

# CENTER FOR THE STUDY OF TAXATION

## FEDERAL ESTATE TAX IMPACT SURVEY

RESULTS OF RESEARCH

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# RESULTS OF THE FEDERAL ESTATE TAX SURVEY

## INTRODUCTION

This report presents the findings of a national mail survey of more than 2500 family businesses in a cross-section of industries conducted in March and April of 1995. The study was sponsored by the Center for the Study of Taxation. The primary objective of the study has been to determine the awareness, attitudes and behaviors of family businesses with respect to federal estate taxes.

## KEY FINDINGS

- The bulk of companies represented in this study are closely held family businesses. Only one in five have any owners who are not family members.
- There is a strong desire to keep the business in the family.
  - ✓ seven in ten would not consider selling stock to non-family members if it were necessary to raise capital
  - ✓ more than three out of four report that the next generation of family members is interested in owning the business.
- The vast majority are aware of the likelihood for federal estate taxes to be levied against their business; and over half have calculated the approximate amount of tax which would be assessed in their case. The mean amount is in excess of two million dollars; and the median is \$900,000.

Given the typical amount of tax involved, it is not surprising that most respondents are quite concerned about the matter. Even in cases where steps have already been taken to minimize the impact of federal estate taxes, many feel that the federal estate tax would have a significant or completely debilitating effect on their business' long-term growth and survival.

Four out of five respondents have already taken steps to minimize the impact, the most common step being the purchase of life insurance. Others methods include buy/sell agreements, lifetime gifts of stocks and restructuring the business. These are steps which would never have been taken if the federal estate tax were not of such concern.

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Their efforts to mitigate the effects of the tax notwithstanding, most respondents report that, if the heirs were to inherit the business today, they would not have the liquid assets to pay the tax. There would have to be a sale of all or part of the business, or at least a loan taken out, with the business serving as collateral.

- If forced to sell all or part of the business for the cash to pay federal estate taxes, these businesses would be forced to cut jobs. The average (mean) number of lost jobs, according to the affected businesses, is 43. The median number of lost jobs is 12.

Although the businesses are owned by family members, only three family members on average work at the company. The total work force (full or part time) averages 100 employees. The median is about 30 total employees.