Congress Should Repeal the Estate Tax (S. 205/H.R. 631)

Estate Tax Puts Dealership Jobs at Risk

Issue

The estate tax can force the sale of illiquid dealership assets and destroy the viability of family dealerships. In 2013, Congress passed a permanent estate tax bill, setting a 40 percent tax rate and a $5 million exemption. The House Republican “Tax Blueprint,” the basis for tax reform legislation expected later this year, includes repeal of the estate tax. Legislation has also been introduced in the Senate and House to repeal the estate tax. NADA supports repeal of the estate tax to help keep family-owned dealerships in local communities.

Background

In 2010, Congress passed a two-year estate tax bill at NADA-supported levels of a 35 percent rate and a $5 million exemption. The law also included provisions critical to mitigating the effects of the estate tax, such as stepped-up basis (future capital gains taxes are calculated on the increase in value from the time the property was inherited), full transfer of an unused exemption, indexing the exemption to inflation, and reunifying the gift and estate taxes at a $5 million exemption level. The estate tax exemption was set to revert to a 55 percent tax rate and $1 million exemption in 2013 if Congress did not act.

In 2013, Congress made the estate tax permanent, preventing the return to the higher estate tax rate and the lower exemption. This law set the estate tax at a 40 percent rate, a $5 million exemption, and included the planning provisions included in the 2010 Act. With indexing, the estate tax exemption increased to $5.49 million in 2017. The House Republican “Tax Blueprint” repeals the estate tax. Legislation has also been introduced (S. 205/H.R. 631) by Sen. John Thune (R-S.D.) and Rep. Kristi Noem (R-S.D.) to repeal the estate tax.

Key Points

- **The estate tax particularly hurts dealerships** since expensive assets, such as land and showroom facilities cannot be easily liquidated to pay the tax without destroying the viability of the dealership.
- **To keep dealerships in the family and mitigate this substantial tax, dealers must pay for expensive succession planning that diverts working capital** away from the dealership every year that could be invested into the dealership.
- **Many dealerships are second- or third-generation businesses with significant estate tax exposure**. The estate tax liability reduces the likelihood for these small businesses to be passed on to the next generation and to stay in local communities.

Status

Tax reform legislation from the Trump administration and congressional leaders is expected to be released in September. Bills that would repeal the estate tax (S. 205/H.R. 631) have been referred to the Senate Finance Committee and the House Ways and Means Committee, respectively, where they await further consideration. ***NADA urges Congress to support family-owned dealerships and repeal the estate tax this year.***

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