Charles Crain

Vice President,
Domestic Policy

June 27, 2024

Rep. Adrian Smith
Chair, Rural America Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Rep. Michelle Fischbach
Vice Chair, Rural America Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Rep. Randy Feenstra
Vice Chair, Rural America Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Rep. David Kustoff
Rural America Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Rep. Greg Steube
Rural America Tax Team
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chair Smith, Vice Chair Fischbach, Vice Chair Feenstra, Rep. Kustoff and Rep. Steube:

On behalf of the National Association of Manufacturers and the 13 million people who make things in America, I write to you today as you begin your work to prevent the devastating tax increases that will take effect for manufacturers and manufacturing families at the end of next year. Manufacturers respectfully encourage the Ways and Means Rural America Tax Team to protect family-owned businesses in our industry from the devastating impact of the estate tax—and to preserve the Tax Cuts and Jobs Act's estate tax reforms.

The TCJA was revolutionary for the manufacturing sector. Tax reform kickstarted years of economic growth, providing a new foundation for the manufacturing economy to thrive:

- In 2018, manufacturers added 263,000 new jobs, the best year for job creation in manufacturing in 21 years.[1]
- In 2018, manufacturing wages increased 3% and continued going up—by 2.8% in 2019 and by 3% in 2020. Those were the fastest rates of annual growth since 2003.[2]
- Manufacturing capital spending grew 4.5% and 5.7% in 2018 and 2019, respectively.[3]
- Overall, manufacturing production grew 2.7% in 2018, with December 2018 being the best month for manufacturing output since May 2008.[4]

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[1] Bureau of Labor Statistics, Current Employment Statistics, Manufacturing Employment, Seasonally Adjusted. *Available at* https://www.bls.gov/ces/data/.
[2] Bureau of Labor Statistics, Current Employment Statistics, Average Hourly Earnings for Production and Nonsupervisory Employees, Manufacturing, Seasonally Adjusted. *Available at* https://www.bls.gov/ces/data/.
[3] U.S. Census Bureau, Annual Survey of Capital Expenditures, Table 2A, Manufacturing. *Available at* https://www.census.gov/data/tables/2019/econ/aces/2019-aces-summary.html.
[4] Federal Reserve Board of Governors, Industrial Production, Manufacturing, Seasonally Adjusted. *Available at:* https://www.federalreserve.gov/releases/g17/Current/default.html

Manufacturers have used the savings from tax reform to grow their businesses, create jobs, raise wages, add new benefits for employees, fund research and development, purchase new equipment, expand their facilities and give back to their communities. However, critical tax reform provisions are set to expire at the end of 2025, resulting in significant tax increases for virtually all manufacturers. Congress and the president *must act* to prevent tax hikes from stunting manufacturing job creation, growth and innovation.

In particular, tax reform's increase in the estate tax exemption threshold will sunset at the end of 2025, halving the exemption and subjecting more family-owned businesses' assets to taxation. Congress should protect family-owned manufacturers from this scheduled tax increase by preserving the increased exemption—or by repealing the estate tax altogether.

The Estate Tax Harms Family-Owned Manufacturers

Manufacturers believe that the U.S. tax code should protect and promote the 90% of American businesses that are family-owned. However, the estate tax not only unfairly taxes families during one of the most difficult times in their lives, but it also directly influences manufacturers' decisions when it comes to investing and growing their business.

The modern-day estate tax was implemented by the Revenue Act of 1916. The government used the revenues to fund the war effort in World War I, building on a tradition of transfer and inheritance taxes being used to fund military efforts during wartime. Since its enactment, the government has altered the estate tax to fit the current economic and social realities of the country. Over the past several decades, the efficiency and practicality of the estate tax has been examined thoroughly by policymakers and economists. In a review of the estate tax by the Joint Economic Committee prior to tax reform, the committee found:

> "There are extensive costs associated with the estate tax in terms of the dissolution of family businesses, slower growth of the capital stock, and the resulting loss of output and income over time. If the estate tax actually provided benefits, such as raising a significant amount of revenue or reducing inequality, the estate tax might be justified, but the estate tax does not. Perversely, the estate tax actually creates an impediment to income and wealth mobility. Moreover, the estate tax may actually reduce aggregate federal tax revenue by reducing the collections from other federal taxes."[5]

Further, the estate tax is a massive regulatory burden both for filers and for the IRS. It is estimated that the estate tax imposes regulatory cost of over $100 million each year.[6] This is a massive compliance burden for a tax that generates revenue equal to less than 0.1% of gross domestic product per year.[7]

One area of agreement among policymakers has been the need for an exemption level for small and medium businesses so they are not unfairly harmed by tax. The Tax Cuts and Jobs Act

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[5] Joint Economic Committee, "Cost and Consequences of the Estate Tax: An Update (July 2012). *Available at:* https://www.jec.senate.gov/public/_cache/files/bc9424c1-8897-4dbd-b14c-a17c9c5380a3/costs-and-consequences-of-the-federal-estate-tax-july-25-2012.pdf

[6] National Taxpayers Union Foundation "Death and a Thousand Paper Cuts: The Compliance Burden of the Estate Tax" (October 22017). *Available at:* https://www.ntu.org/foundation/detail/death-and-a-thousand-paper-cuts-the-compliance-burden-of-the-estate-tax

[7] Congressional Budget Office, "Understanding Federal Estate and Gift Taxes" (June 2021). *Available at:* https://www.cbo.gov/publication/57129#:~:text=In%202020%2C%20revenues%20from%20federal,domestic%20product%2C%20or%20GDP).

addressed this concern by raising the exemption from $5.49 million in 2017 to $11.8 million in 2018 and annually adjusting for inflation until 2025. This change was monumental, as the estate tax has a significant impact on family-owned manufacturers' ability to continue to operate after the death of a loved one. The tax has a disproportionate impact on family-owned manufacturers because their companies consist largely of illiquid assets that would need to be sold or leveraged to satisfy the tax burden.

The estate tax exemption threshold is scheduled to be reduced by half at the end of 2025, subjecting more family business assets to taxation and threatening the viability of these businesses when the owner passes away. Congress must protect family-owned manufacturers by preserving the increased exemption threshold or by eliminating the estate tax altogether.

Further, Congress should fully preserve stepped-up basis, which prevents a business owner's heirs from being forced to pay a capital gains tax on the asset appreciation that occurred during the owner's lifetime. Stepped-up basis is not scheduled to expire in 2025, but President Biden's FY 2025 budget proposal would limit its use for family-owned businesses. Ending stepped-up basis would cost the U.S. economy 80,000 jobs per year over the course of a decade and 100,000 jobs per year thereafter.[8] Congress should preserve both the increased estate tax exemption threshold and stepped-up basis so family-owned manufacturers do not face costly and damaging tax bills that threaten their ability to keep the business in their family.

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Manufacturing employs 13 million Americans, contributes $2.81 trillion to the U.S. economy annually, pays workers 18% more than the average for all businesses and has one of the largest multipliers in the economy. Taken alone, manufacturing in the United States would be the seventh-largest economy in the world. But that economic leadership is in jeopardy if Congress fails to preserve a competitive tax code.

Manufacturers look forward to working with the Rural America Tax Team to protect family-owned manufacturers from the damaging impact of the estate tax. Failing to act in 2025 will cost millions of jobs and put manufacturers in the Untied States at a severe disadvantage—with a disproportionate impact on small and family-owned businesses. Congress should pursue tax policies that strengthen manufacturing in the U.S., ensuring that America continues to support job creation, wage growth and investments for manufacturers of all sizes.

Sincerely,

Charles P. Crain

Charles Crain
Vice President, Domestic Policy
National Association of Manufacturers

[8] EY, "Repealing step-up of basis on inherited assets: Macroeconomic impacts and effects on illustrative family businesses," (April 2021). *Available at* https://documents.nam.org/tax/ey-fbetc-stepupreport.pdf.