



# U.S. Private Enterprise Council

## Family-Owned Assisted Living Services Business (Arizona)

Rachel acquired a small assisted living company in 2000 after struggling to find adequate senior care for her own mother. Having been moderately successful in her previous career, she was able to finance the purchase of a local company for \$10 million. Since then, Rachel expanded the business, opened several new facilities, employed numerous staff and financially sponsored many area non-profit organizations. Her son James, who worked at the company part-time in high school and during summers, also joined the family business full-time after finishing college. Later, his wife Lisa also joined the company. They are a very visible part of the communities in which they operate.

In 2011, Rachel created a will to pass control of the business down to James and Lisa to carry on the business after her death. Between 2011 and when she passed in 2021, Rachel paid taxes on any income she derived from the business. When Rachel died in 2021, ownership and control of the business passed to James and Lisa under the terms of the will. James and Lisa have no plans to sell the business which is now valued at \$100 million in view of all the facilities and equipment. In fact, their daughters Marie and Claire recently started working their part-time the same way James did when he was younger – making them the third generation working in the family business. However, as a result of new tax proposals from President Biden and some in Congress, James and Lisa could face an additional and unexpected \$23,175,600 federal tax bill (i.e. the “Zombie” tax) just to carry on the family business if these become law:

Local Assisted Living Company - Arizona		Current Capital Gains Tax Treatment	
<b>Zombie Tax Treatment</b>			
<i>Current Value</i>	\$100,000,000	<i>Current Value</i>	\$100,000,000
<i>Original Investment</i>	<u>\$10,000,000</u>	<i>Original Investment</i>	<u>\$10,000,000</u>
<i>Accumulated Value</i>	\$90,000,000	<i>Accumulated Value</i>	\$90,000,000
<i>Capital Gains Tax Exemption</i>	<u>\$1,000,000</u>	<i>Capital Gains Tax Exemption</i>	N/A
<i>Taxable Amount</i>	<u>\$89,000,000</u>	<i>Taxable Amount</i>	<u>\$0</u>
<i>Federal Capital Gains Taxes (*43.4%)</i>	\$38,626,000	<i>Capital Gains Taxes Owed (20%)</i>	\$0
<b>Estate Tax Treatment</b>		<b>Estate Tax Treatment</b>	
<i>Taxable Estate</i>	\$61,374,000	<i>Taxable Estate</i>	\$100,000,000
<i>Estate Tax Exemption</i>	<u>\$11,700,000</u>	<i>Estate Tax Exemption</i>	<u>\$11,700,000</u>
<i>Taxable Amount</i>	<u>\$49,674,000</u>	<i>Taxable Amount</i>	<u>\$88,300,000</u>
<i>Estate Tax (40%)</i>	\$19,869,600	<i>Estate Tax (40%)</i>	\$35,320,000
<b>TOTAL NEW TAX LIABILITY</b>	<b>\$58,495,600</b>	<b>CURRENT TAX LIABILITY</b>	<b>\$35,320,000</b>
* Proposed 39.6% capital gains + 3.8% NIIT			
Additional liability of Arizona's 4.5% state cap gains tax TBD		<b>New "ZOMBIE TAX" Liability to IRS</b>	<b>\$23,175,600</b>