Committee on Small Business

Subcommittee on Economic Growth, Taxation and Capital Access

May 31, 2012

Chairman Walsh and Ranking Member Schrader. Thank you for inviting me to address this committee. My name is Thala Taperman Rolnick and I am a Certified Public Accountant from Phoenix, Arizona where I have specialized in Estate, Trust and Gift tax for the last 16 years.

HISTORY OF THE ESTATE TAX

Estate taxes have been around since the Egyptians assessed it in early 700 B.C. In 1797, the U.S. Congress funded the war with France by passing an estate tax stamp system.

In 1898, a Federal legacy tax was proposed as a way to raise money to fund the Spanish-American War. Unlike the previous Federal "death taxes" levied in times of war, the 1898 tax proposal provoked heated debate. It had the following progressive rates that varied by beneficiary type.

**1898 Legacy Tax Rates**

| Relationship | $10,000 to $25,999 | $25,000 to $99,000 | $100,000 to $499,999 | $500,000 to $999,999 | $1,000,000 or more |
|---|---|---|---|---|---|
| Lineal decedents, ancestors, siblings | .7500 | 1.125 | 1.500 | 1.875 | 2.250 |
| Descendants of siblings | 1.500 | 2.250 | 3.000 | 3.750 | 4.500 |
| Uncle, aunt and their descendants | 3.000 | 4.500 | 6.000 | 7.500 | 9.000 |
| Great uncle, aunt and their descendants | 4.000 | 6.000 | 8.000 | 10.000 | 12.000 |
| All others | 5.000 | 7.500 | 10.000 | 12.000 | 15.000 |

When the Spanish-American War ended, the tax was repealed.

Progressives, including President Theodore Roosevelt advocated both an inheritance tax and a graduated income tax as tools to address inequalities in wealth. It wasn't until World War I, that Congress enacted the Revenue Act of 1916. This initiated the permanent tax on the transfer of wealth from an estate to its beneficiaries.

Those in favor of the tax have said that this was an effective tool to raise money and prevent the concentration of wealth and power within a few families. Like today, others said that the transfer tax discouraged capital accumulation and that it curbed national economic growth.

THE CURRENT ESTATE OF THE ESTATE TAX

The question at issue today is, "can a small business survive the estate tax?"
The answer is "it depends." The estate tax has been a moving target since 2002. The amount that could pass estate tax free before 2002 was only $600,000 per person. The

current amount is $5,120,000. At the end of this year, that amount will drop to $1million per individual unless Congress acts. The exclusion amount enacted will determine how many small businesses will be affected.

Over the last 10 years, a number of extremely wealthy families have done an excellent job of convincing small business owners into believing that they will lose their businesses to the estate tax. In reality, at its current level, it affects very few individuals. In 2010, when the exclusion amount was $3.5 million, the Centers for Disease Control and Preventions determined that 2,437,163 people died. According to IRS statistics, only 15,191 of these individuals were required to file an estate return. Of those, only 6,711 paid any estate tax. Of those paying the estate tax, only 4,425 returns included general partnerships, sole proprietorships, closely held C-corporation stock, farms and S-corporation stock. The total tax collected from all returns was $69,151,158,000.

The most current IRS statics showing the type of income earned by taxpayers is for 2009. There were 22,111,784 returns showing business and professional income. This number does not include returns where the taxpayers owned privately held C-corporations. Just using these numbers, which probably overstate the actual percentage, only .02% of small business estates were even subject to the estate tax at a $3.5million exclusion. At a $5million exclusion, even less will be subject to the tax. Of course if Congress allows the exclusion to revert to $1million, based on 2002 numbers, almost 26,000 small business owner estates will be subject to estate tax annually and this now does become a major small business issue.

CURRENT ESTATE PLANNING TECHNIQUES

For years, we have heard about the expense that small business people had to incur, for legal and accounting fees, to save their businesses from the estate tax. The three most talked about methods are grantor trusts that become irrevocable at death, family limited partnerships and irrevocable insurance trusts.

The estate planning advantage of a revocable grantor trust only works if the first to die is a spouse that has wealth. Their share of the assets are place into an irrevocable trust, usually up to the exclusion dollar amount. Once in the trust, the assets can grow without ever being subject to the estate tax again. Prior to death, the cost incurred would be attorney's fees for preparation and periodic review of the provisions of the trust based on law changes and life changes. Once the taxpayer passes away, an annual trust return will need to be prepared.

Beside the estate planning advantages, there are good reasons why everyone should incur the expenses to have a trust. First, when funded properly, it is the trust that owns the asset of the decedent. This allows the estate to avoid the cost of probate. Next, if the owner of the assets can no longer handle his or her own affairs, the successor trustee can step in without going to court to become appointed as guardian/conservator. With a conservator/guardian, additional costs must be incurred annually. These include annual court accountings and annual bond fees.

Once the trust becomes irrevocable, the trust assets are protected from the beneficiaries' creditors. If the decedent is afraid that the beneficiary of his/her estate, may use the assets unwisely, the trust may allow distributions only for an ascertainable stand such as health, education, maintenance or support.

In today's society many individuals marry two or more times. They want to provide for their current spouse, but they want to preserve their assets for children of prior marriages. Trusts allow them to do this.

The second largest estate planning technique is to place the assets in a family limited partnership. These have received a very bad reputation because wealthy families would place highly liquid assets into this type of entity, rather than business assets, and gift interests to their children. By gifting a partnership interest, rather than an interest in the underlying assets, they were able to reduce the value of the gift due to a lack of marketability of the partnership interest and lack of partner control. In many cases, these discounts resulted in the value of the gift being 60% to 30% of the actual value of the underlying liquid assets. As soon the parents passed away, the children distribute the assets. When they would sell them, they would pay a greater capital gains tax, but that rate has always been much lower than the estate tax rate. Because of this perceived abuse, there have been Congressional and Presidential suggestions that all discounts, where family members jointly own entities, should be disallowed.

Unlike with investment partnerships, it is a very different story when an active business owner passes away. Here, there is truly a loss of value to the business. I saw this in my own family.

My father-in-law and his brother owned a successful dress manufacturing business. My father-in-law ran the inside operations, his brother was the sales person. When Joe died, there was no one to run operations. It took months to find a replacement. Even then, he did not have the relationship with the seamstresses that Joe had. Many quit, productivity suffered, relationships with buyers were strained and customers were lost. Because of Joe's death, the value of the business decreased. That needs to be accounted for in the date of death valuation.

While a general partnership is not required to have any formal documents, I fully recommend they do and that they be prepared by an attorney. There are different requirements for limited partnerships and LLCs that may require additional legal attention. Once a partnership is set up, annual partnership returns must be filed.

The third technique most often used is an irrevocable life insurance trust. Life insurance can be purchased on the business owner's life. If done properly, the life insurance is excluded from the business owner's estate and the money can be used to purchase estate assets, providing liquidity to pay any estate tax.

Again, legal fees must be incurred to set up the entity. The insurance must be purchased and paid for. If gifts are made annually to the trust, special letters must be sent to the beneficiaries and a gift tax may be required to be filed.

PORTABILITY

When the current estate law was passed in 2010, it attempted to reduce the need for some of these techniques buy trying to make the exclusion amount more of a "family" exclusion rather than two individual exclusions by initiating portability. Prior to this enactment, if the "poor" spouse died first, that person's unused exclusion amount was lost. This provision allowed any unused estate exclusion of someone dying in 2010, 2011 or 2012, to pass to their surviving spouse. While the idea is admirable, the legislation is flawed in many ways.

First, it applies only to the estate tax and not to the generation skipping tax. Therefore, if the second spouse to die has a large enough estate to use the extra exemption and they want to leave those assets to their grandchildren, they will need to either pay the GST immediately or set up an additional trust that will have to pay the tax when the assets are distributed to skipped beneficiaries.

Second, to be eligible for portability, the estate of the decedent must file an estate tax return. The estate tax return form is a very long and very complex and the IRS has not developed a "simple" estate tax return for this scenario. In addition to filing the form, the statute of limitations remains open on the value of the assets until the second spouse dies. That could be 5, 10 or even 50 years later. After all those years, valuation calculations and the documentation used to determine the value could have easily disappeared.

Next, there are marriage restrictions. When portability was initially proposed about 7 years ago, the surviving spouse could "accumulate" up to a full second exclusion. For example, suppose my first husband died and left me $4million of unused exclusion. I later meet a wonderful man, fell in love and got married. Unfortunately he also dies before me, leaving his unused exclusion of $2million. Under the old proposal, I would now be able to combine those amounts up to the current $5million exclusion.

Under the current law, this does not happen. Instead, I could lose my first husbands unused amount. In the example above, I would only end up with an additional $2million. Assuming the same man has assets of $6million. He has children from a prior marriage. Therefore, he plans to utilize his $5million exclusion for them. If I marry him and he dies first, I lose my first husbands exclusion amount and I am left only with my own resulting in estate tax when I die. Many people put in this situation might chose not to marry and to just live together.

Many people are now afraid to make the portability election. They are afraid that the above situations will occur. They also question what will happen if Congress allows the provision to expire. Will they still be allowed to use that extra exclusion or will it just disappear too?

Finally, portability does not protect against an increase in value of the inherited assets. Let's assume that my husband and I jointly own assets worth \$8million. Let's also assume that the estate tax exclusion remains at \$5million. If I place my husband's \$4million in a trust when he dies and it grows to be \$15million, it will never be subject to estate tax again. If I chose portability and my assets did not grow at all, when I die, my estate will be worth \$19million (my \$4million plus my husbands \$15million) and only \$10million would be protected from estate taxes.

Because of the above additional work, uncertainty and potential additional tax liability, many professionals are recommending against using this provision as it is currently enacted.

STATE ESTATE TAX AND INHERITANCE TAX

We also need to remember that the estate tax does not only apply at the federal level. Many states have either an estate tax or an inheritance tax. As of November 2011, 22 states and the District of Columbia impose one of these two taxes. Only 1 state has tied their exclusion to the federal amount. All the other states have "disconnected" and impose tax on estates as low as \$1million.

CURRENT TAX CODE PROVISIONS THAT HELP SMALL BUSINESSES

The current code does provide some favorable provisions for estates of small business owners. The first is Section 2032A. This provides that land used in a business or as a farm may be valued at its current use instead of its best and highest use value. To qualify, the land must be at least 25% of the adjusted value of the decedent's gross estate and that 50% of the adjusted value of the decedent's gross estate consists of real or personal property used in the business. The decedent or family member must has materially participated in the business and used the real property for a qualified use for five of the eight years prior to death. A member of the family must continue to own the property and continue to materially participate in the business that employs the property for 10 years following the decedent's death. If it is disposed of early, the additional estate tax will become due. The maximum decrease in value that will be allowed is \$1,040,000 for those dying in 2012.

Section 6166 allows estates of certain closely held businesses and farms to pay the portion of their estate tax, attributable to the business or farm over 15 years. To qualify, the value of that interest must be more than 35% of the decedent's adjusted gross estate. Under this election, that portion of the estate tax must be paid in 10 or fewer equal annual installments. Interest payments must start immediately, but the first installment of the tax may be deferred for up to five years after the regular payment due date. Succeeding installments must then be paid annually on or before the same date until the tax is paid in full.

Next is Section 2057. This provision became obsolete when the estate tax exclusion increased above \$1million. It provided an additional unified credit when a business was left to a family member. If the estate tax reverts to \$1million, this provision will become active again. While it is intended to help small businesses, it is an extremely difficult to calculation and the calculation can not be done prior to death. Therefore, the family can't use it as an estate planning tool.

GIFT TAX

In 2004, Congress decided to disconnect the gift tax from the estate tax. When total gifts exceed $1million, a tax becomes due. The theory back then was that people will gift income producing property or assets with a high possibility of increasing in value before they died, so this must be limited. For 2011 and 2012, gift and estate tax have been reconnected at the $5 million limit. That makes it an excellent time for business owners to start passing a portion of their business to the next generation.

EXPIRING ESTATE PROVISIONS

Almost all the conversation regarding the estate tax for 2013 focuses around the actual decrease in the exclusion, the increase in the rates, the disconnecting of the estate tax and the gift tax and the disappearance of portability. There are a number of other estate tax provisions that will also expire.

The first is the modification of estate and gift taxes to reflect the differences in credit resulting from tax rate changes. (IRC 2001(b)(2), 2001(g) and 2505(a)) When we calculate the estate tax, we add back all prior gifts and calculate the estate tax on the total. These provisions tell us to use the current estate tax rate, that is lower than a rate that may have been paid with a gift tax return in a prior year. For example, if I made a taxable gift in 2001, I paid gift tax at a rate of 55%. Today's rate is 35%. I don't get credit for the extra 20% I paid against the current value of my assets that I am leaving to my heirs.

The second provision to expire is the provision that replaced the credit for estate taxes paid to a state with a deduction. (IRC 2011, 2053,2058,2102,2106 and 2604)

The third provision that is scheduled to expire is the expansion and clarification of estate tax conservation easement rules (IRC. 2031(c)(2), (c)(8)(A)(i)). It repeals certain restrictions on the location of land. Additionally, the expiring provision clarifies the date to be used to determine the value to be taken into account for determining the exclusion from the gross estate.

The next expiring provision provides for the treatment of qualified severed trusts as separate trusts, modifies certain valuation rules, and provides relief for certain late elections. (IRC 2632(c) and 2642(a)(3), (b)(1), (b)(2)(A), and (g)). Unless the estate elects otherwise, this provision allocates any unused GST exemption to indirect skips.

As stated earlier, a small business may qualify to pay their estate tax over 15 years. The expiring provision increased the number of allowable partners and shareholders in a closely held business from 15 to 45, expands the availability of the installment payment provisions to include interests in qualifying lending and finance businesses, and clarifies

that in order to qualify as holding company stock, stock must be non-readily-tradable stock. Therefore, businesses will have to continue using the methods they have used in the past to protect the value of their business and to make sure there are sufficient funds to pay any potential estate tax unless these provisions are extended.
(IRC 6166(b)(1)(B)(ii),(b)(1)(C)(ii), (b)(8)(B), (b)(9)(B)(iii)(I), and (b)(10)).

RECOMMENDATIONS

Most small business owners are very resourceful and find ways to resolve challenges to their businesses. But when they don't know what to plan for, planning becomes impossible. There can be no estate planning until we have some permanence in the estate code. Therefore, I recommend:

1. Enact a permanent estate tax exclusion set at a rate between $3.5million and $5million per person. It should be matched for the Generation Skipping Tax and it should be adjusted for inflation.

2. Permanently rejoin the Gift and Estate Tax with the same exclusion amount.

3. Make portability permanently but also correct the statute to:

    a. Allow a surviving spouse to accumulate up to a full second exclusion.
    b. Allow portability for Generation Skipping Tax.
    c. Change the Statute of Limitations on the valuating assets of these returns to 3 years.
    d. Recommend that the IRS develop "Simple" Form 706 to establish the unused exclusion.

4. Preserve reasonable valuation discounts for operating businesses where the death of an owner truly reduces the value of the business.

5. Pass an simpler, easier and provision to replace IRC Section 2057. I would recommend a "Family Farm and Business Preservation Exemption" be enacted. It would provide an additional exemption, up to a specific dollar amount, such as $1.5million, for an interest in an operating family business with a total value under possibly $10million. By allowing this additional targeted exemption, families could better plan for business continuity. This provision should also apply to generation-skipping transfers. The added exemption, however, should probably not apply to the proportional value of business liquid assets and marketable investments exceeding 6 months of normal business operating expenses, based on the prior year tax return. There should be prorated recapture of this added exemption amount if the business interest is sold to a non family member within 10 years.

6. Pay for making these provisions by permanently:

    a. Readjusting the Estate Tax rate brackets to restore progressivity above the exemption level to provide better fairness for smaller estates. For example, apply a 15% rate to individual taxable gift and estate transfers below $1M, a 25% rate between $1 and $3.5M, a 35% rate between $3.5M and $5M, a 40% rate from $5M to $7.5M, a 45% rate between $7.5M and $10M, a 50% rate between $10M and $15M, and a 55% or higher rate on estates above $15M. Estates below a $3.5M exemption would still pay no actual tax.

    b. Reform the Grantor Retained Annuity Trust (GRAT) provisions and pass limitations on excessive discounts where they hold primarily liquid securities.

Thank you for your time and I would be glad to answer any of your questions.

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Associated Builders and Contractors, Inc.

May 31, 2012

The Honorable Joe Walsh
Chairman
Subcommittee on Economic Growth,
Tax and Capital Access
House Committee on Small Business
2361 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Kurt Schrader
Ranking Member
Subcommittee on Economic Growth,
Tax and Capital Access
House Committee on Small Business
B 343-C Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Walsh and Ranking Member Schrader:

On behalf of Associated Builders and Contractors (ABC), a national association with 74 chapters representing 22,000 merit shop construction and construction-related firms, I am writing in regard to the Economic Growth, Tax and Capital Access subcommittee hearing entitled "Planning for the Death Tax: Can Small Business Survive?" With the specter of a resurgent estate tax rate and drastically reduced exemption rapidly approaching, immediate and permanent reform is necessary to save scores of small businesses while providing needed certainty to countless others.

Construction companies are overwhelmingly small, family-owned and closely-held businesses, and are particularly susceptible to the estate tax burden given the capital-intensive, illiquid nature of the industry. Due in large part to the estate tax, more than 70 percent of family businesses do not survive to the second generation, and 90 percent fail to see the third generation. According to the Small Business Administration, 77 percent of failed family businesses enter into bankruptcy following the death of the founder. The estate tax not only jeopardizes the survival of family-owned construction companies, but it also siphons off critical funds that could be invested back into the business.

The estate tax currently has a top rate of 35 percent and an exemption of $5 million per person, a short-term compromise scheduled to expire in just over 200 days. For the second time in two years, uncertain business owners are faced with the prospect of an escalated 55 percent rate with a severely limited $1 million exemption. According to the National Small Business Association, one-third of all small business owners will be forced to sell outright or liquidate a significant portion of their company to pay this punitive tax.

The estate tax constitutes slightly more than one percent of federal revenue—and is most likely revenue-neutral when the full impact of closing a business is considered. ABC believes that at roughly one percent of annual federal revenue, the estate tax is hardly worth the devastation it causes to family-owned construction businesses.

Family-owned small businesses are the backbone of the economy and give Americans a sense of pride and accomplishment in our country. In the construction industry, they provide valuable jobs and play and integral role in building communities. ABC believes that these businesses are worth preserving for the next generation, and therefore supports the full and permanent repeal of the estate tax.

Sincerely,

Liam P. Donovan
Director, Legislative Affairs

# Statement of the American Farm Bureau Federation

**TO THE HOUSE COMMITTEE ON SMALL BUSINESS**
**SUBCOMMITTEE ON ECONOMIC GROWTH, TAX AND CAPITAL ACCESS**

**REGARDING PLANNING FOR THE DEATH TAX:**
**CAN SMALL BUSINESSES SURVIVE?**

**May 31, 2012**

**Presented By:**

**Bob Stallman**
**President**

600 Maryland Ave. SW | Suite 1000W | Washington, DC 20024 | p. 202.406.3600 | f. 202.406.3606 | www.fb.org

The American Farm Bureau Federation appreciates the opportunity to file this statement on the impact of estate taxes on family-owned farms and ranches. With more than 6.2 million member families, the organization represents a diverse range of agricultural producers and supporters from all 50 states and Puerto Rico.

America values family-owned farms and ranches because of the locally grown food, fiber and fuel they produce; the contribution that agriculture makes to job creation and the economy; and the open space that farming and ranching protects. Yet, our nation's tax policy is in direct conflict with the desire to preserve and protect our nation's more than two million family-owned farms and ranches. No tax matter is more pressing than the prompt passage of legislation to provide permanent estate tax relief.

The estate tax applies after the death of the farm or ranch 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 family-owned farms and ranches 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. Eighty-five percent of farm and ranch assets are land-based leaving producers few options when it comes to generating cash to pay the estate tax. Recent increases in agriculture land values, on average 25 percent from 2010 to 2011, have greatly expanded the number of farms and ranches that now reach the top estate tax exemption.

In order to keep farm or ranch businesses operating after the death of the owner, families 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 investment in the business. However, even with planning, uncertain tax law, combined with changing land values and family situations, makes it impossible to guarantee that a well-thought-out estate plan will protect a family farm or ranch from estate taxes.

The Unemployment Insurance Reauthorization and Job Creation Act of 2010 set the estate tax exemption at $5 million per person and the top rate at 35 percent for 2011 and 2012. The bill put in place a new provision for 2011 and 2012 that allows the unused portion of a spouse's exemption to be used by a surviving spouse. In addition, the legislation permanently reinstated stepped-up basis.

Without congressional action, in 2013, the estate tax exemption will shrink to $1 million per person with no spousal transfer, and the top rate will increase to 55 percent. This will strike a blow to farm and ranch operations trying to transition from one generation to the next. A $1 million exemption is not high enough to protect a typical farm or ranch able to support a family and, when coupled with a top rate of 55 percent, can be especially difficult for farm and ranch businesses.

Farm Bureau believes that estate taxes should be eliminated permanently. Until this can be accomplished, Farm Bureau supports extending the current $5 million exemption, indexing it to reflect land values, continuing the spousal transfer and maintaining the 35 percent top tax rate. In addition, there should be no limit on the amount of farm land that can be valued for farm use rather than development value (IRC section 2032A). Farm Bureau supports the continuation of stepped-up basis, which adjusts the value of property for inflation at death.

WRITTEN STATEMENT OF

Scott Ramminger

President of the American Wholesale Marketers Association

HEARING ON

THE ESTATE TAX

BEFORE THE

HOUSE SMALL BUSINESS COMMITTEE'S SUBCOMMITTEE ON ECONOMIC GROWTH, TAX, AND CAPITAL ACCESS

U.S. HOUSE OF REPRESENTATIVES

May 31, 2012

Chairman Walsh and distinguished Members of the Subcommittee:

My name is Scott Ramminger and I am the President & CEO of the American Wholesale Marketers Association. I appreciate the opportunity to speak out on behalf of our members offering our strong support for efforts to repeal the onerous estate, or "death", tax. This issue has long taken a top priority status with AWMA and our members since so many of our small business members are family-owned. Protecting small, family-owned businesses from the estate tax is critical to keeping these companies – the cornerstone of a strong economy – operating for future generations. In fact, AWMA is a member of the Family Business Estate Tax Coalition that has been dedicated to providing meaningful estate tax relief for family businesses. As part of this coalition, AWMA has sent numerous letters to Congress and lobbied regularly on behalf of estate tax relief.

We are aware of the looming deadline of December 31, 2012 when the current estate tax provisions will expire allowing the tax rate to revert to pre-2001 levels – a staggering 55% rate and a $1 million exemption. This tax has been an undue burden for family-owned businesses nationwide and has long been one of the steepest in the tax code. With the economic challenges currently facing our nation we cannot afford to let this happen to such a vital business sector.

The bottom line is that the estate tax costs jobs. Potential employment is lost when our business owners decide not to expand or open another facility because of the ever looming death tax, and current employment is destroyed when these businesses are liquidated to pay estate taxes.

The estate tax has a negative impact on current business decisions. Critical resources are diverted away from investing in people and growth, and spent on attorneys, accountants and insurance to assist in the needlessly complicated estate tax planning.

While AWMA has been a strong advocate for full repeal of the estate tax, we have also supported efforts to maintain the $5 million exemption and the 35 percent tax rate as being the best interim solution until the full repeal becomes possible.

AWMA remains dedicated to promoting those initiatives in Congress that provide family-owned businesses with substantial relief and bring us closer to the goal of full repeal of this onerous tax before the estate tax returns to the 2001 rate of 55% with a $1 million exemption at the end of this year. Such action is imperative to ensure that our small family-owned businesses can make sound economic decisions and encourage our nation's economic vitality. We urge Congress to take swift action on this issue to demonstrate a commitment to bringing certainty and fairness back to the tax system and to America's families.

Thank you.

Prepared Statement of

# American Trucking Associations

Before the

## Committee on Small Business
## Subcommittee on Economic Growth, Tax and Capital Access

## United States House of Representatives

May 31, 2012

## Hearing
## Planning for the Death Tax: Can Small Businesses Survive?

*Mr. Chairman, Ranking Member Schrader, and members of the Committee*:

The American Trucking Associations (ATA) appreciates this opportunity to comment on the effect of the federal estate tax on the motor carrier industry. ATA is the national trade association of the American trucking industry. It is a united federation of motor carriers, state trucking associations, and national trucking conferences created to promote and protect the interests of the motor carrier industry. ATA's membership includes nearly 2,000 trucking companies and suppliers of motor carrier equipment and services. Directly and indirectly through our affiliated organizations, ATA encompasses some 35,000 companies and every type and class of motor carrier operation.

The health of this Nation's economy depends critically on interstate commerce, and interstate commerce in turn depends very heavily on efficient freight transportation. Most of that freight is carried by truck – some 67% by tonnage and some 81% as measured by transportation receipts. The interstate motor carrier industry is correspondingly large, comprising several hundred thousand for-hire trucking companies. Although a few carriers are large, the overwhelming majority of trucking companies are, by any definition, small businesses. Most of those small businesses are family owned and operated, and have been since 1980, when the economic deregulation of interstate motor carriers allowed entrepreneurs easier entry into this vital industry.

In many respects, these small trucking operations resemble their counterparts in other industries, except that even small motor carriers must invest heavily in expensive equipment – truck tractors and trailers that provide their livelihood. Government regulations that provide improvements in the safety and environmental friendliness of trucks and trailers have continually made this equipment ever more expensive, so that today a single new tractor-semitrailer combination can easily cost upwards of $150,000. In these circumstances, the estate of the owner of a fleet of trucks of even modest size could potentially be subject to the federal estate tax.

The federal estate tax was never intended to burden small businesses. The tax reflects concerns over the accumulation by private citizens of large fortunes. However, years of inflation since the estate tax was first adopted have rendered it especially burdensome for small family businesses.

Ideally, Congress will repeal the estate tax altogether. To the extent families must pay estate taxes rather than invest the money in the family business, estate taxes are a drag on national economic growth.

If repeal is not politically feasible, however, ATA favors leaving the terms of the tax as they are today, with an exemption of $5.12 million and a top tax rate of 35 percent. The current exemption and rates are adequate to protect most small trucking businesses from the estate tax. Returning to the levels of 2001 would be calamitous for many small trucking firms, including those whose owners have engaged in estate planning but assumed a more generous exemption would apply.

This points up a further aspect of the unfortunate circumstances that prevail in this area. The rules governing the estate tax have changed almost every year for more than a decade. In such an environment, estate planning becomes ever more involved, expensive, and uncertain. For this reason, although it is crucial to maintain the exemption amount and tax rate that prevail today, a short-term extension of those rules would be much less beneficial to small businesses than legislation on which they could rely for a longer term.

Other provisions of the estate tax that are due to expire at the end of the year also need to be extended. Among these are the installment option allowed by Internal Revenue Code section 6166 and the valuation discount allowed to the estates of the owners of small businesses when the owner's death reduces the business's value. Both of these provisions are important for some small businesses, and confer relief in what would otherwise become oppressive circumstances.

In summary, while ATA believes that repeal of the federal estate tax is the best course, , we urge Congress to at least extend the current exemption and tax rate – for as long a period as possible, so that those involved in estate planning will have a sounder basis on which to do so.

We appreciate this opportunity to testify before the Committee.

*Robert C. Pitcher*
*Vice President, State Laws*
*American Trucking Associations*

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RE: House Small Business Committee's Subcommittee on Economic Growth, Tax, and Capital Access Hearing, "Planning for the Death Tax: Can Small Business Survive?" scheduled for May 31, 2012

## Statement of the National Newspaper Association

Established in 1885, the National Newspaper Association (NNA) is the national voice for community newspapers. NNA is a not-for-profit trade association representing the owners, publishers and editors of America's community newspapers and with over 2,300 members is currently the largest newspaper association in the United States.

The community newspaper industry faces many challenges in the current economic environment. The newspaper industry as a whole continues to face significant challenges due to advances in technology. Like other main street businesses, the community newspaper is embedded into the lives of the citizens and activities in the locality and shares with them the highs and lows of economic development and job growth.

However, the community newspaper is more than just another small business because it tells the stories and history of the local culture. Without the community newspaper, many people would be disconnected from their neighbors and community. The community newspaper is unique in that it touches its customers directly through content and personal connections.

The difficulties of the estate tax are particularly troublesome for community newspapers because these newspapers often rely on very small staffs and very small profit margins to operate. Most community newspapers do not have extensive personnel or monetary resources to do much more than operate the newspapers. However like any other small business, the community newspaper must spend resources managing administrative tasks such as personnel, health care and taxes, to name just a few.

Beyond the basic administrative duties facing a small business, the burdens of the estate tax have been particularly troublesome because of the uncertainty of rates and pressures of additional costs for planning. Far too long, business owners have had to face uncertain futures and plan for various different outcomes. Assets are not liquid and are often tied up in printing costs and machinery. Further, costs for life insurance and estate planning, in addition to estate taxes at the state level, have forced some small newspapers into the hands of larger group buyers or even closure through bankruptcy proceedings.

The estate tax is also difficult for community newspapers because it is an example of double taxation. The estate tax is a tax on money that has already been taxed once and sometimes twice. The effect of the estate tax is that it penalizes hard work and savings while rewarding consumption.

NNA urges Congress to make permanent legislative changes to the estate tax to ensure stability for future generations of newspaper owners. It would be detrimental to the community newspaper industry to permit the estate tax rate to return to a 55% rate and a $1 million exemption.

NNA would encourage Congress to permanently repeal the estate tax. However at a minimum, Congress should make current law permanent allowing for a $5 million exemption, indexed for inflation, and a top tax rate of 35% thereafter. Although this would not protect all community newspapers, it would give many an opportunity to plan for the future of the newspaper, the future of the next generation and the future of the locality that depends on the community newspaper.

To the editors and publishers that run these papers, the community newspaper is family. If not for a devotion to the paper and to the community which it is tied, the newspaper would not be able to stay alive. It requires an investment by the entire family on a financial, emotional and philosophical level.

Many kids grow up intimately involved in the newspaper and are discouraged to learn that the resources may not be available to protect this family business for their future. Without some sense of permanency about how they will be able to afford to keep the newspaper, it is difficult for the next generation to plan for their future in an already tumultuous environment for young people in this country.

NNA member Randy Sunderland of Leader Publishing Co., in Delta, CO expressed his concern regarding the effects of the estate tax on the next generation:

> *"As this generation nears retirement, we may not have time to wait for the next generation to return to the family business. We monitor changes to the tax law, and are making decisions based on tax implications . . . rather than what is best for the family, and for the business."*

Newspapers have been a time honored tradition passed through the family for generations. As an industry that operates to keep a citizenry informed, steps must be taken to protect this precious commodity for future generations of newspaper owners, journalists, and citizens who rely on accurate and trustworthy news about their community.

Congress has repeatedly recognized the unique and important role of newspapers in society. Help us keep the heritage and tradition of community newspapers alive by giving the next generation of newspaper owners a chance to succeed.

Respectfully submitted,

Sara DeForge Hough, Esq.

NNA, Government Relations Manager

THE VOICE OF FOOD RETAIL
Feeding Families Enriching Lives

## House Committee on Small Business
## Subcommittee on Economic Growth, Tax and Capital Access

## Hearing on
## *Planning for the Death Tax: Can Small Businesses Survive?*

## May 31, 2012

## Testimony of
## Food Marketing Institute

**Submitted for the Record**

Chairman Walsh and Ranking Member Schrader –

On behalf of its members, the Food Marketing Institute[1] (FMI) would like to thank you for holding this important hearing on the estate tax and its impact on small businesses. Over half of our membership is small and/or family-owned supermarkets and grocery stores that will, at some point, be faced with paying the estate tax. It is, therefore, very much a competitiveness issue within the industry.

For more than two decades, FMI has supported the repeal of the tax, which hits these small and family-owned businesses when they are most vulnerable and hinders job creation and economic development. With the expiration of the current rate and exemption set for December 31, 2012, we urge Congress to act as quickly as possible on a permanent solution that will restore certainty and fairness to the tax code for job creators.

1 Food Marketing Institute (FMI) conducts programs in public affairs, food safety, research, education and industry relations on behalf of its nearly 1,250 food retail and wholesale member companies in the United States and around the world. FMI's U.S. members operate more than 25,000 retail food stores and almost 22,000 pharmacies with a combined annual sales volume of nearly $650 billion. FMI's retail membership is composed of large multistore chains, regional firms and independent operators. Its international membership includes 126 companies from more than 65 countries. FMI's nearly 330 associate members include the supplier partners of its retail and wholesale members.

While many of our members face the prospect of this tax being levied against them, the estate tax hits small operators within the supermarket industry particularly hard. Members of the industry are often asset-rich – in terms of the physical store, inventory and equipment – but have much of their cash tied-up in their business. For one- or two-store operators, selling off a part of their assets in order to pay the tax is simply not an option. Even if they are able to raise enough money from such a sale to clear the debt, it often leaves them too weakened to compete with other businesses that do not face paying or planning for the tax. As an industry, FMI's members average an annual profit of about one percent, so even long-term payment plans mean a significant share of revenue that should go towards job creation and economic growth is instead being sent to Washington to pay one of the most confiscatory taxes currently on the books.

The estate tax, of course, costs businesses valuable assets even before it is levied. Planning to make sure that a family-owned business can survive when faced with the imposition of the tax can literally cost small businesses hundreds of thousands (and in some cases, even millions) of dollars and countless hours with lawyers and accountants. Again, these are resources that could be better spent building the business. But small business owners who want to pass along their business need to endure these costs and many others – such as extra insurance policies – if there is going to be anything for the next generation to inherit.

The estate tax fails not only as tax policy, it also fails to recognize the role small businesses play in the U.S. economy as job creators and engines of economic growth. If valuable resources are diverted towards planning for the tax, how many jobs are not being created? If a two-store operator must sell off one of his stores to pay the tax, what does it mean for the economic well-being of the community around it? While supporters of the tax claim it only impacts the very wealthy, they fail to recognize these much broader impacts on families, communities and jobs.

Congress needs to act to begin addressing the very real impact of the estate tax. A member of FMI's Board of Directors testified to this committee in 2009 in support of repeal and emphasized the negative impact of the estate tax on small businesses and the grocery industry. FMI and its members continue to support full repeal of the tax and believe that it would be an engine of economic growth. But we also recognize in the current economic and political environment, this may not be practical. An excellent first step Congress could take would be to make the current 35 percent rate and $5 million exemption permanent. This would begin to provide our members with the certainty they need to create a reasonable succession plan.

Thank you again for holding this hearing, Mr. Chairman.

INTERNATIONAL SIGN ASSOCIATION

May 31, 2012

Chairman Walsh, Ranking Member Schrader, and members of the House Small Business Committee's Subcommittee on Economic Growth, Tax and Capital Access:

Thank you for this opportunity to state for the record that the on-premise sign industry opposes the expiration of current law regarding the estate tax, which would increase the rate from 35% to 55% and decrease the exemption from $5 million to $1 million.

The International Sign Association (ISA) is a 2,400-member company trade association. Our members manufacture, supply, and use on-premise signs and sign products, and our association supports, promotes, and improves the on-premise sign industry, which employs or directly impacts over 250,000 American workers and more than $49 billion in annual shipments. We make the signs that thousands of American retailers, franchises and local merchants use to identify and brand their business.

When I joined ISA in 2004, I was immediately struck by how many family-owned and operated sign companies are in our industry. Many of these sign companies have been passed on from generation to generation. Parents have bequeathed not only their sign shops to their children, but their business acumen, people skills and artistic expertise as well. I have seen sign companies handed down from father to daughter, and on our own Board of Directors, we have witnessed a father as Chairman and 15 years later, his son as Chairman as well.

I have listened to the concerns of our members when it comes to the estate tax. Many are deeply concerned that they have to set aside cash or sell assets in order to comply with this burdensome tax. Most are small enough so that they can't afford to hire specialized attorneys to help them figure out how to effectively deal with this financial mandate. It's tough enough out there economically without the looming specter of the estate tax. There is absolutely no compelling reason for Congress to allow the estate tax rate to increase and the exemption level to shrink on these family-owned businesses.

Uncertainty and economic anxiety will rule the day until Congress and the White House act. While our industry would prefer that the estate tax be permanently repealed, in the meantime we will support initiatives to keep the exemption level at $5 million and the tax rate at 35 percent as a tolerable alternative.

Thank you again for the chance to voice the sign industry's concerns regarding the estate tax. We appreciate this subcommittee's attention to this pressing issue, and offer our support in your efforts to enact clear and reasonable tax policy.

Lori Anderson
President & CEO
International Sign Association

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**Marine Retailers Association of the Americas**

MRAA

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## Statement for the Record of Mr. Matthew A. Gruhn, President, Marine Retailers Association of the Americas Before the House Committee on Small Business Subcommittee on Economic Growth, Tax, and Capital Access on Planning for the Death Tax: Can Small Businesses Survive? May 31, 2012

The Marine Retailers Association of the Americas greatly appreciates the opportunity to submit a statement for the record to the Subcommittee on Economic Growth, Tax, and Capital Access on the May 31, 2012, hearing "Planning for the Death Tax: Can Small Businesses Survive?" We also thank the Subcommittee for its leadership in conducting this important hearing.

MRAA is the trade association of small businesses in North America that sell and service new and pre-owned recreational boats, provide access to our nation's waterways through marinas and boat yards, and sell boat accessory products at their retail locations.

Our members believe strongly that the tax is a burden on small businesses and that it inhibits economic growth and recovery and job creation by jeopardizing family inheritance and the continuation of family-owned and operated businesses after the death of the business owner. The value of the estate is the physical assets of the business. It is different than personal assets because the business assets are used for capital formation, growth, and job creation. The business oftentimes must sell these assets or a major part of the assets, thus reducing jobs, to pay the tax.

To give you an idea of the scope of the problem, the average boat dealership and marina has been in the same family for two generations and is valued at less than $5 million. Our members employ between 3 and 20 employees, on average, and expect to create a significant number of new jobs as the economic recovery takes hold. Planning for the estate tax, especially at a time of legislative uncertainty, is not cheap and costs several thousands of dollars. The cost of insurance is an additional financial burden that is hard to absorb in today's climate of squeezed profit margins and cost-cutting for survival. If our principal business owner should die, the average boat dealer and marina operator would have to borrow the money to pay the estate tax or sell all or part of the business, clearly abandoning any plan to grow, expand or even maintain the business. We believe the estate tax is a significant financial burden to small business and an inhibitor to future growth. Each year, it becomes harder and harder to stay in business due to taxes and uncertainty in taxes and regulations.

As stated, MRAA supports full and permanent repeal of this tax, which has been a burden since it was first enacted in the late 1800s to pay the cost of the Spanish-American War. However, we also understand that form of repeal may not be possible today. Consequently, MRAA also supports a permanent extension of the current law as a step toward permanent repeal.

Since Congress passed the Economic Growth and Tax Relief Reconciliation Act of 2001, the estate tax has faced partial repeal and uncertainty. The law increased the threshold exemption and reduced the marginal tax rate, but was scheduled to revert back to the pre-2001 levels of a $1 million exemption and a 55% tax rate in 2011. Congress created, in 2010, a $5 million exemption indexed for inflation and a maximum tax rate of 35% that is to last for two years. The 2010 law also allowed for the spousal transfer that allows the unused portion of a deceased spouse's exemption to be used by the surviving spouse.

We are again faced with a potential return to the pre-2001 levels causing new problems for estate planning for small businesses. Our members must now face planning for an outcome in case the current law is not extended, thus increasing the cost of doing business at an unfortunate time — when the businesses in our industry are just beginning to see an economic recovery. These efforts and costs could be better used to grow the business and increase job formation.

Thank you again for the opportunity to present testimony for the record on the estate tax. MRAA remains in full support of Congressional efforts to provide tax relief and guidance to our members on the estate tax. We support full and permanent repeal of the estate tax, but ask that Congress maintain the current $5 million exemption, the 35% tax rate, at a minimum, and continuation of the spousal transfer.

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE

# NATIONAL FEDERATION OF INDEPENDENT BUSINESS

NFIB
The Voice of Small Business.

Statement for the Record for the

**House Committee on Small Business**
**Subcommittee on Economic Growth, Tax and Capital Access**

**Planning for the Death Tax: Can Small Businesses Survive?**

May 31, 2012

National Federation of Independent Business (NFIB)
1201 F Street, NW Suite 200
Washington, DC 20004

The National Federation of Independent Business (NFIB) appreciates the opportunity to submit this statement for the record for the Committee on Small Business, Subcommittee on Economic Growth, Tax and Capital Access hearing entitled "Planning for the Death Tax: Can Small Businesses Survive?". NFIB is the nation's leading small business advocacy organization representing over 350,000 small business owners across the country, and we appreciate the opportunity to provide our perspective. Additionally, NFIB co-chairs the Family Business Estate Tax Coalition (FBETC), which is a grassroots coalition of over 55 national family-owned business organizations concerned with the estate tax.

NFIB has long supported the full and permanent repeal of the estate tax. The estate tax hurts capital formation and job growth; is complicated and time consuming, and expensive to comply with; forces small and family-owned businesses to sell illiquid business assets to pay the tax, jeopardizing generational succession; and creates uncertainty for small businesses.

Much of the cost of the estate tax occurs before it is levied. The threat of the tax forces families to pay for expensive estate planning to ensure their business stays with the family. And for the small business owners who do pay the estate tax, the value of their "estate" is in the physical assets of the business, meaning in order to pay the tax, they have to sell actual parts of the business. NFIB believes that small business owners should spend their capital on growing their businesses and creating jobs, not on expensive estate planning and prohibitive taxes.

Since the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the future of the estate tax has been uncertain. While EGTRRA put the estate tax on a glide path to full repeal in 2010, the estate tax was scheduled to revert back to the excessive pre-2001 $1 million exemption level and 55% tax rate in 2011. Fortunately, this did not happen, and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 created, for 2 years, a $5 million exemption indexed to inflation, with a maximum tax rate of 35%.

The 2010 law also provided for two important changes to the estate tax: "spousal transfer," or portability; and "stepped-up basis." The former allows the unused portion of a deceased spouse's exemption to be used by the surviving spouse, and will expire at the end of 2012. The latter sets the "basis" for inherited property at its value at the time of death, such that, if the property is sold by the heirs, capital gains taxes are only due on the increase in value since the property was inherited. This provision was made permanent.

At the end of 2012, we are again faced with the prospect of a return to the prohibitive estate tax levels that were in place prior to 2001. While it is possible that Congress and the President may again extend the current exemption level and rate, small businesses must still take steps, right now, to plan for an outcome where current law is not extended. This uncertainty is forcing many small businesses to devote resources towards estate tax planning that could otherwise be used to grow their businesses and create jobs.

While NFIB continues to support full and permanent repeal of the estate tax, we also understand that full repeal may not be possible in the current political environment. As such, both NFIB and the FBETC support, as an interim step towards full repeal, permanent extension of current law. This would make the $5 million exemption indexed to inflation, a top tax rate of 35%, spousal transfer, and stepped-up basis permanent. This would greatly reduce the impact of the estate tax on small businesses going forward, and provide certainty to small business owners for planning purposes.

Thank you again for the opportunity to provide comments on the estate tax. NFIB remains eager to work with members of the Committee on Small Business to provide tax relief and certainty to our nation's small business job creators.

NFDA NATIONAL FUNERAL DIRECTORS ASSOCIATION

Statement of
The National Funeral Directors Association

# On Planning for the Death Tax:
# Can Small Business Survive?

Before the House Small Business Committee Subcommittee on Economic Growth, Tax and Capital Access

United States House of Representatives

May 31, 2012

NFDA NATIONAL FUNERAL DIRECTORS ASSOCIATION

Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to submit the views of the National Funeral Directors Association (NFDA) on the problems faced by family-owned funeral homes in complying with the federal estate tax.

The National Funeral Directors Association represents more than 12,000 funeral homes and over 21,000 licensed funeral directors and embalmers in all 50 states. The average NFDA member is an independently owned and operated business with fewer than 10 employees and has been in the same family for over three generations. NFDA is the largest funeral service organization in the United States, providing a national voice for the profession.

The NFDA has a great interest in estate tax and it ranks as one of the top issues our members state as a major roadblock in growing their business, keeping their funeral home open, or in their family.

While the current law goes a long way towards eliminating the burden of estate taxes generally, it only temporarily eases the burden on small business, such as funeral homes, which seek to transfer the business from one generation or family member to another at death. In order to recognize and preserve the heritage and strength of this foundation of the American economic system, it is absolutely critical that the federal tax laws not penalize or otherwise prevent the tax-free transfer of family business ownership at death to other family members. Moreover, the thousands of dollars many funeral home owners spend annually in so-called estate planning to avoid the estate taxes or in the purchase of insurance policies to cover their potential estate tax liability could be better spent on business operations, salaries and other worker benefits and community outreach programs.

To give you a snap shot of the typical NFDA member, I offer the following from a recent survey:

1. The average funeral home has been in the family for three generations and is valued at over $2.5 million.
2. It employs from 5-15 full-time employees and an equal number of part-time employees.
3. It has created between 1 and 15 new jobs over the past five years and expects to create an equal amount over the next five years.
4. It has spent from $2,000 to over $300,000 over the past five years on estate tax related planning and paid an average of $900,000 in estate tax.
5. If the principal owner would die, the average funeral home have to either borrow the money to pay the estate tax or sell all or part of the business to pay the tax. In addition, it would have to delay, curtail or abandon any plan to grow or expand their business.

As you can see, the federal and state estate tax is a considerable financial burden to small, family-owned funeral homes as well as a significant inhibitor to future growth and expansion and even the existence and ownership of the funeral home.

In responding to the survey, many of our members added some rather compelling comments. Here are several:

*1. When my grandfather died in 1983 with no provision in place for estate planning my father had to sell enough of our assets to come up with the nearly $1,000,000 to pay the estate taxes. Because we had to put so many resources toward the estate taxes then, our business growth was severely hampered for over ten years. In order to avoid a similar situation when my father dies, we have had to devote tremendous time, energy and resources that could and should be focused on expanding the business and creating jobs.*

*2. Due to the federal estate tax, I will have to borrow funds to pay my mother and sister for their stock at the same time borrow to pay the estate tax.*

*3. We sold to the then Loewen Group, a publically traded funeral service corporation, over 7 years ago. Prior to that time we spent thousands of dollars with our estate planning and key man plans. In fact, when we did sell the most costly part of our attorney fees and CPA costs were to protect this transfer of ownership from a huge tax hit to us personally.*

*4. We have felt the urgency to purchase insurance to cover estate taxes. At present we spend over $5,000.00 per month, we have seen extreme consequences to families because of the estate tax.*

*5. My grandfather died 12/03/2000; this left a huge impact on the family funeral business. Fortunately I was able to qualify for an IRS 6166 or 6160 for "Family Owned Business", that was 35% or more of my grandfather's estate. I was able to defer the estate tax and will be able to pay the tax over 10-15 years. Without this I may have been forced to abandon the funeral business. The funeral home property was worth more than the business. Had I not had some relief regarding paying the estate tax over time I may have been forced to abandon the business and re-develop the property for retail commercial use. At this time I am able to continue the family funeral business but should something happen to me my daughter will not be financially able to support the business and pay estate taxes on my estate. I will be the last of my family to own and operate a family owned funeral business.*

*6. We are currently studying how we can replace the principle owner/CEO and one other top level management member by insurance funded protection to insure stock buy-out, estate tax cost and operating monies for replacement personnel as well as monies to insure cash flow during the recovery.*

*7. Our business has been in the family for four generations. Each year it gets harder and harder to stay in business with the taxes and government requirements. When a death occurs and the death tax applied(?) it can be enough to force the business to sell to pay the taxes.*

*8. Being in the funeral profession allows us to witness the drawbacks that many families endure because of this double tax. Many of our families we serve that have a family business don't have proper planning to get their business through this most difficult time. Some simply do not realize that Uncle Sam can tax the assets of monies that have already been taxed. Most families are so involved in their family business that it does not occur to them that the government penalizes a family business.*

*9. In our estate plan our attorney explained that our son would need to sell the business to pay the taxes he and his sister would be obligated to pay upon our death.*

As you can readily see, estate tax is not an intellectual or theoretical exercise for our members. It is real and has serious and significant business as well as personal consequences.

**Therefore, on behalf of the thousands of family-owned funeral homes in America, we are asking Congress to make current law permanent, which would include an exemption level at $5 million (indexed for inflation) and the maximum estate tax rate of 35 percent. It is also important that Congress provides for spousal transfer of any unused portion of the exemption, and keeps stepped up basis as part of the law.**

Funeral homes are among the quintessential community-rooted, family-owned business. They are the last of a slowly fading breed of entrepreneurs whose survival is only made more difficult by the onerous estate taxes. In order to recognize and preserve the heritage and strength of this foundation of the American economic system, it is absolutely critical that the federal tax laws not penalize or otherwise prevent the tax-free transfer of family business ownership at death to other family members or otherwise inhibit the growth of their business.

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to present the views of the National Funeral Directors Association on this critical issue. I hope it is helpful in crafting legislation that will alleviate this unnecessary and costly burden for our members.

Respectfully Submitted,

John H. Fitch, Jr. Senior Vice-President, Advocacy
National Funeral Directors Association

Testimony Submitted
By

The Mason Contractors Association of America

Submitted To:

The U.S. House of Representatives
Committee on Small Business
Subcommittee on Economic Growth, Tax and Capital Access

**"Planning for the Death Tax: Can Small Businesses Survive?"**

MAY 31, 2012

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Chairman Walsh, Ranking Member Schrader and Members of the Subcommittee on Economic Growth, Tax and Capital Access; Thank you for the opportunity for the Mason Contractors Association of America (MCAA) to submit outside witness testimony to the record on the Subcommittee's hearing, "Planning for the Death Tax: Can Small Businesses Survive?" on May 31, 2012.

The Mason Contractors Association of America is the national trade association representing mason contractors throughout the country. Incorporated in 1950, MCAA currently represents over 700 members throughout the nation; a firm majority of whom are family run small businesses.

In 1950, a small group of mason contractors concerned about the well being of the masonry industry, banded together to form the MCAA in hopes of uniting existing local mason contractors organizations into a cohesive national force acting in one voice to affect issues that were impacting the industry. These visionary leaders worked diligently to create what today has become a strong national organization helping all mason contractors to compete effectively in today's tough construction environment.

The Masonry Industry represents manufacturers of concrete masonry and related materials producers, suppliers and equipment manufacturers, and mason contractors throughout North America. Concrete masonry construction is a significant source of skilled, well-paying jobs. Masonry Industry companies range from small family owned and operated businesses to large companies from every state in the Union. It is with particular sensitivity to our industry's members that we call attention to the potential for adverse impact, should repeal of the death tax not be made permanent or a viable exemption enacted. Without repeal or reform of the death tax, continued operations, local employment, community vitality, and quality of life are jeopardized when a current business owner passes away. Without repeal or reform, critical assets have to be sold to meet estate tax obligations, and many jobs are lost to the community.

Repealing the estate tax or raising the exclusion to a more reasonable threshold would allow masonry industry businesses to continue after the death of an owner and thus minimize the potential for worker and community disruption in one of America's most important mainstream industries. The looming tax is simply too high to enable long term economic viability of these businesses in their communities. As a result, local economies stand to lose good domestic well-paying jobs for generations, compromising the quality of life and vitality of our communities.

Before we get too far ahead of ourselves, MCAA wants to make it clear that we support the full and total repeal of the death tax and if Congress decides to extend the death tax, MCAA supports at a minimum, the permanent extension of the current $5,000,000 personal exemption indexed for inflation and a 35% rate on assets above that level.

As contractors, our members encounter many different problems on the job site every day. From job performance to employee safety, a contractor must be diligent in ensuring that everything is running smoothly, efficiently, and safely. It is especially difficult in this economic climate as unemployment in the construction industry recently stood at 17.2% according to the Bureau of Labor Statistics. Unfortunately, while our members have been battling overbearing regulations and this tough economy, they have had to spend a huge amount of their time worrying about how to plan for their eventual death and the future of their family run businesses.

Do they take out life insurance to cover any potential death tax liabilities? How much life insurance do they need since there is no clear way to value their complete estates and businesses and the death tax has been changing year to year? What will the death tax rates and exemptions be in 5 or 10 years? All of these questions have added untold expense to contracting businesses as contractors have to spend valuable time and money trying to piece together answers to these questions and basing them into their future business plans. As you well know, planning for the future has been extremely difficult in the current climate, where the death tax rates and exemptions have fluctuated, disappeared, and teetered back and forth with short term extensions.

After enactment of the Economic Growth and Tax Relief Reconciliation Act of 2001, the death tax changed every year, with the complete elimination of the tax in 2010. Congress then passed the Tax Relief, Unemployment Reauthorization and Job Creation Act of 2010, reinstating the estate tax for 2011 and 2012. If Congress does not act to extend the current rates before the end of 2012, the death tax will once again change with rates skyrocketing back to 55% and with personal exemptions free falling to just $1,000,000. How is a small business supposed to plan for the future when they are having to spend so much time and valuable resources changing their budgets, plans, and outlooks year to year? Is it any wonder that small business expansion, the backbone of our economy, is stagnate and unemployment remains above 12% in the construction industry?

Proponents of the estate tax will argue that in the grand scheme of things, the death tax only affects a small percentage of small business owners, with some arguing it would hit only around 4,000 individuals at the current levels, and generates a sum of around $69,000,000,000 for the U.S. Treasury. However, what these proponents and the numbers they site do not tell you is that the mere fact that small businesses have to plan for the potential of paying the death tax, money is taken away from new equipment, new employees, new facilities, and new businesses.

How many business owners have curtailed available growth opportunities to keep themselves out of harm's way from the death tax? How many potential masonry entrepreneurs have decided to go in another direction as a result of not wanting to put their heirs through the complexities of this double tax? How many owners have not purchased new equipment as a result of trying to keep some funds liquid in case of an untimely death?

One of the biggest implications of the death tax on the masonry industry is the valuation of the equipment mason contracting businesses own by the Internal Revenue Service (IRS). Our contractors must invest in extremely expensive equipment for their businesses. Scaffolding, mixers, wall bracing equipment, scaffold planks, and trucks are all extremely expensive and are acquired over a long period of time; in some cases over 30 years. The IRS valuation of this equipment is often much higher than what any business owner could sell it for in the present market and as such the IRS is overvaluing their estate by vast sums.

If there is a death at a company, especially unexpected, most contractors have very little if any liquid assets or cash. If a contractor has work, they will not have a lot of cash on hand as many of our contractors have to work from credit lines to float projects until completion; especially in today's economy. One of our largest contractors was a case in point. His mother-in-law had been sick and his father-in-law passed the company on to her following his death. She was sick throughout 2010 when there was no death tax at all. They were extremely concerned; if she survived past December 31, 2010 they would have had to sell off most of their assets to pay the taxes and what they had left would not have been enough to stay in business. The person who was to inherit the company said he would have closed and had to lay-off all 200 employees, many of whom had worked for the company for over 30 years and were in their 50's. While he would have retired just fine, his employees would have had a very difficult time surviving and finding work for the last part of their career. He was extremely concerned about them and what would happen to them; for you see, this is not only a business, it is also a family.

As so many have discussed in this debate, the death tax was essentially enacted to hinder the accumulation of wealth and land by a few families. However, as time has passed, and as the tax hits more and more small businesses, the effect has become a business destroyer as families have had to sell off business equipment, buildings, and assets just to pay the death tax; shuttering the doors of businesses just because of the death of an owner.

MCAA thanks you for taking the time to explore this issue and for giving us the opportunity to share our voice. As tax reform takes center stage in Washington, DC in the remainder of 2012, and into 2013, we implore you to repeal the death tax or at a minimum, provide mason contractors and small businesses everywhere the certainty we need to plan with a long term extension that provides a minimum exemption of $5,000,000.

# National Grocers Association

**Statement for the Record**
**For the House Committee on Small Business Subcommittee**
**On Economic Growth, Tax and Capital Access**
**Planning for the Death Tax: Can Small Businesses Survive?**
**May 31, 2012**

**Peter Larkin, President and CEO**
**National Grocers Association**
**1005 N. Glebe Road, Ste. 250**
**Arlington, VA 22201-5758**

On behalf of the members of the National Grocers Association and the independent grocery industry, I would like to commend Subcommittee Chairman Walsh and the members of the Subcommittee for holding the hearing on "Planning for the Death Tax: Can Small Business Survive?" and conducting oversight on the adverse consequences the federal estate tax imposes on family-owned businesses and the people they employ. N.G.A. thanks the Chairman and members for accepting this statement for the record.

The National Grocers Association (N.G.A.) strongly supports permanent elimination of the estate tax to ensure the continuation of the vital economic role played by family-owned businesses in the United States economy. While full repeal of the estate tax remains our ultimate goal, N.G.A. recognizes that the current political and economic environments may not make full repeal achievable. In the absence of immediate full repeal, N.G.A. calls on Congress to maintain the current maximum rate of 35 percent and the $5 million exemption adjusted for inflation. It is important to end the costly uncertainty that family-owned businesses face in planning for the future.

N.G.A. is the national trade association representing and serving the retail grocery/food companies and wholesale distributors that comprise the independent sector of the food distribution industry. An independent retailer is a privately owned or controlled food retail company operating in a variety of formats. The meaning of "independent retailer" is more a question of ownership and philosophy of operation, rather than number of stores or type of format. Most independent operators are serviced by wholesale distributors, while others may be partially or fully self-distributing. A few are publicly traded, but with controlling shares held by the family, and others are employee owned. Independents are the true "entrepreneurs" of the grocery/food industry and are dedicated to their customers, associates, and communities. N.G.A. members include retail grocery/food companies and wholesale distributors, affiliated associations, as well as manufacturers, service suppliers, and other entrepreneurial companies that support N.G.A.'s Philosophy and Mission.

Well over half of the assets of a typical supermarket—the highest of any other industry sector—are not liquid, so the death of an owner creates a serious obstacle to continuation of the business. Because the estate tax is assessed on the value of a business at the owner's death, it either results in the sale of the business or forces the family to borrow funds to pay the tax, thus reducing the ability to invest and hampering growth of the business. The estate tax is especially burdensome to family-owned retailers and wholesalers and undermines important American values of hard work, entrepreneurship, thrift, and intergenerational savings.

Estate taxes put family-owned businesses at a severe disadvantage when they compete with corporations that will never face the prospect of being forced to borrow funds or liquidate an ongoing enterprise in order to pay an enormous death tax. The estate tax can deal a fatal blow to a family-owned business at its weakest moment, costing communities jobs and tax revenue, a dangerous prospect during these challenging economic times. This makes meaningful permanent relief from the estate tax, including ultimately full repeal, a critical issue for the long-term ability of family-owned businesses to continue to provide a diverse marketplace for the benefit of American consumers.

In recent years the future of the estate tax has been uncertain and has made it even more difficult and costly for retail grocers and wholesalers to do effective planning. While the estate tax under previous law was repealed in 2010, family businesses faced the estate tax being scheduled to be reinstituted in 2011 at a $1 million exemption level and 55% tax rate. Thankfully, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 established a $5 million exemption indexed to inflation, with a maximum tax rate of 35% for two years until December 31, 2012.

The current law also provides for two important changes to the estate tax that should be retained and made permanent as well. The law permits portability of the exemption among spouses and renews the "stepped-up basis." Portability allows the unused portion of a deceased spouse's exemption to be used by the surviving spouse. Stepped-up basis provides for a recipient to inherit property at its value at the time of the decedent's death. As a result when the property is sold by the heirs, capital gains taxes are only imposed on the increase in the value from the time the property was inherited.

Now, as the end of 2012 approaches, family-owned retail grocers and wholesalers are once again facing the threat of the 2001 estate tax levels becoming law. The recent trend of passing estate tax provisions, as well as other income tax provisions, that will expire every one or two years creates uncertainty and makes planning difficult and expensive. Further, the uncertainty is forcing many small businesses to forego investing in their businesses and devote resources towards estate tax planning that could otherwise be used to grow their businesses and create jobs.

In conclusion, while N.G.A. continues to support full and permanent repeal of the estate tax, we also understand that full repeal may not be possible in the current economic and political environment. Therefore, N.G.A. strongly supports, as an interim step towards full repeal, permanent extension of current law. The $5 million exemption indexed to inflation, maximum tax rate of 35%, spousal portability, and stepped-up basis should be made permanent. Passing these permanent estate tax provisions will reduce the future impact of the estate tax on small businesses and provide certainty for planning purposes.

NRCA

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May 31, 2012

The Honorable Joe Walsh
Chairman
Subcommittee on Economic Growth, Tax and Capital Access
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Kurt Schrader
Ranking Member
Subcommittee on Economic Growth, Tax and Capital Access
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Walsh and Ranking Member Schrader:

The National Roofing Contractors Association (NRCA) commends your leadership in holding a hearing on the impact an increased estate tax would have on family-owned businesses if it is allowed to revert to pre-2001 levels on January 1, 2013. NRCA has long-supported repeal of the estate tax. Most recently, we support H.R. 1259, legislation introduced in the 112th Congress by Rep. Kevin Brady (R-TX), which would permanently repeal the onerous tax. Unless Congress takes steps soon to address the estate tax, small and mid-sized family-owned businesses in the roofing industry will suffer the ill effects of an unsustainable tax burden and crippling uncertainty.

Established in 1886, NRCA is one of the nation's oldest trade associations and the voice of professional roofing contractors worldwide. NRCA has approximately 4,000 contractors in all 50 states who are typically small, privately held companies, with the average member employing 45 people and attaining sales of about $4.5 million per year.

As you know, much of the value of family-owned businesses, especially those in the construction industry, is tied to illiquid assets such as land, buildings, and equipment. As such, new owners are often forced to sell these assets, or the business itself, in order to pay the tax due when entrepreneurs transfer their business to their heirs. This financial burden can be crippling to the viability of the family business. Protecting these job creators from the estate tax is important in order to keep them operating for future generations. As Chairman Walsh noted in announcing the hearing, "The death tax has the potential to rob small business owners of their legacy."

Estate tax planning is also a drain on time and resources that would be better reinvested in business growth and job creation. Congress should act swiftly to remove the uncertainty businesses currently face. The frequent restructuring and revisions to estate tax law over the last few years have saddled family businesses with the undue burden of predicting if and how Congress would address the estate tax. By enacting H.R. 1259, Congress would alleviate this burden of uncertainty by repealing the estate tax on a permanent basis.

NRCA acknowledges that the current fiscal situation makes permanent repeal of the estate tax an unlikely legislative outcome. We call on Congress to provide a bridge to eventual repeal by permanently extending the current rate and exemption levels. Congress should take action soon. Any further inaction will only exacerbate the problems created by the financial and compliance issues currently imposed by the estate tax. With an unemployment rate in the construction industry of 14.5 percent, lawmakers should be advancing policies that will provide businesses with the long-term certainty and tax relief they need to grow and create jobs.

Thank you again for your leadership in examining this important issue. If you have questions or need more information, please Brandon Audap, NRCA's director of federal affairs, at 202-546-7584 or baudap@nrca.net.

Sincerely,

Kent Tolley

Kent Tolley, Quality Tile Roofing, Boise, ID
President, NRCA

NTCA

NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION

*The Voice of Rural Telecommunications*

www.ntca.org

STATEMENT BY

Shirley Bloomfield
Chief Executive Officer
NATIONAL TELECOMMUNICATIONS COOPERATIVE ASSOCIATION (NTCA)
4121 Wilson Boulevard, 10th Floor
Arlington, VA 22203

ON BEHALF OF NTCA

Statement for the Record

**House Committee on Small Business**
**Subcommittee on Economic Growth, Tax and Capital Access**
**"Planning for the Death Tax: Can Small Businesses Survive?"**

May 31, 2012

Mr. Chairman, on behalf of the National Telecommunications Cooperative Association (NTCA), thank you for the opportunity to submit a statement for the record to the House Small Business Committee's Subcommittee on Economic Growth, Tax, and Capital Access in regard to the hearing "Planning for the Death Tax: Can Small Businesses Survive?".

NTCA's membership consists primarily of more than 570 locally owned and operated communications providers. Of these, roughly half are structured as cooperatives and the other half as closely held commercial enterprises. These small community-based members provide a variety of communications services throughout the rural far reaches of the nation. While these entities serve a geographic area encompassing nearly 40% of the nation, their customer base is only about 5% of the national total.

The majority of our member base began their businesses solely to provide communications services. No other communications providers would serve their rural communities, as there were more infrastructure challenges and fewer customers per square mile than there were any chances for a profit. Nevertheless, some champions identified a need and created a small rural communications business, and it is primarily on behalf of the latter category that I submit these remarks.

Today, these are the same providers that continue to have a positive contribution by providing jobs, quality and affordable advanced communications services and economic development to their rural customers and communities. However, from generation to generation, they continue to face huge challenges as small business owners, and one of those challenges is the estate tax and the uncertainty in trying to prepare for the success of a family-owned business following the death of a loved one.

As the current estate tax exemption of $5 million, indexed for inflation, and the tax rate of 35% are scheduled to expire at year end, today's hearing before the House Small Business Committee's Subcommittee on Economic Growth, Tax, and Capital Access "Planning for the Death Tax: Can Small Business Survive?" is a step in the right direction. NTCA has taken a particular interest in the estate tax because the tax provides significant hardship to America's family-owned businesses, both small and large, including NTCA members. Our nation should never foster a policy that forces family-owned businesses to be sold for the sole purpose of paying astronomical estate tax bills.

It is with much respect that NTCA asks Congress to make the current federal law (an exemption level of $5 million, indexed for inflation, and a maximum estate tax rate of 35%) permanent. Permanent estate tax law is vital to the preservation of our members—small, locally owned and operated rural cooperative and commercial incumbent local exchange carriers.

**Hearing Before the Subcommittee on Economic Growth, Tax and Capital Access**
**House Small Business Committee**
**May 31, 2012**

**STATEMENT OF JACK FITZGERALD**
**FOUNDER**
**AMERICANS STANDING FOR SIMPLIFICATION OF THE ESTATE TAX (ASSET)**

**CHIEF EXECUTIVE OFFICER, FITZGERALD AUTO MALLS (MD, PA, FL)**

Chairman Walsh, Ranking Member Schrader, and members of the Subcommittee, thank you for the opportunity to provide this testimony on behalf of Americans Standing for Simplification of the Estate Tax (ASSET) regarding the need to reform the estate tax. I am very pleased that you have chosen to hold a hearing on the estate tax and its impact on small businesses, which our organization has advocated for in conversations with a number of members of the Committee and staff.

ASSET was formally organized 2010 in order to bring together the private businesses, family farms and individuals who have been advocating for a change to the collection method for the estate tax. Members of ASSET believe that so long as the IRS requires the estate tax be paid, there is a simpler collection method that allows the same cash flow to the U.S. Treasury, yet doesn't cause jobs losses or the closure of businesses.

I am sure that the witnesses will help the Subcommittee understand more fully the potentially devastating impact of the estate tax on small business owners and their employees. As Congress contemplates the kind of legislative action it should undertake on the issue of the estate tax, I am hopeful that you will consider our idea for ending the estate tax through a change in collection methodology that is initially revenue neutral, reduces compliance costs substantially, frees up capital, and does no harm to the Treasury.

The timing of your hearing could not be more strategic. The reimposition of the pre-2001 estate tax, with its high rates and inadequate exemptions, is scheduled to happen at the end of this year. This will challenge Congress at the same time higher tax rates are also returning, and policymakers are confronting a weak economy and towering federal budget deficits. Members of Congress need to understand the consequences of doing nothing, for small business and the economy; we argue they need also to weigh the merits of addressing the estate tax issue sooner, and in a revenue neutral manner. This is where ASSET offers a way out.

I believe that our proposal, the ASSET plan, will manage to generate comparable revenues for the U.S. Treasury without the very destructive collection method of the current estate tax. Over the past 50 years, the estate tax has brought in an average of 1.1 percent of total IRS collections, but we are convinced that the current method of collecting this tax is extraordinarily inefficient and distortive. It may come as a surprise to some that the amount that this tax brings in represents only 1.86% of the Adjusted Gross Income (AGI) of the top 1 percent of taxpayers, which reflects the ability of some Americans to avoid paying altogether.

**The Case for Reform of the Estate Tax**

For many years, I have been concerned by the estate tax. I am in my 70's and have 1200 very dedicated employees in my car stores whose livelihoods keep me up at night. Under current law, it is clear that upon my death, the estate tax liability would be so large that my heirs would have no choice but to sell off the company I have spent 40 years building, likely selling the real estate and effectively dismantling the operations. To prevent this, I have purchased substantial amounts of life insurance – annual premiums as high as $684,000 in after tax dollars – so that my employees will still have jobs and the company can continue without such severe dislocation.

I am hopeful that the Subcommittee would agree that the current version of the estate tax is counterproductive and is really in many cases a tax on the jobs of employees at productive, living businesses. For privately held businesses, if there is insufficient life insurance on the owner, a thriving company usually must be sold or broken up – a dead loss for the economy because of the dislocation that occurs. Or, the business is sold off early, prior to the death of the owner, which often leads to consolidation and job losses. It's not just lower income employees who are hurt; many of the jobs lost in these preventive sales are higher paying white collar jobs.

The case for reform is dramatically illustrated by reviewing the data cited by the Congressional Joint Economic Committee in its May, 2006 study, which indicated that individuals' costs of complying with the estate tax (avoiding wealth transfer taxes) roughly equals the revenue yield of the estate tax for the Treasury.

The estate tax as we know it is an arbitrary and inefficient way to impose such costs, and its distortive effects call out for a simpler, more equitable approach. Lost in the debate in 2009 and 2010 over rates (35% vs. 55%) and exemptions ($1 million vs. $5 million) is a more fundamental question – why keep the current broken structure in place when it does such harm?

The proposal that I will outline in this statement reflects more than 100 meetings and conversations that I have had over the past 18 months. I have spoken with chairmen of Congressional committees and subcommittees, IRS staff, and numerous small business owners, farmers, and ranchers around the nation. I have also reached out to many thoughtful experts at organizations along the whole political spectrum and ASSET hired a major local economist to help dive even further into the issue.

I am motivated to seek change because of stories such as the one I heard from Teddy Butz from Windbridge Farm and a member of ASSET: "Recently, we had an Aunt pass away and now the heirs are being forced to sell part of the farm to cover the Estate Tax. Now is not the time to sell. Had the ASSET program been in effect, this problem could have been averted or reduced."

I believe that the answer lies between the public outcry to "end the death tax" and the calls from others on the political spectrum to impose significant taxes on those who are fortunate enough to die with vast amounts of accumulated wealth. The ASSET proposal would simplify the tax system by replacing the current collection methodology and substituting as an interim measure a pay-as-you-go, revenue neutral alternative collection mechanism that will, over time, vanish thanks to the anticipated windfall of capital gains tax receipts.

Rather than delay consideration of estate tax reform proposals until the next crisis erupts later this year (as the 2010 compromise expires), Congress and the White House should be spending time now considering policy options such as the ASSET proposal so a full public debate can occur and we don't find ourselves just extending a tax policy because it's the path of least resistance. Today's hearing is an excellent example of a Congressional committee having the foresight to focus on this pressing issue.

Some background on the estate tax is essential to understanding the public policy and economic rationale for the ASSET proposal. Under current law, after an owner's death, farms and businesses are often unnecessarily liquidated, causing huge job losses. Private capital is locked up in unproductive trusts to escape tax liability, meaning that many of the best business minds in our nation are forced to sit idly by and can't create new wealth with their assets because they must lock them away for their heirs to inherit. Further, many Americans purchase unnecessarily high amounts of life insurance to anticipate this feared tax. The crippling potential of the estate tax has even made it into popular films: the recent movie "Secretariat" reminded us that after Secretariat became Horse of the Year, but before he won the Triple Crown races, his owners faced what seemed like certain liquidation of their stables after the death of the patriarch of the family.

Unlike the film "Secretariat," the current estate tax does not have a happy ending. From 2005-10, the estate tax averaged around 1 percent of total IRS collections, with $16.9 billion collected in 2010. There are two additional statistics that certainly lend credence to the notion that many of the wealthiest Americas are able to game the current system and skate free: (1) only 15,191 estate tax returns were filed in 2010, with less than half (6,711) owing any estate tax; and (2) over the 25 years from 1985-2009, the wealthiest Americans earned nearly $23 trillion in income -- yet the estate tax revenue in the same period was less than 2 percent of that amount, suggesting that tax avoidance is widespread.

**Background on the ASSET Proposal**

The ASSET proposal attempts to simplify the estate tax by changing the collection mechanism for the same population that should be paying some kind of tax on their accumulated wealth. This proposal depends on a temporary "bridge" to maintain revenue neutrality for the first few years and then may succeed in eliminating the need for the bridge mechanism through an increase in revenues from capital gains taxes that should occur.

The ASSET proposal would stop imposition of the current estate and gift taxes and would substitute a temporary revenue neutral combination of budgetary offsets that could include: (1) a very small surcharge on individuals whose AGI in a given year exceeds $1 million; (2) reduced deductibility of state and local taxes for individuals whose AGI exceeds $1 million; and/or (3) reduced tax exempt treatment of state and local government bond interest for those same individuals. We are open to suggestions of possible consensus budgetary offsets and would note that any such offsets are intended to be temporary in nature because of the capital gains revenue windfall described below.

Because the individuals covered by these proposed budgetary offsets already typically spend as much or more annually on accountants and attorneys in order to minimize or eliminate estate tax liability, we believe that these individuals will actually welcome the opportunity to manage their affairs without having to contend with the current estate and gift taxes.

Based on discussions with the Joint Tax Committee staff and others, we believe that a surcharge option could be below 2 percent, which would mean $20,000 for a covered taxpayer. I can assure you that $20,000 is a minimal cost to someone making $1 million in AGI when he or she considers the thousands of dollars in lawyers' fees and life insurance that person is paying annually to avoid the impact of the current estate tax. The surcharge can be this low because all the loopholes are eliminated and a larger number of taxpayers will be paying into the system (however, only in years where their AGI exceeds $1 million).

The ASSET proposal clearly would eliminate the need for sheltering assets in unproductive trusts whose sole rationale is avoiding the estate tax. Our proposal would also eliminate the need to over-purchase life insurance – a diversion of productive resources away from investment and job creation and into less productive uses.

An exciting element of the ASSET proposal is that it will include legislative language phasing out the budgetary offsets over time if, as we believe, there will be a capital gains tax windfall for the Treasury as a result of the unlocking of the billions of dollars of assets held in trusts. The IRS has informed us that it could track specific assets, at carryover, and thus keep track of whether the enhanced capital gains tax receipts caused by estate tax reform are sufficiently high to reduce or phase out the surcharge in the out years without violating the revenue neutral principle of this proposal.

Ultimately, in eliminating the need to liquidate businesses because the owner has died, the ASSET proposal preserves thousands of critically needed jobs at American small businesses, farms, ranches, and other business concerns. Plus, the economic activity that will result from the unlocking of the assets in unproductive trusts should help stimulate our economy – without needing an extra dollar from the U.S. Treasury.

We recognize that some in Congress and the Administration are interested in much more comprehensive tax reform. Our proposal is consistent with that effort and could serve as an excellent interim step as broader tax policy changes are hashed out.

I encourage Members of Congress and the Obama Administration to analyze this proposal and to give it full and fair consideration. The proposal meets the principles stated by officials and activists on both sides of the spectrum and could be the right solution for this pressing problem.

NATIONAL AUTOMOBILE DEALERS ASSOCIATION
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**Testimony for the Record of the National Automobile Dealers Association**

**House Committee on Small Business**
**Subcommittee on Economic Growth, Tax and Capital Access**

**"Planning for the Death Tax: Can Small Businesses Survive?"**

The National Automobile Dealers Association (NADA) appreciates the opportunity to submit testimony to the Committee on the issue of the estate tax. NADA represents approximately 16,000 new franchised car and truck dealers, selling all brands, both domestic and international, including heavy-duty trucks: everything from the Mini Cooper to the Mack Truck. NADA dealer members employ almost 1 million Americans at good-paying wages. Many NADA members are second- or third-generation family businesses, and the significant majority of NADA dealerships are family-owned businesses. Many of these dealerships also have multi-generational employees.

The estate tax is a significant source of economic disruption for auto dealers. Dealerships are highly leveraged businesses, needing sources of financing for both inventory and working capital. Additionally, dealerships are highly illiquid, with much of the value of the "estate" tied up in land, single-use buildings such as showrooms, and equipment. Resources that are taken out of the business to pay for life insurance or other estate planning procedures, or after a dealer's death to pay the estate tax, significantly hurt a dealer's ability to sustain the business at its current level of employment and overall economy activity. At the present time, many dealers are being encouraged by manufacturers to invest in their dealership buildings; however, many are reticent if this investment would exacerbate the level of frozen capital that creates adverse consequences when settling an estate.

In December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act prevented a return to confiscatory estate tax levels of a $1 million exemption and a 55% rate by establishing an estate tax regime through 2012 with an exemption of $5 million per spouse, indexed for inflation, and a 35% rate on assets above the exemption. It also preserved stepped-up basis, a provision critical for family-owned dealerships, and, for the first time, allowed for portability of an unused exemption between spouses. However, because these levels are only in place for two years, family-owned dealerships again face the specter of a $1 million exemption and 55 percent rate if Congress does not act before the end of the year.

NADA supports a permanent extension of current law, at a $5 million exemption, indexed for inflation and a 35% rate, as had advocated for these levels as part of its leadership role in the Family Business Estate Tax Coalition. These levels will provide the ability for family-owned dealerships to successfully plan for the succession of their dealerships to the next generation. NADA urges Congress to move expediently on settling this issue.

NADA thanks the Small Business Committee for holding a hearing on the estate tax and for the ability to provide the perspective of America's franchised new car and truck dealers.

financial executives international

**Committee on Private Company Policy**

June 6, 2012

**Statement for the Record: House Committee on Small Business Subcommittee on Economic Growth, Tax and Capital Access**

**Planning for the Death Tax: Can Small Businesses Survive?**

Financial Executives International's (FEI) Committee on Private Company Policy (CPC-P) appreciates the opportunity to submit a statement for the record for the Committee on Small Business, Subcommittee on Economic Growth, Tax, and Capital Access hearing titled: "Planning for the Death Tax - Can Small Businesses Survive?"

The estate tax remains a top concern for many of America's privately-held and family-owned businesses. If the current estate tax configuration is allowed to expire at the end of 2012 and the tax returns to a $1 million exemption with a 55 percent rate, companies in the United States face the stark realities of higher taxes and liquidations, while this country faces an increased likelihood of long-term unemployment for American workers.

FEI is a professional association representing the interests of nearly 15,000 chief financial officers, treasurers, controllers, tax directors, and other senior financial executives from over 8,000 major companies throughout the United States and Canada. FEI represents both the providers and users of financial information. CPC-P is responsible for monitoring and developing positions on legislation, regulations and other public policy initiatives that impact privately-held companies.

While CPC-P continues to prefer full repeal of the estate tax, we understand that economic realities prohibit that from happening in the foreseeable future. As an active member of the Family Business Estate Tax Coalition, CPC-P has supported the current estate tax rate and exemption. We urge you to extend and make permanent the $5 million and 35 percent rate (indexed for inflation), allow for spousal transfer, and assure that stepped-up basis is made permanent until economic circumstances allow for a full repeal of this burdensome tax.

The estate tax is one of the largest drains on resources for many privately-held and family-owned businesses in the United States. The existence of this tax prohibits companies from hiring workers and expanding their businesses – its expansion will multiply these effects. The financial drain consists of the cost for lawyers, accountants, life insurance contracts and management's time to address the issue, in addition to the cost of funding the tax itself. This problem is exacerbated by the reality that private companies only major source of capital, aside from earnings and owner loans, is from traditional bank loans. Banks are very reluctant to lend to companies for purposes of buying out shareholders and transferring ownership. Banks generally lend for short-term operating capital and the purchase of hard assets. As a result, often a private company's only remaining option is to sell out to a consolidator. The first action consolidators generally take is to reduce expenses by reducing labor. In the end, the impact of an estate tax is to dilute private ownership; corporate support to the local community is lost and employees are put out of work. All and all - everyone loses.

On a long- term basis, the shift in generation to generation is extremely important. Many of America's most successful companies started as small businesses and have transitioned over the years from father to daughter and mother to son. Over the chain of generational ownership, the family-owned business grows from a small business to a medium or even large company, hires more and more employees – often across generations – and makes a long-term commitment to the community. At each generational juncture, a privately-held company has to have enough liquidity to pay the tax at the time of death of one of the owners. If not, it must liquidate assets or sell the business. It is tragic that at a time when we, as a nation, are trying to preserve jobs and increase economic activity, the death of the owner of a family-owned business can result in the loss of both.

With an unemployment rate that remains high, the United States should not be penalizing the very companies that have made a long-term commitment to jobs and growth. Businesses are already overwhelmed with a complex and uncertain tax system. The estate tax just adds to the bevy of problems that American companies are currently facing in this uncertain economy. The estate tax is a definite drag on the growth of private companies and in turn on US economic growth. CPC-P believes that comprehensive tax reform should be used to address the problems of fairness and competitiveness within the tax code and, in the interest of certainty and stability, that the estate tax should stay as it is.

Thank you for the opportunity to weigh in on the estate tax and its detrimental effects on privately-held and family-owned businesses. If you would like to connect with FEI's members or staff, please contact Tyler Roberts in FEI's government affairs office at 202-626-7807 or troberts@financialexecutives.org.

Sincerely,

Donald J Robillard

Don Robillard
Chair, Committee on Private Company Policy