Family business owners weigh in on taxes, regulation

By Patricia M. Soldano

Family Enterprise USA's 2020 survey sheds light on factors that family business owners see as obstacles to growth.

Legislators must know what is important to family business owners — what helps or hurts them when it comes to operating their businesses and creating more jobs. Laws affecting family businesses may be passed at any time. If family business owners do not express their concerns, the legislation that gets passed may not benefit their interests.

For example, consider the Tax Cuts and Jobs Act, passed in 2017. While this legislation reduced the federal corporate income tax rate to 21%, it did little to help the many family-owned companies organized as "pass-through" businesses such as Sub S corporations, limited liability companies (LLCs), limited partnerships or sole proprietorships. Owners of these businesses pay individual rather than corporate tax rates. Another example is the estate tax, which is paid by families but not by public companies.

These examples highlight the importance of giving a voice to family businesses and their contribution to the expansion of the American economy. To determine what issues and challenges concern family businesses, Family Enterprise USA (FEUSA) conducts an annual survey of family businesses each year and delivers that information to legislators, educators and others who need to be informed. These and other FEUSA efforts are aimed at preventing the passage of laws that could make it costlier and more difficult to operate a family business.

In 2003, it was estimated that family businesses in America employ 62% of the workforce (82 million jobs) and account for 64% of GDP or $5.9 trillion ("Family Business Contribution to the US Economy," Astrachan and Shanker, 2003). While they are very important to the economic growth of our country, they are often not given proper consideration when new laws, regulations and restrictions are imposed by legislators and other government bodies. To that end, the purpose of FEUSA is to be "the voice of family businesses in Washington, D.C."

Family Enterprise USA is dedicated to educating legislators, the media, educators, and the public about the implications of public policy on closely held and family-owned businesses. FEUSA conducts non-partisan research that highlights the contributions of family enterprises to the economy and the challenges these businesses face, which is then used to educate. This research provides the foundation for FEUSA to educate the public and government leaders on the important role of family businesses in the economy and local communities.

In 2020 FEUSA retained Family Office Exchange (FOX) to help coordinate participant outreach and administer the 2020 FEUSA Family Business Survey. This year's survey was conducted between Jan. 31 and April 24, 2020. A total of 179 responses were received. FEUSA and Family Office Exchange are grateful to the university-based family business centers and FOX members who helped spread the word about the survey and, most of all, to the family business leaders who took time to share their perspectives.

A note on the survey timeframe
The 2020 FEUSA Survey was conducted during the global COVID-19 pandemic. As of mid-March, much of the United States was under some form of stay-at-home order. Survey responses reflect concerns as a result of this unexpected global event.

About the participants
Nearly 9 in 10 (86%) of survey participants are either the sole owner or a majority owner of the business, and 77% are CEO, president, senior executive or chairman. A large majority (84%) of businesses represented in the survey have been in operation for 30 years or longer. Most respondents (88%) see the business as a "legacy" and manage the company for the very long term. The generation that has ownership in 41% of the businesses is G2; the corresponding figure is 45% for G3 and 29% for G4.

While 89% of the respondents believe that passing ownership on to the next generation is important to the sustainability of the business, 53% say they have not done so, because "G1 is not ready to let go" or "G3 is too young at this time." Nearly two-thirds (65%) have passed on partial ownership to the next generation. A little more than half (53%) have passed on non-controlling ownership. Only 22% have passed on controlling ownership. Gifting was the strategy most often used (by 84%) to pass the business to the next generation.

Family business see their business as a legacy for the family, their employees and the community. More than half (56%) of the survey participants believe they pay above-average wages and benefits compared with their non-family business competition. To support their community, family businesses focus their charitable giving locally. The participants indicated that 77% of their giving is local and 23% is national. This is important to know, because if the business fails or if it must be sold to pay estate taxes, jobs will be lost, and the local charitable organizations and the community will suffer as well.

Most of the companies responding to the survey (82%) had 2019 gross revenues of $6 million or more, and 65% had revenue of $21 million or more. Nearly one-fifth (18%) had revenues of $5 million or less, suggesting that the respondents tended to own medium to large businesses. About three-quarters (74%) of respondents have 50 or more employees, and 58% have 100 or more.

The industry with the largest percent of participants was manufacturing with 14%, followed by real estate (13%), construction & machinery (12%), food & beverage (10%), agriculture (6%), retail & consumer durables (6%), and healthcare (4%).

Business challenges and concerns

While the large majority (79%) saw revenues grow in 2019, substantially fewer reported growth of 10% or more compared with 2018 (39% reported 10%+ growth now vs. 47% reporting similar results for 2018). Furthermore, fewer business owners this year said they are "very confident" in their ability to increase revenue each year. About one-quarter (26%) reported as such now, versus one-third (33%) last year. Nearly 6 in 10 (58%) said a recession or market downturn is the top risk to their business success.

When asked about their greatest obstacle to job creation, business owners cited economic uncertainty, government regulations and finding qualified workers.

Some respondents mentioned the coronavirus as a risk to success and growth. The top two economic priorities mentioned were reducing the estate tax and income tax, with reducing regulations a close third and federal trade policies at the bottom.

Income tax policy is a key concern for the survey respondents. About 7 in 10 (71%) of participants rank this as a top tax policy concern, 46% rate estate tax as top tax concern. About two-thirds (67%) support reducing the estate tax rate, and 64% support repealing the estate tax altogether, while 57% would like to make the current exemption level permanent. Comments on the effect of the estate tax on respondents' businesses included "Large burden on the next generation" and "Will require the sale or dismantling of the business and layoff of all employees."

COVID-19 causes uncertainty

survey of U.S. family business owners told us that while family businesses continue to grow and thrive, it's not clear how the COVID-19 pandemic will affect these companies. Still, many respondents are confident about the ability to grow their businesses.

To help them achieve their growth objectives, they want legislators to reduce the burden of individual taxes, which affects not only the family personally but also their business. Survey respondents would also like to see a reduction in government regulations.

Family businesses remain committed to their employees, paying them higher wages than their non-family competitors do, and committed to the community, with most of their giving being done locally.

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