

Estate Tax Rate Reduction Act

Background:

- The legislation would provide much-needed help to families and family-owned businesses.
- Currently, the estate tax rate is the highest in the entire tax code, at 40%.
- The *Tax Cuts and Jobs Act* (TCJA) doubled the exemption of the estate tax, but there are many family businesses that remain liable for a significant tax bill.
- The U.S. has the fourth highest estate and inheritance tax among countries in the Organisation for Economic Co-operation Development (OECD).

Current Law:

- The tax is due 9-months after the date of death and is payable in cash.
- TCJA in 2017 established:
 - Maximum Rate of 40%, lifetime exemption to \$11.2 million per person and \$22.4 million per couple (indexed for inflation).
 - This exemption will expire in 2025 and will revert to \$5 million (\$10 million per couple).
 - Estate, gift, and generation skipping taxes were unified permanently. This establishes a single graduated rate for all three taxes.
 - Spousal Portability: Permanently allows couples to transfer any unused exemption to the surviving spouse under simplified rules.

The Problem with the Estate Tax:

- Much of the value family-owned business is illiquid and must be sold when the owner passes away. This endangers family-owned businesses and their ability to survive between generation transfers.
 - Only 30% of family-owned businesses survive the transition from first to second-generation ownership, while only 12% survive from second to third-generation ownership. Just 13% of family businesses remain in the family for more than 60 years.
- Compliance with the estate tax is expensive and requires attorneys, accountants, large life insurance premiums. Families must also plan for the estate tax.
 - According to Family Enterprise USA's 2020 Family Business Survey, family businesses spend an average of \$310,000 each year to plan for the estate tax, in addition to \$1.1 million of insurance premiums annually. This drains valuable business resources and diverts capital away from hiring and expanding the business.
- Family-owned businesses employ 60% of the U.S. workforce and create 78% of all new jobs.

Section-by-Section Summary:

- **Section 1.** Short Title: *Estate Tax Rate Reduction Act*.
- **Section 2.** The bill cuts in half the rate for the tax on estates, gifts, and generation-skipping transfers to 20%. Under current law, the highest rate is 40%. As part of this change, the bill makes various conforming amendments to existing law to be consistent with the rate reduction.
 - The bill also exempts the budgetary effects of the tax reduction from the Pay-As-You-Go (PAYGO) rules established by the Statutory Pay-As-You-Go Act of 2010 and the FY2018 congressional budget resolution.