



National Automobile Dealers Association



NADA SUPPORTS PERMANENT ESTATE TAX REFORM

Issue

In December 2010, Congress passed a temporary estate tax regime of a \$5 million per spouse exemption and a 35 percent rate. Unless Congress acts, the estate tax will increase to a \$1 million exemption and a 55 percent rate on January 1, 2013. NADA supports a permanent solution to the estate tax that will allow small business dealers to plan for the succession of their dealerships and does not inhibit their ability to pass the business on to the next generation of their families.

Background

In 2001, a gradual phase out and eventual repeal of the estate tax was signed into law. Under the legislation, the estate tax exemption was increased incrementally from \$675,000 to \$3.5 million by 2009, the top rate was gradually reduced from 55% to 45%, and the tax was repealed for 2010. However, the 2001 law included a provision to “sunset” the law after 2010 without further Congressional action, which would have returned the tax to confiscatory levels of a \$1 million exemption and a 55 percent rate. In December 2010, tax legislation passed by Congress included a two-year estate tax cut, at NADA-supported levels of \$5 million per spouse and a 35% rate. The legislation also included other provisions critical to mitigating the effects of the estate tax, such as stepped-up basis.

These estate tax rates are temporary, and expire on January 1, 2013. Permanent reform is necessary to provide family-owned dealerships with the ability to plan for the succession of the business.

Key Points

- Most dealerships are family-owned businesses with significant estate tax exposure. Half of NADA member dealerships have spent decades building their companies and are second- or third-generation businesses.
- The estate tax particularly hurts automobile dealerships since expensive assets, such as land and single-use showroom facilities, cannot be liquidated to pay for the tax.
- Estate tax planning and life insurance cannot sufficiently mitigate the effects of the estate tax. Family businesses should not have to sell their businesses or have to incur substantial debt to pay the tax.
- Until a permanent solution is reached on the estate tax, the tax will continue to threaten the continuity of family-owned automobile dealerships and employment in their communities.

Status

Given the temporary nature of many tax provisions, including the estate tax, the 112th Congress is expected to begin discussing comprehensive tax reform legislation. NADA will continue its leadership role in the Family Business Estate Tax Coalition to advocate for an estate tax that provides small business dealerships with permanent relief.

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