

U.S. Private Enterprise Council

Family Owned Trucking Company (Virginia)

Ricky grew up in a trucking family. His father, grandfather, and great grandfather all drove trucks to support their families. Although he eventually wanted to join in on the family tradition, after high school, Ricky went off to community college and received a certification in bookkeeping. Upon graduation, Ricky suggested to his dad that they try to secure financing from the bank to buy their own trucks so that the family could keep more of the money that they made from transporting goods. His dad agreed, so in 1974, Ricky secured a \$300,000 loan to buy two brand new semi-trailer trucks for the both of them. That was the very beginning of Ricky's very own trucking company, which he expanded by purchasing several more trucks and opening new locations across the region.

In 2018, Ricky created a will to pass control of the business down to his son, Tom, to carry it on after his death. Between 2018 and when he subsequently passed in 2021, Ricky paid taxes on any income he derived from the business. Following his death, ownership and control of the business was passed to Tom under the terms of the will. Tom has no plans to sell the business which is now valued at \$12.5 million thanks to the fleet of trucks and distribution centers it maintains. Tom has two sons of his own that he hopes will serve as the third generation to own and operate the business. However, as a result of new tax proposals from President Biden and some in Congress, Tom could face an additional unexpected \$2,916,480 federal tax bill (i.e. the "Zombie" tax) just to carry on the family business if these become law:

Family Owned Trucking Company - Virginia		Current Capital Gains Tax Treatment	
Zombie Tax Treatment			
Current Value	\$12,500,000	<i>Currently, gains on small businesses, family- or privately-owned 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.</i>	
Original Investment	\$300,000		
Accumulated Value	\$12,200,000		
Capital Gains Tax Exemption	\$1,000,000		
Taxable Amount	\$11,200,000		
Federal Capital Gains Taxes (*43.4%)	\$4,860,800		
Estate Tax Treatment		Estate Tax Treatment	
Taxable Estate	\$7,639,200	Taxable Estate	\$12,500,000
Estate Tax Exemption	\$11,700,000	Estate Tax Exemption	\$11,700,000
Taxable Amount	-\$4,060,800	Taxable Amount	\$800,000
Estate Tax (40%)	-\$1,624,320	Estate Tax (40%)	\$320,000
TOTAL NEW TAX LIABILITY	\$3,236,480	CURRENT TAX LIABILITY	\$320,000
* Proposed 39.6% capital gains + 3.8% NIIT			
Additional liability of Virginia's 5.75% state cap gains tax TBD			
		New "ZOMBIE TAX" Liability to IRS	\$2,916,480

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Mid-Sized Manufacturing Company (Virginia)

Tim and Karen, a married couple who both received their college degrees in engineering, took a risk by purchasing a struggling manufacturing plant in 1987 for \$125,000. Before their big leap of faith, the pair worked together for years in the manufacturing industry to help increase the productivity of the plant's assembly lines. They worked hard to streamline their new facility's operations, cut costs, and build out their distribution networks to get their products in the hands of more people. They turned a manufacturing plant that was bleeding cash fast into a profit-making machine. At the same time, they raised their two children, Mary and James, to be strong young kids.

In 2015, Tim and Karen created a will to pass control of the plant down Mary and James to carry it on after their death. Between 2015 and when they subsequently passed in 2019 and 2021 respectively, the pair paid taxes on any income they derived from the business. Upon their death, ownership and control of the business was be passed to Mary and James under the terms of the will. Neither Mary or James, who both work in the plant's upper management, have any intention to sell the business which is now valued at \$55 million thanks to the equipment and inventory it maintains. Both Mary and James have children of their own that might possibly serve as the third generation to own and operate the stores. However, as a result of new tax proposals from President Biden and some in Congress, Mary and James could face an additional unexpected \$14,029,050 federal tax bill (i.e. the "Zombie" tax) just to carry on the family business if these become law:

Mid-Sized Manufacturing Company - Virginia		Current Capital Gains Tax Treatment	
Zombie Tax Treatment			
Current Value	\$55,000,000	<i>Currently, gains on small businesses, family- or privately-owned 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.</i>	
Original Investment	\$125,000		
Accumulated Value	\$54,875,000		
Capital Gains Tax Exemption	\$1,000,000		
Taxable Amount	\$53,875,000		
Federal Capital Gains Taxes (*43.4%)	\$23,381,750		
Estate Tax Treatment		Estate Tax Treatment	
Taxable Estate	\$31,618,250	Taxable Estate	\$55,000,000
Estate Tax Exemption	\$11,700,000	Estate Tax Exemption	\$11,700,000
Taxable Amount	\$19,918,250	Taxable Amount	\$43,300,000
Estate Tax (40%)	\$7,967,300	Estate Tax (40%)	\$17,320,000
TOTAL NEW TAX LIABILITY	\$31,349,050	CURRENT TAX LIABILITY	\$17,320,000
* Proposed 39.6% capital gains + 3.8% NIIT			
Additional liability of Virginia's 5.75% state cap gains tax TBD		New "ZOMBIE TAX" Liability to IRS	\$14,029,050