

November 3, 2021

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
H-232 U.S. Capitol
Washington, DC 20515

The Honorable Charles Schumer
Senate Majority Leader
United States Senate
Washington, DC 20510

The Honorable Kevin McCarthy
House Minority Leader
U.S. House of Representatives
H-204 U.S. Capitol
Washington, DC 20515

The Honorable Mitch McConnell
Senate Minority Leader
United States Senate
Washington, DC 20510

Dear Speaker Pelosi, Leader McCarthy, Leader Schumer, and Leader McConnell:

The Administration's Build Back Better Framework released last week would impose the OECD's highest marginal rates on family-owned businesses and should be rejected by Congress. These businesses just survived a global pandemic and for Congress to impose massive tax hikes on them, with rates exceeding 50 percent in some cases, would be incredibly damaging. The undersigned business organizations, representing millions of Main Street businesses, call on Congress to defeat these ill-advised tax hikes.

Individually- and family-owned businesses comprise nearly all businesses in the United States and employ the vast majority of private-sector workers. Yet the Framework would significantly increase rates on those businesses at income levels well below the advertised thresholds.

The bill would expand the 3.8 percent Net Investment Income Tax (NIIT) to all pass-through business income; impose a new surtax of up to 8 percent on all forms of income, including family businesses; and make permanent and expand the loss-limitation rules under Section 461. The White House estimates these three changes would amount to a \$650 billion tax hike over ten years.

Moreover, the tax rate hikes in the Framework would apply to businesses making significantly less than the advertised levels. The White House fact sheet suggests the new surtax would impose a 5 percent tax on a taxpayer's modified adjusted gross income over \$10 million, and 8 percent in excess of \$25 million. For pass-through businesses held in trust, however, these thresholds are fifty times lower -- \$200,000 and \$500,000, respectively. You don't have to be a very big business to earn \$200,000.

The same is true for the expansion of the 3.8 percent NIIT. The expanded NIIT's threshold for joint filers with S corporation or partnership income is \$500,000, but it is just \$13,000 for a family business with ownership shares held in taxable trusts.

Trusts are a common feature of succession planning for family businesses. While they may have tax implications, in most cases families use trusts for non-tax purposes, as they ease the transition of the business from one generation to the next by clarifying ownership and management roles and avoiding probate court. As such, trusts are a common feature of estate planning for family businesses both large and small.

Due to the prevalence of trusts, the higher tax rates included in the Framework would harm tens of thousands of modestly sized family businesses located across the country. The rate increases contemplated by the Framework are significant. The Tax Foundation estimates they will push the marginal rates of family businesses making more than \$500,000 to over 50 percent. When coupled with state and local levies, these rates hikes will result in the family businesses facing the highest marginal rates in the OECD, exceeding 57 percent.

Congress should avoid policies that harm Main Street employers at any time, but particularly at this difficult moment in our nation's history. Having survived the pandemic, family businesses are now confronted with rising inflation, labor shortages, and supply-chain disruptions. The tax increases included in the Framework would make a bad situation worse and encourage continued consolidation of economic power and decision making. Large, multi-national corporations have thrived during the pandemic. The Framework would tilt the rules further in their favor and away from locally- and family-owned businesses.

If Congress wishes to support the role family businesses play in providing jobs and a strong economic base, it should reject these tax hikes and focus on policies that help encourage investment and job creation.

Sincerely,

Agricultural Retailers Association
AICC, The Independent Packaging Association
Air Conditioning Contractors of America
American Beverage Licensees
American Catalog Mailers Association, Inc.
American Farm Bureau Federation
American Financial Services Association
American Foundry Society
American Hotel & Lodging Association
American Lighting Association
American Mold Builders Association
American Pipeline Contractors Association
American Supply Association
Associated Builders and Contractors
Associated Equipment Distributors
Associated General Contractors of America
Auto Care Association
Convenience Distribution Association

Customized Logistics and Delivery Association (CLDA)
Distribution Contractors Association
Energy Marketers Association
Equipment Services Association
FMI - the Food Industry Association
Foodservice Equipment Distributors Association
Forest Resources Association
FPDA Motion Control Network
Funeral Directors Association of Greater Chicago
Glass Packaging Institute (GPI)
Global Cold Chain Alliance
Hardwood Federation
Independent Bakers Association
Independent Community Bankers of America
Independent Electrical Contractors
Independent Insurance Agents and Brokers of America
Independent Lubricant Manufacturers Association
Industrial Fasteners Institute
Institute of Scrap Recycling Industries
International Association of Plastics Distribution (IAPD)
International Door Association (IDA)
International Foodservice Distributors Association
International Franchise Association
International Sign Association
International Warehouse Logistics Association
ISD, International Sealing Distribution Association
Main Street Employers Coalition
Manufactured Housing Institute
Manufacturer & Business Association
Maryland State Pest Control Association
Metals Service Center Institute
Mortgage Bankers Association
NAHAD, The Association for Hose and Accessories Distribution
National Apartment Association
National Association of Convenience Stores
National Association of Electrical Distributors
National Association of Home Builders
National Association of Insurance and Financial Advisors
National Association of Professional Insurance Agents
National Association of Wholesaler-Distributors
National Association of Women Business Owners (NAWBO)
National Beer Wholesalers Association
National Cattlemen's Beef Association
National Community Pharmacists Association
National Cotton Council
National Electrical Contractors Association

NATIONAL ELECTRICAL MANUFACTURERS REPRESENTATIVES ASSOCIATION
(NEMRA)

National Federation of Independent Business (NFIB)
National Funeral Directors Association
National Grocers Association
National Insulation Association
National Marine Distributors Association
National Multifamily Housing Council
National Onion Association
National Pork Producers Council
National Roofing Contractors Association
National RV Dealers Assoc (RVDA)
National Stone, Sand and Gravel Association
National Tooling and Machining Association
National Utility Contractors Association
National Waste & Recycling Association
NATSO, Representing America's Travel Plazas and Truck Stops
North American Association of Food Equipment Manufacturers (NAFEM)
North American Die Casting Association
Outdoor Power Equipment and Engine Service Association
Pet Industry Distributors Association
Plastics Industry Association
Plumbing-Heating-Cooling Contractors--National Association
Policy and Taxation Group
Power and Communication Contractors Association
Precision Machined Products Association
Precision Metalforming Association
PRINTING United Alliance
Retail Bakers of America
Retail Packaging Association
S Corporation Association
SHDA - Security Hardware Distributor Association
SIGMA: America's Leading Fuel Marketers
Small Business & Entrepreneurship Council
Southeastern Lumber Manufacturers Association
Specialty Equipment Market Association
Spray Polyurethane Foam Alliance
The Council of Insurance Agents and Brokers
Tile Roofing Industry Alliance
Truck Renting and Leasing Association
USA Rice
Western Equipment Dealers Association
WF&FSA, The Wholesale Florist and Florist Supplier Association