American International Automobile Dealers Association

POSITION PAPER

THE FEDERAL ESTATE TAX

BACKGROUND

America's international auto dealers are threatened every day with the prospect of losing their family businesses to the federal Estate Tax, more appropriately called the "Death Tax." AIADA remains committed to supporting the full permanent repeal of the federal Estate Tax due to its chilling effect on economic activity and the distress it places on family-owned dealerships. In December 2012 an important Estate Tax relief agreement was negotiated and became part of H.R. 8, the *American Taxpayer Relief Act of 2012*. That legislation permanently set estate tax parameters at a $5 million exemption level, permanently indexed to inflation; a 40 percent top rate; and spousal transfer or portability. The passage of H.R. 8 means that there is certainty in the tax code with respect to the Estate Tax for the first time in 12 years. AIADA views this agreement as an important step forward but the ultimate goal remains a full repeal of the Estate Tax. Currently, the 2015 Estate Tax parameters are a 40% top tax rate and a $5.43 million exemption. President Obama again proposed in his FY2016 budget a roll back of the Estate Tax.

AIADA **strongly supports** current legislative efforts to repeal the Death Tax and urges the Senate to consider their legislation, S. 860, The Death Tax Repeal Act of 2015, introduced by Sen. John Thune (R-SD). AIADA thanks all Members of the House who voted in favor of H.R. 1105, The Death Tax Repeal Act of 2015, introduced by Rep. Kevin Brady (R-TX) and Rep. Sanford Bishop (D-GA). The House of Representatives, with a bipartisan vote, approved H.R. 1105, 240 – 179, on April 16, 2015.

POSITION

While the American International Automobile Dealers Association (AIADA) supports efforts to scale back the death tax we remain committed to the elimination of the federal estate tax because of its chilling effect on economic activity and the distress it places on family owned dealerships. However, we also firmly believe any solution should establish a permanent answer and be indexed for inflation; between 2002 – 2012 the estate tax exemption has changed NINE times, uncertainty is no way to do business.

MORE ABOUT THE ISSUE

- **Family-owned businesses bear the brunt of death taxes.** The majority of automobile dealerships are family-owned businesses, some of which have been in the family for generations. If the full estate tax is in effect, upon the death of the dealer principal, surviving heirs must pay death taxes of up to 55 percent of the estate's total value – in cash – to the federal government. To pay these unreasonably high taxes, heirs often must sell the business, break it up, or liquidate their assets.
- **Death taxes can be a death sentence for auto dealers**. Paying the death tax by selling off dealership assets is no guarantee that the business can continue to operate. An auto dealership is a full service operation with all parts of the business integrated. Contractual arrangements with automakers can require franchised dealers to provide new cars, services, equipment, and parts. For those inheriting a dealership there are few assets of significant value that can be sold without adversely impacting the dealership as a whole.
- **Death Tax compliance fees undermine its initial purpose of generating revenue.** The revenue impact is negligible. The individual income tax brings in $829 billion annually compared to the arduous Death Tax, which brings in only $22 billion a year, or 1.1% of total federal revenue. Administrative and compliance costs of the tax are enormous. For every dollar raised from the tax, roughly another dollar is lost because of avoidance, compliance, administrative, or enforcement costs.
- **Death Tax compliance fees undermine the dealership's duty to the consumer.** Elimination of the Death Tax means continued uninterrupted service for U.S. consumers with their local dealer. Small businesses spend an average of $9,000 on estate planning and $28,000 on life insurance premiums annually to prepare for the tax. Some AIADA members spend over $100,000 a year on estate tax planning. And, according to The Heritage Foundation, these unnecessary expenditures undermine job creation and wage growth. In addition, the Death Tax alone is responsible for the loss of between 170,000 and 250,000 jobs each year.

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