U.S. Private Enterprise Council

Family Construction Company (Arizona)

After a long, grueling several decades working in construction, in 2001, Jimmy decided to invest the money that he and his wife Pat had saved up into buying a small construction company from a friend. Because the business only employed a handful of workers and had very few physical assets on its balance sheet, he was able to purchase it at a bargain of only \$150,000. The deal allowed Jimmy to invest the rest of his savings into buying extra equipment and a new office space. Soon after the purchase, Pat, who had retired several years earlier from her job as a clerical worker at a dentist office, took on the responsibility of maintaining the books. The years that followed were some of the best ever for Jimmy and Pat.

Unfortunately, in 2009, Jimmy sensed that his health was on the decline, so he updated his will to pass his ownership in the business his son, Michael, to carry on the business after his death. Between 2009 and when he subsequently passed in 2011, Jimmy paid taxes on any income he derived from the business. Following his death, ownership was passed to Michael under the terms of the will. Michael, who takes excellent care of his mother, has no plans to sell the business which is now valued at \$4.5 million due to the equipment and inventory that Jimmy had accumulated. However, as a result of new tax proposals from President Biden and some in Congress, Michael could face an additional unexpected \$1,453,900 federal tax bill (i.e. the "Zombie" tax) just to carry on the family business if these become law:

Family Construction Compa	any - Arizona			
Zombie Tax Treatment		Current Capital Gains Tax Treatment		
Current Value	\$4,500,000	Currently, gains on small businesses, family- or privately-owned		
Original Investment	<u>\$150,000</u>	enterprises, farms or ranches are <u>intentionally</u> not subject to federal capital gains taxes when they are passed on to family members or heirs to hold or continue their operations. If sold, however, they are subject to federal capital gains taxes.		
Accumulated Value	\$4,350,000			
Capital Gains Tax Exemption	<u>\$1,000,000</u>			
Taxable Amount	<u>\$3,350,000</u>			
Federal Capital Gains Taxes (*43.4%)	\$1,453,900			
Estate Tax Treatment		Estate Tax Treatment		
Taxable Estate	\$3,046,100	Taxable Estate	\$3,750,000	
Estate Tax Exemption	\$11,700,000	Estate Tax Exemption	\$11,700,000	
Taxable Amount	<u>\$0</u>	Taxable Amount	<u>\$0</u>	
Estate Tax (40%)	\$0	Estate Tax (40%)	\$0	
TOTAL NEW TAX LIABILITY	\$1,453,900	CURRENT TAX LIABILITY	\$0	
* Proposed 39.6% capital gains + 3.8% NIIT				
Additional liability of Arizona's 4.5% state cap gains tax TBD		New "ZOMBIE TAX" Liability to IRS	\$1,453,900	

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:

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