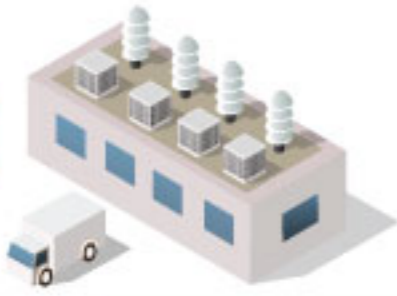


Lifecycle of illustrative family-owned ingredients manufacturer

1985



| Value | Employees |
|-------|-----------|
| \$5m | 40 |

2025



| Value | Employees |
|-------|-----------|
| \$80m | 130 |

Purchase and growth of family-owned ingredients manufacturer

Purchase: A family-owned ingredients manufacturer for health and hygiene products was purchased for \$5 million in 1985.

Growth: The business has since grown organically and through a \$30 million investment in a new manufacturing site. By 2025, annual income is \$3.5 million per year, and the value has increased to \$80 million. After the owners died in 2025, the deceased owners' heir inherited the ingredients business.

Inheritance of family business by heir

Step-up of basis: Under current law, the heir would owe no capital gains tax upon the owners' death in 2025 and the basis would be stepped up to \$80 million.

Tax at death: Under the tax at death proposal there would be an immediate capital gains tax of \$9 million (20% of \$45 million). This accounts for the original basis of \$5 million and expansion of \$30 million. This tax payment - 257% of annual income - can create significant cash flow issues as much of the family-owned business' value is tied up in illiquid manufacturing equipment and structures.

Tax treatment of family-owned ingredients manufacturer

| Year | | Current law Step-up of basis | Proposed law Tax at death |
|----------------|---|------------------------------|--------------------------------|
| 1985 | Initial basis | \$5 million | \$5 million |
| 1985-2025 | Expansion | \$30 million | \$30 million |
| 2025 | Adjusted basis at death, before step-up | \$35 million | \$35 million |
| | Annual income | \$3.5 million | \$3.5 million |
| | Value at death | \$80 million | \$80 million |
| | Basis at death | \$80 million | \$35 million |
| | Capital Gain at death (A) | \$0 million | \$45 million |
| | Tax rate (B) | 20% | 20% |
| 2025 | Tax at death (A*B) | ----- | \$9 million ▲ |
| | Tax as a share of annual income | ----- | 257% |
| | Basis taken by heir after tax at death | \$80 million | \$80 million |
| 90 jobs | | | Results in loss of jobs |