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How MoM and PoP can save the economy

By Ann Kinkade

The latest unemployment numbers offer little to cheer about and have left many in Washington asking, “What now?” After a stimulus bill, bailouts and reforms, job growth has stagnated and the economy is flat lining. Last month, President Obama turned to American businesses to “step up” and hire more employees. Many agree that American enterprise is the vehicle for economic revitalization, but it is family-owned business that is the engine.

Family-owned businesses across the country have been stepping up for generations. At 5.5 million strong in the United States, family-owned businesses are generating 57 percent of U.S. GDP and collectively employing 63 percent of the workforce. In fact, 75 percent of all new jobs are generated by family businesses.

Far from photo-op created jobs, family-owned businesses are in it for the long haul. They are among the most resilient in unstable economies and are most likely to hire and retain new employees. Perhaps more importantly, they are more risk averse and are unlikely to leverage debt to extremes or invest frivolously, favoring longevity over profit. Despite the many tax disadvantages they face, family businesses have higher performance and outperform non-family companies by three percent per year.

So if lawmakers are looking for new ways to foster long-term growth in the

economy, pursuing policies that will help family businesses thrive would be a great place to start. Unfortunately, despite all of the many impressive attributes that family-owned businesses offer, they are treated very differently and in many cases unfairly when it comes to public policy.

One example of this is the recently passed health care reform bill, which offers a new tax credit for eligible employers that provide and pay for a portion of health insurance coverage for their employees. Unfortunately, the credit excludes family members of owners and partners from counting as employees for purposes of the credit. For instance, if you are a family business owner who has 10 employees but five of them are considered family members, you would only be eligible for a tax credit for five employees.

Another unfair policy burden on family businesses is the potential threat of reform that would alter the tax laws related to partnerships, S corporations, limited liability corporations or other so-called pass-through entities, and require that these business structures be treated as corporations for tax purposes. A large portion of family-owned businesses are structured in this manner and such a reform would wreak havoc on our country’s business-owning families.

Then of course, there’s the ongoing uncertainty surrounding the fate of the estate tax. Planning to anticipate and minimize a family business owner’s

estate tax liability usually takes years and significant financial resources that could be reinvested to grow the business. Some businesses may opt to purchase more life insurance, scale back growth or invest in other savings rather than growing their business, providing jobs and boosting the economy. Without extensive advance planning and ongoing monitoring of one’s situation, the estate tax can overwhelm a family business, resulting in loss of employees, higher prices, liquidation of assets or closing the business altogether just to cover the tax burden.

Because family-owned businesses have a longer-term planning horizon, they also reinvest a large percentage of their earnings into the business, which in turn provides a stable base for company growth and jobs. If Congress allows the current tax rate on long-term capital gains and dividends to increase it will ultimately have a negative impact on a family’s reinvestment in the company and overall economic activity.

From corner stores to Fortune 500 companies, today’s “Mom and Pop” family businesses can be a key ingredient to our economic rebound and help us prosper again in the generations to come. As our elected officials go looking for places to grow jobs, they’d be wise to bypass Wall Street and look to Main Street.

Ann Kinkade is president of Family Enterprise USA, a non-profit membership organization that provides education to the general public, policymakers and the media about the collective issues facing family enterprises and publicly promotes their contributions to the common good.