Overview

FEUSA 2014
Annual Survey of Family Firms

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Overview:

The 115 respondents to the FEUSA 2014 Survey of Family Firms represent over 13 industries and 30 states. As in past FEUSA surveys, the majority of respondents are from well-established firms with nearly three-fourths (72%) having been in business for more than 30 years and two-thirds (63%) reporting $5 million or more in gross revenues.

Family firms (71%) are generally optimistic about the economy with two-thirds (67%) reporting an increase in gross revenue over the past 12 months. The increase in revenue is most commonly attributed to economic recovery (either real or perceived), an improvement in market conditions within the specific industry or to general growth of the company. Of those experiencing an increase in revenue, 55% also saw an increase in job growth.

Nearly all (92%) respondents feel there are unique characteristics that distinguish family firms from other businesses, predominantly their commitment – to community (89% are at least somewhat involved in philanthropic endeavors at the local level), to their employees and to the long-term future of their business.

As family firms weigh in on the policy issues that have the most impact on their business, they clearly feel the complex and constantly changing tax code structure should be addressed.

- The way in which income is taxed has an impact on family firms; six in ten (61%) say *business income from pass-through entities* is important to their business while one-half (52%) note the importance of *income earned from capital investments that benefit from accelerated write-offs*.
- Sixty-one percent of family firms rank *reducing the deficit and national debt by cutting the growth of spending and promoting growth of tax revenues only through economic growth* one of the top three issues facing their family business – one in three (33%) say this is the most important issue.

Respondents to the FEUSA 2014 survey suggest there is a lack of familiarity with GRATs among family firms where just under half (48%) have no opinion about the legislation that will likely limit or repeal estate planning strategies such as short-term GRATs. However, those expressing an opinion on the issue are generally opposed (45%) for a variety of reasons including the belief that:

- Increased taxation would be harmful to the family business
- Businesses should be able to pass on wealth without penalty and that
- There should be less estate tax in general.

FEUSA 2014 Annual Survey
Overview of Findings
Blue Font = New Questions in 2014

Profile of Respondents

- Primary industries include finance, insurance and real estate (27%), manufacturing (18%) and construction (10%).
- Sixty-two percent of the respondents are CEOs/Presidents and 30% are owners.
- Politically, 55% consider themselves Republicans, 22% Independents and 19% Democrats.
- Of the family businesses completing a survey, 68% are interested in receiving a complimentary FEUSA membership while 29% are willing to participate in a follow-up discussion.

Firmographics

- Seven in ten (72%) of the family firms have been in business for more than 30 years with the top executive running the organization for over 15 years, on average.
- About two-thirds (64%) of the companies have over 25 employees **and 63% report annual gross revenues of at least 5 million dollars**.
- Nearly three-fourths (72%) are run as S-corp or C-corp organizations with fewer than one in five (18%) having a separate family office to oversee the management of the assets.

Actual and Projected Growth

- **With the majority of respondents (71%) at least somewhat optimistic about the economy**, two in three businesses (67%) saw their revenues increase over the past 12 months with over half of those (55%) also reporting an increase in employees.
    - **The increase in revenue is most commonly attributed to economic recovery (either real or perceived), an improvement in market conditions within the specific industry or to general growth of the company.**
- Of the 21% reporting a decrease in gross revenues, four in ten (42%) also had a reduction in staff.
- Projecting out over the next 12 months, 77% of family firms anticipate their gross revenues to increase and 49% expect to increase their employee base size.

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Distinguishing Characteristics of a Family Businesses

- Nine out of ten respondents (92%) feel there are specific characteristics that distinguish family firms from other types of businesses; **the most common characteristics associated with family businesses include:**
  - **Commitment to community (34%)**
  - **Commitment to employees (32%)**
  - **Commitment to the long-term future of the business (26%)**
- **Over four in five family businesses (89%) are at least somewhat involved in philanthropic endeavors at the local level while nearly four in ten (39%) are engaged at the national level.**
- Family firms are also engaged politically, with just over half (58%) having had the opportunity to meet in-person with a Member of Congress or a U.S. Senator **(many of the meetings (73%) having taken place within the last year).**

Government Influence and Policy Preferences

- When asked about the greatest threat to the future of their business, family firms (89%) generally agree that external forces such as the general economic climate, tax policy and government regulations pose the greatest threats.
  - About one in ten (11%) feel internal forces such as disagreements between family members, the strategic direction of the business or conflict in general are more threatening.

All remaining data comes from questions that are new in 2014:

- As policy makers make decisions on a variety of issues, 61% of family firms rank *reducing the deficit and national debt by cutting the growth of spending and promoting growth of tax revenues only through economic growth* one of the top three issues facing their family business.
  - Also among the top three issues are *reforming the tax code by eliminating many business and individual deductions, and lowering individual and corporate rates across the board* (50%) and *providing an alternative to the current efforts for an affordable healthcare option* (46%).
- Many aspects of the tax code have an impact on family businesses, with seven in ten saying it's important that complexity (78%), constant changes (72%) and uneven taxation on different industries, products and services (71%) be addressed within the current tax code structure.
  - For firms that generate less revenue (less than $1 million in annual gross revenue), uneven taxation is viewed as being more important than to those generating more revenue.

- The way in which income is taxed also has an impact on family firms (as shown below), with *business income from pass-through entities* and *income earned from capital investments* being most important to their business.
  - Business income from pass-through entities (61%)
  - Income earned from capital investments that benefit from accelerated write-offs (52%)
  - Commercial real estate cash flow (43%)
  - Income earned outside the U.S. on which U.S. taxation is deferred (16%)
- Attitudes toward the likely effort to be made by Congress to limit or repeal certain estate planning strategies like short-term GRATs tend to be mixed among family firms.
  - Just under half (48%) have no opinion about this particular piece of legislation, primarily due to a lack of familiarity with GRATs.
  - The other vast minority (45%) oppose such changes for a variety of reasons including the feeling that increased taxation would be harmful to the family business, that businesses should be able to pass on wealth without penalty and that there should be less estate tax in general.
  - Only 7% support likely efforts by Congress to enact changes to the GRAT laws.