WHAT'S AT STAKE: ESTATE TAX

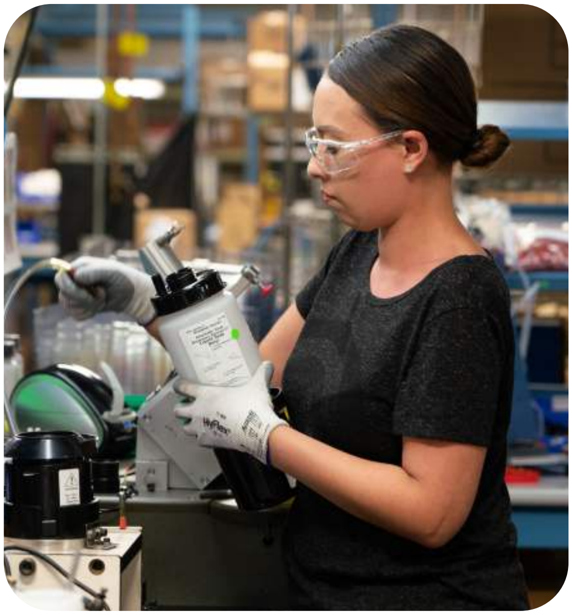
59% — Family-owned businesses employ 59% of the private sector workforce

83.3 Million Jobs

95.6% of family-owned businesses have fewer than 50 employees

What is the estate tax?

The estate tax is imposed on family-owned businesses when ownership of the business passes to the next generation following the death of the business owner. Before the business and its assets can be distributed to the former owner's beneficiaries, they must be used to pay the estate tax. The top federal estate tax rate is 40%.



How does the estate tax impact family-owned manufacturers?

The value of a family-owned manufacturing business is often tied up in physical assets like facilities, equipment and machinery. Liquidating these assets to pay the estate tax harms the viability of the business on a going forward basis and makes it more likely that the business would need to take on debt, limit operations, reduce employee headcount or close entirely following the death of a loved one.

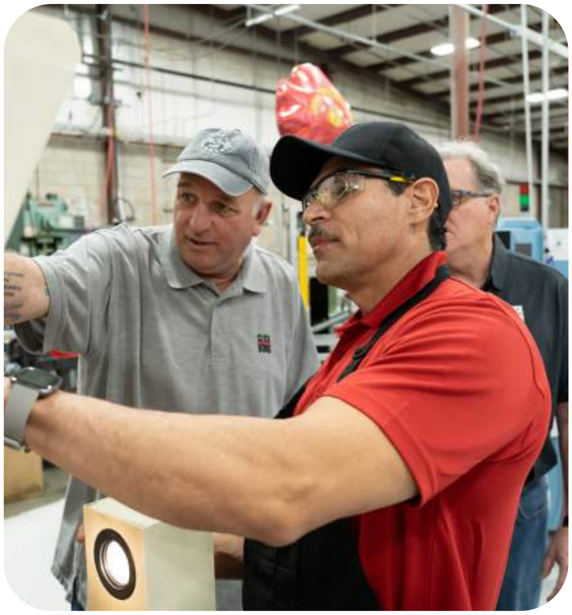
Regardless of how it is paid, imposing a substantial estate tax bill on a family-owned manufacturer adds significant burdens at a difficult time for the family and ultimately makes it harder to pass the business on to the next generation.

How did tax reform change the estate tax?

Some of a family-owned business's assets are exempt from the estate tax, up to a valuation threshold. Tax reform doubled this exemption threshold, excluding more assets from taxation and thus reducing the burden of the estate tax on family-owned manufacturers.

› What did these reforms mean for family-owned manufacturers?

The increased exemption threshold makes it more likely that family-owned manufacturing businesses can remain in the family and continue investing in and creating jobs for local communities across the country.



› What's at stake for family-owned manufacturers in 2025?

The estate tax exemption threshold is scheduled to be reduced by half at the end of 2025, subjecting more of family-owned manufacturers' assets to taxation and increasing their estate tax liability. This increased tax burden threatens the viability of these businesses when the owner passes away.

Family-owned manufacturers would be significantly harmed if tax reform's increased exemption threshold expires because they could be forced to sell or leverage business-critical assets to pay the estate tax.

› What other tax changes could affect family-owned manufacturers?

Some policymakers have proposed repealing or limiting stepped-up basis, which prevents a business owner's heirs from being forced to pay capital gains tax on asset appreciation that occurred during the owner's lifetime. Stepped-up basis spares families a surprise tax bill and provides certainty to family business owners planning to pass their company on to the next generation.

Repealing or limiting stepped-up basis would make death a taxable event for many family-owned manufacturers, costing the U.S. economy up to 100,000 jobs per year.

What should Congress do to protect family-owned manufacturers?

Congress should preserve tax reform's increased estate tax exemption threshold and maintain the tax code's treatment of stepped-up basis. The NAM also supports full repeal of the estate tax.

Protecting family-owned manufacturers from the estate tax—by preserving tax reform in its entirety, maintaining stepped-up basis or repealing the estate tax altogether—will prevent these small businesses from incurring costly and damaging tax bills that threaten their viability following the death of a loved one.