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Statement for the Record to the:
U.S. Senate Finance Committee
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"Alternatives to the Current Federal Estate Tax System"

Chairman Baucus, Ranking Member Grassley, and members of the committee: I am pleased to present testimony about "Alternatives to the Current Federal Estate Tax System." As the Vice-President of a family-owned business in the state of Montana, I have a particularly strong interest in permanent repeal of the death tax.

Simkins-Hallin was originally started as a lumber yard by my father and grandfather in 1946. In the last 61 years, we have become very successful, employing over 170 individuals and providing considerable economic growth for the local community. Though lumber remains the primary operation of the business, we also are very invested in local development. In fact, our current project is development of real estate around the Big Sky ski resort. A recent economic development study found that big sky is responsible for $1 billion in Montana's economy. Our development will help Big Sky become a premiere vacation spot and will result in increased economic growth and tax revenues for the state of Montana.

With that in mind, it is hard for me to understand why Congress refuses to repeal the death tax, a tax that hampers my business's growth and is going to make it very difficult to pass it on to the next generation of the family.

You see, the family business is very "cash poor." Our capital is in the form of hard assets such as property, machinery, lumber and payroll. Simkins-Hallin relies upon constant reinvestment of profits. The management team takes very small salaries in order to plow the majority of our resources into growing the business. This is common of many businesses and stands in stark contrast to the fallacy that a $10 million business has $10 million in liquid assets.

This lack of cash means that when the principal owners of the company die, the heirs will be forced to sell existing assets and likely take on expensive loans in order to pay the 55% death tax. It is very possible that we may have to sell the business entirely, rather than passing it on to the next generation of the family. For Simkins-Hallin, the death tax is a large and troubling unknown.

In fact, last December my family met to try to find a way to pay for the future death tax levy. Our options are less than optimal. Unlike billionaires such as Warren Buffett, most small business owners do not have the time or money to make use of expensive tax-planning measures.

We currently are paying for life-insurance, which is already a drain on the business and will only become increasingly so as the owners become older. Other options include deferring the tax and taking out large loans. However, we cannot sustain a high amount of debt and still stay in business over the long term– particularly loans which will not provide future profits. Honestly, it doesn't make economic sense that we should have to waste our precious resources in order to prepare for the death tax. My family left the December meeting frustrated with lack of a solution to dealing with the death tax.

I am very bothered that Congress thinks replacing the death tax with an inheritance tax counts as reform. Of course, I would rather that Congress simply repeal the tax. Short of that, the rate should be substantially reduced. The inheritance tax "alternative" discussed at the hearing will not effectively change the burden of the death tax for my

family or other family-business owners.

As I understand it, the inheritance tax rate would be equal to, if not larger than, the current death tax when considered in full. Apparently the tax will allow for an exemption, likely in the realm of $2 million, for each heir. Unfortunately, our business is worth considerably more than we have suitable heirs to bequest it. In order to fully take advantage of the exemption, we would be forced to bequest shares of the business to relatives who have little interest supporting the long-term growth of the business. As a result, the exemption would be of little use to us, leaving the family in the same place as the current death tax.

As for the proposed "deferred payment plan" for family-businesses who lack cash, it is important to keep in mind that any debt – whether due immediately or far in the future – comes with immediate consideration. Even assuming we are never to sell the business, which of course is our hope, a perpetually deferred debt would undoubtedly be secured with an IRS lien. This would likely hamper the business's ability to obtain further loans, which it depends on for development projects such as Big Sky.

Moreover, I understand that interest would accrue on the amount of the tax as long as it is deferred. Every year my family will face the reality of an even higher tax should they choose to sell for lack of heirs to run it, or need the cash to deal with an emergency or start a new business. With all due respect, whoever proposed this idea does not understand that putting off a future obligation does not make it go away.

Congress should refocus efforts on actually dealing with the tax in a way that takes into consideration the burdens it places on businesses like Simkins-Hallin. Though the Senate certainly is within its rights to hear proposals for such concepts as the inheritance tax, it has little import for family-business owners throughout the nation. We need a real solution and we need it soon. I respectfully ask that the Senate Finance Committee quickly draft legislation to repeal or substantially reduce the death tax.