



COMMITTEE REPORT: FAMILY BUSINESSES

By **Patricia N. Soldano**

High Hopes for New Congressional Family Business Caucus

The focus will be on educating legislators on the contributions and needs of these entities

Things are about to change for America's largest private employer, the family business. The American family business is the most powerful sector of our economy, employing roughly 60% of our workers and contributing \$7.7 trillion annually to our gross domestic product, and yet until now, this powerhouse has had no voice in Congress.¹ It's been a long road to recognition, but in early December 2022, the journey paid off with the formation of the first Congressional Family Business Caucus (the Caucus), which will focus on the concerns of family businesses.

Need for Change

Over the years, congressional leaders and staffers in the House of Representatives and the U.S. Senate listened politely to calls for action from organizations like Family Enterprise USA, which represents family businesses. They nodded. They understood. They agreed that family businesses faced unfair, existential issues. There were some hard-fought estate tax and other policy wins, but not much in the way of serious legislation affecting family businesses.

Many of our legislators have, in fact, made their fortunes from their own multi-generational family businesses, whether in real estate, agriculture or manufacturing. Yet, this traditional, multi-generational part of America was taken for granted. In fact, most policies enacted are and have been designed to help large public corporations, often at the expense of the quiet family business.



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In a corporation or public company, when the chief executive officer (CEO) dies, the business carries on as usual. When a family business owner dies, the heirs get a very loud knock on the door from the Internal Revenue Service. And the bill is high. Often the business must be closed or sold off.

The Leaders

This new bi-partisan Caucus is now being led by Representatives Jodey Arrington (R-Texas), Claudia Tenney (R-N.Y.), Henry Cuellar (D-Texas) and Brad Schneider (D-Ill.). They've pledged to meet regularly and to connect members of Congress with America's family businesses in their districts and to meet on Capitol Hill to grapple with the most urgent issues.

When Rep. Arrington joined the Caucus, he was surprised at how much family businesses contributed, saying on its formation in December in the Caucus' announcement release: "America's family-owned businesses are responsible for more than half of the country's employment and accounting for 78 percent of new job creation."²

He, like many others, will soon learn family business owners and entrepreneurs face the same challenges of labor shortages, workforce training, inflation and burdensome tax policies that big corporation do, but don't get near the breaks or government support, or media coverage.

Some legislators are already familiar with the role of family businesses. For example, Rep. Tenney is a longtime small business owner, with a family printing and manufacturing company in upstate New York. She comes to the table with a full understanding of the power of family business.

Primary Purpose

The Caucus leaders have mapped out as their



primary purpose the education of members of Congress on the contributions of family businesses. After all, few know the massive size and contributions family businesses make to the U.S. economy.

Though education on understanding the importance of family business may seem basic, it's a broad area touching many industries and issues affecting multi-generational enterprises.

A Brief History

Behind the scenes, many individuals helped shape the Caucus' mission. The idea started many years ago with Russ Sullivan, a well-known tax policy expert on Capitol Hill and partner in the law firm Brownstein Hyatt Farber Schreck in Washington, D.C. Sullivan was an early champion of leveling the playing field for generationally owned family businesses built on hard work.

Caren Street was another one pushing for family business fairness. Street has extensive bipartisan leadership experience, having served as chief of staff to Rep. Karen Bass (D-Cal.) and now mayor of Los Angeles. Street is with firm Squire Patton Boggs in Washington, D.C. and is one of those insiders that make things happen.

In its early months, according to Street, as she recounted the long journey to me when we met in Washington, D.C. in December of last year to celebrate the official Caucus formation, she said the Caucus is likely to create a legislative agenda both bipartisan and bicameral, and it will be open to all members of the House and Senate. Specifically, the first actions, she said, will be hosting events, seminars and educational programs. This will also include the establishment of family business advisory councils. Many programs will be hosted by third parties.

Outside Support

Big associations and other groups are set to get behind the Caucus. One such new supporter is America's trucking community. With most trucking firms being family-owned enterprises, the federation of American Truckers Associations (ATA) sees the Caucus as an overdue voice for their men and women on the roads of America. The Caucus received a full-throated endorsement by the ATA when it was

announced by Congressional leaders last month. Bill Sullivan, ATA's executive vice president of advocacy, backed the Caucus the moment he heard of its formation.

In December 2022, we spoke by phone about the issues affecting his members. Top issues affecting family-owned trucking businesses, he shared, were no different than other businesses: high fuel prices, over-regulation, income taxes and workforce training.

"We're excited the caucus was formed specifically to address the issues facing our family-owned trucking companies," said Sullivan. "We look forward to working with the group to create new policy and change policies harmful to our members."

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Top Concerns

Each year, Family Enterprise USA conducts a national study to take the pulse of family businesses in America. We want to see exactly what's harming them, and what issues may be helping or hurting in the coming 12 months. We'll release the results of our new study in a month. But the worries that filter to the top are generally the dangerous impact of recession sparked by uncontrolled inflation, the availability of labor and taxes.³

In our last study, released in February 2022, labor issues were mentioned 22% of the time as the major risk to family businesses, with 34% saying the greatest impediment to business growth into 2023 was "recruiting and talent retention."⁴

The research shows the biggest worry is high income taxes, with 47% saying they're out of control. The next greatest tax concern is the estate tax, which 27% of family businesses say is a "killer."⁵

Last August, in a video interview with Mark Peters, the president and CEO of Butterball Farms, a multi-generationally owned business in Michigan, he detailed to me how legislation and compliance aimed



COMMITTEE REPORT: FAMILY BUSINESSES

at helping business often ends up hurting more than helping.⁶

Butterball Farms is famous for its embossed butter roses and other butter-based products, the archetypal example of the quiet, hardworking family enterprise I'm talking about.

In 1995, Peters took the helm from his father, and like many family businesses, he grappled with the complex economic and workplace issues facing companies large and small.

"We're not run like big, public companies," he said in our interview last August. "We run our business like everyone is all in the family."

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But big government policies aimed at helping, or controlling, big business usually makes no allowance for family. A big change and a big cost, Peters found out, came after the Enron bankruptcy, when compliance costs for public companies, and then all companies, "got out of hand."

"It was, and still is, an enormous cost for us," he said. "These additional government rules are like a tax on all companies," Peters said. "As a result, we need to make tough financial choices because of these regulations, and these choices are often not great."

But family businesses come with benefits too. And Congress needs to know it all.

Peters takes advantage of what he calls "patient capital" and harnessing of the power of a family-based workforce.

"One of the great things about multi-generational family businesses," he says, "is that we can be patient with our capital, we can forgo short-term gains for better longer term gains."

Peters wants Congress to know, businesses can use the power of collaboration to stabilize a

workforce and impact local communities. He'd like to see policies that reward this kind of long-term thinking and investment.

This is where basic education comes into play. It's unknown if members of Congress have thought about creating policies that encourage patient capital and workforce collaboration.

Progress Made

There's a base of wins to build on, especially when it comes to taxes. In the last 18 months, I've seen significant progress in passing or stopping federal legislation affecting family businesses, including the re-shaping of tax provisions in the recent Build Back Act and Inflation Reduction Act.

These wins include stopping tax increases for family business income earners, planned increases in the estate tax rate and reduction in lifetime exemption and the potential elimination of valuation of discounts for estate tax purposes.

We at Family Enterprise USA, and our sister organization, the Policy and Taxation Group, have also been able to remove from the policy table a new 5% surtax on income of \$10 million or more and \$200,000 for trusts and estates; a net investment income tax of 3.8% on non-passive income; and elimination of accelerated depreciation and like in-kind exchanges.

I know the new Republican leadership is focusing immediately on the \$80 billion in new funding for the Internal Revenue Service. But soon they're likely to shift the spotlight on slowing inflation, and then on workforce development and education.

This is all according to another Washington policy insider, Mark Warren, a partner at the law firm Brownstein Hyatt Farber Schreck, whom I interviewed in December 2022 in my podcast, "The Voice of Family Business on Capitol Hill."⁷

As for the Republican House agenda affecting family businesses, Warren believes the Republican leadership has a deep understanding and background for the needs of family businesses and what it takes to keep them successful. But they need the push, and a loud voice helps make some noise. The Caucus is the perfect vehicle to make such sounds heard.

"I see the new House leaders helping family businesses by first offering policies to tame inflation,



then they will shift focus to cutting individual taxes, and extending pass-through allowances,” Warren told me last month. Other early 2023 agenda items, he says, will likely include making the United States more competitive against China, and this will help family businesses doing business there.

Giving Back

The struggles and successes of transitioning a multi-generational family business to the next generation, and giving back to communities, is also part of the untold story.

Kent Thompson, president of Thompson Realty Group based in Lincoln, Neb., is just one untold family business example. Last November, Thompson detailed to me in a video interview I did with him how his 33-year commercial realty company has grown from its small Nebraska beginnings to owning and operating 60 commercial buildings from Denver to Chicago. But after three decades, he understands that business is more than profits.⁸

“Twice a year we have family meetings, and we review our family trust agreements with family members and spouses,” said Thompson. “We want family members actually engaged in the business and community. We prefer to help build things locally, rather than take beach vacations. We feel very rewarded by these experiences.”

As part of its far-reaching community involvement, the Thompson family has built schools and other projects in the Caribbean, Latin America and Africa. There’s little or no government policy that rewards investment in humanity.

Another example is Lippow Development’s Larry Lippow, a third-generation commercial real estate family business owner in Martinez, Calif. Lippow, president and CEO, is getting ready to hand over the reins to the fourth generation. It’s not an easy task. And the IRS doesn’t make it any easier.

“We train our next generation of family leaders to understand that we are the stewards of the family legacy, so they can train the fifth and sixth generation in the same way,” said Lippow, in a video interview I conducted with him in November 2022.⁹ Founded over 100 years ago by the CEO’s grandfather Leo Lippow, it’s the oldest operating business in the city. The company owns and manages properties in

California and Arizona.

“We’re not big, but we are three generations strong, and we want our multi-generational business to thrive, but high taxes worry us,” said Lippow. “That is why we are diversifying and moving our business into other states. We will never leave California, but we look at our high taxes, and estate taxes, and they are a real challenge for us going forward.”

Too often, estate tax bills force families to sell.

I hope the news coming out of the Caucus will bring to life these stories of America’s family businesses. There are many of them and an equal number of challenges these multi-generational family enterprises face just trying to survive. Too often, estate tax bills force families to sell, income taxes drive business out of state and over-regulation make family businesses uncompetitive. If educating the public on just these barriers and struggles to prosperity, the Caucus has done its job. 🌐

Endnotes

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COMMITTEE REPORT: FAMILY BUSINESSES

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