

HARDI ADVOCACY

Estate Tax Repeal- H.R. 218 & S. 215

- Disproportionately impacts high inventory small and family-owned businesses like HARDI members
- Prevents business investments by diverting capital to mitigating the tax
- Causes businesses to forego the hiring of new employees, expansion of businesses, and in many cases, forces families to sell the company

WHAT IS HARDI ASKING? Members of Senate and Congress to repeal the estate tax by passing bills H.R. 218 and S. 215.

WHAT IS THE ESTATE TAX?

The estate tax (commonly known as the death tax) disproportionately impacts small to medium family-owned businesses. The IRS defines the estate tax as a “tax on your right to transfer property at your death.” Under current law, the estate tax is a 40 percent tax on the value of a person’s estate above the current \$11.2 million exemption at death. A significant portion of HARDI members collectively generate an estimated 80 percent of HVACR sales through distribution, many are family owned. A typical HARDI member has millions in inventory, accounts receivable, real estate and equipment during the height of selling season. This inventory, equipment, and accounts receivable oftentimes accounts for a significant amount of the family’s assets, which in many scenarios, must be sold to pay off the estate tax. HARDI supports full and permanent repeal of the federal estate tax to help preserve member businesses.

WHAT IS THE ISSUE?

The estate tax destroys Jobs. According to the Tax Foundation, repeal of the estate tax will create nearly 160,000 jobs by allowing more capital to be invested in the economy.¹ The tax targets taxpayers where most of the net worth is tied up in their business. These businesses have little excess cash available to pay the estate tax, forcing the surviving family to close branches, lay off workers, liquidate inventory, and in extreme cases, sell the company outright.

The estate tax is a poor revenue producer. The estate tax collected \$19.9 billion in 2017. The amount of revenue is significantly low, currently accounting for approximately one half of one percent of federal revenue. Through estate planning, life insurance, and trusts, more money is spent to protect businesses from the estate tax than the Treasury collects. This is money that could go towards expanding businesses, hiring new workers, or increasing wages. According the Tax Foundation not collecting the estate tax would increase economic growth and lead to an increase in federal revenue from other taxes, offsetting revenue loss from estate tax repeal. Repealing the death tax would spur job creation in the HVACR industry by redirecting capital towards growth, which helps the economy.

MORE INFORMATION:

President Trump signed the *Tax Cuts and Jobs Act of 2017 (TCJA)*, which doubled the amount of assets businesses can protect from the estate tax. Under the new law, the first \$11.2 million assets are exempt from the estate tax. This was a welcome change for many businesses, but for larger distributors and manufactures the estate tax remains a hurdle to business succession. The negative effects of the estate tax make repeal the only solution for HARDI members. The *Death Tax Repeal Act (H.R. 218)* was introduced on January 3, 2019, sponsored by Reps. Jason Smith (R-MO) and Sanford Bishop (D-GA). Sen.

¹ Cole, Alan, “Modeling the Estate Tax Proposals of 2016,” *Tax Foundation*, June 2016

John Thune (R-SD) is the lead sponsor of the Senate companion, S. 215. These bipartisan bills will permanently repeal the estate and generation-skipping transfer taxes.

Several prominent Democrats want to see the estate tax increased. Senator Elizabeth Warren (D-MA) has introduced a bill increasing the estate tax to 75 percent. Senator Bernie Sanders (I-VT) has introduced a bill to increase the estate tax up to 65 percent and Minority Leader Nancy Pelosi has called for cutting the estate tax exemption to \$3.5 million. These proposals would be detrimental to HARDI businesses already struggling to plan for a 40 percent estate tax. The passage of *The Death Tax Repeal Act* will prevent tax hikes through permanent repeal.

Repealing the estate tax remains a top priority for HARDI. The tax is an unnecessary burden upon HARDI members, both in life and in death. Members are forced to spend hours of time and invest capital in strategies to avoid closing the business in order to pay the tax. HARDI will continue to push for repeal of the estate tax to ensure member businesses are passed on to the next generation.