Statement of Thomas D. Goodner
Duncan, Oklahoma
Presented to the
Senate Finance Committee
Subcommittee on Taxation and IRS Oversight
in Support of
Preserving and Protecting Family Business Legacies

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Mr. Chairman and members of the committee, my name is Tom Goodner and I am President of Goodner's Supermarkets in Duncan, Oklahoma. I want to thank the chairman and members of the subcommittee for holding this most important hearing on preserving and protecting family business legacies.

I'd like to give you a little background about our family-owned business. My father, Roy D. Goodner, began his career in the retail grocery business in 1937. Our first store was 14'x16', and we lived in back of the store. By 1945, he opened a store in Duncan, Oklahoma. I began my grocery career at the age of 3, helping sack potatoes in my parents' store. Gradually, over time my parents grew the business into a 3-store operation.

In the late 1960s, my father began to experience health problems and transferred some of the ownership interests to my mother. Unexpectedly, in 1971 my mother passed away before my father did, leaving a substantial estate tax liability. We paid the government over $700,000. My father didn't have the cash so we borrowed the money for the federal estate tax payment from our local bank, which took 7 years to repay. During that timeframe, my father became disillusioned by his potential estate tax liability and I gradually proceeded to buy the business interests from him and other family members.

Today our business consists of 5 retail food stores and a restaurant. Currently, my wife, Linda, runs all office functions: accounts payable, accounts receivable, payroll, taxes, etc. My two sons, Rob and Jerry and daughter, Dena, are all actively employed in our family-owned business. Goodner's employs approximately 700 people in our business. As a family business, we are committed to serving the needs of the communities where our stores are located and our associates live and work.

One of the biggest threats to our future viability and growth as a family-owned business is the ominous cloud hanging over our heads – the federal estate tax. In the grocery industry we now compete with multi-billion dollar megachains with significant financial resources. To stay competitive, we must continue to reinvest in our businesses; remodeling older stores and building new ones, and adding services and new technology to better serve our customers. For example, just the equipment in a single, 60,000 square foot store currently costs $3.5 million and the inventory costs are $1.5 million. The cost of the building and parking lot in Oklahoma runs about $3 million. If my family and employees were to experience my untimely death, the family would face substantial estate tax liability. Having to pay the federal government almost 55% of the estate would place a substantial drain on our capital base. It would potentially force us to liquidate assets, jeopardizing the future of our company and the continued employment of our loyal associates.

As independent family-owned grocers, we provide diversity in the marketplace, offering consumers and communities competitive choices. Privately-owned retail grocers are facing unprecedented competition from multi-billion dollar megachains and supercenter competitors. In order to compete, family-owned businesses need capital to reinvest in our companies. The death tax takes needed capital from family businesses. Rather than pay the punitive death tax and leverage the company, many family business owners are making the decision to sell. Repeal of the death tax is the only answer to preserving and protecting family business legacies. No exemption or rate reduction can be as effective.

In President Bush’s Address to Congress, he said, “It’s not fair to tax the same earnings twice – once when you earn them, and again when you die, so we must repeal the death tax.” I could not agree more. We pay income taxes, payroll taxes, unemployment taxes, property taxes, and then we pay the death tax. As a true family-owned business, we are not a Ted Turner or a Bill Gates, Sr.

I am here today on behalf of the National Grocers Association (N.G.A.) and the Oklahoma Grocers Association to ask for repeal of this unfair and anti-family tax. The important point for the Finance Committee is to act now in support of estate tax repeal legislation. Privately-owned and operated businesses cannot compete competitively when the federal government makes small business its indentured servant. I urge the Finance Committee members to act now to preserve the future of privately-owned and operated businesses before it’s too late.

N.G.A. is the national trade association representing the retail and wholesale grocers that comprise the independent sector of the food distribution industry. An independent retailer is a privately owned or controlled food retail company operating in a variety of formats. Some are publicly traded but with controlling shares held by the family. Most independent operators are serviced by wholesale distributors, while others may be partially or fully self-distributing. Independents are the true 'entrepreneurs' of the grocery industry and dedicated to their customers, associates, and communities. N.G.A. members include retail and wholesale grocers and their state associations, as well as manufacturers and service suppliers. At one time this industry segment accounted for half of all food store sales in the United States. In recent years, however, a number of successful family-run companies have opted to sell because of the economic disincentives caused by the estate tax.

Summary of Position

N.G.A.'s retail and wholesale grocers are the backbone of their communities, whether they operate a single store or a larger community multi-store operation. Repeal of the estate tax is N.G.A.'s number one legislative priority. The death tax deserves to die. It does substantial harm to family business owners, their companies, their employees, their communities and to the economy as a whole. On behalf of the nation's independent retail and wholesale grocers, N.G.A. strongly urges the Senate Finance Committee and the entire Congress to act now to support elimination of the estate tax. Privately owned retail grocers are facing unprecedented competition from multi-billion dollar megachains and supercenter competitors. In order to compete, all businesses need capital to reinvest in their companies. Keeping up with new technology, remodeling and expanding their stores, adding new consumer services, building or buying new stores: all of these business decisions are predicated on having the necessary capital. The federal estate tax of up to 55% on the value of their business upon the death of an owner places them at a significant competitive disadvantage. Instead of using this capital to grow the company, it is earmarked to pay taxes.

This anti-family, anti-business tax policy forces many families to face the prospect of selling, going out of business, and denying the next generation of entrepreneurs the opportunity to take the risks and reap the rewards that this industry offers. A week doesn't go by that we don't hear or read about a successful family-owned grocer selling the business. Successful family-owned businesses are making the decision to sell now and pay the capital gains tax, rather than the punitive, confiscatory estate tax.

Legislative Proposals

Congress, last session, voted twice to eliminate the death tax; unfortunately, President Clinton vetoed the legislation. I want to thank the members of the Finance Committee who have voted for or sponsored legislation to eliminate the death tax and for recognizing its importance to every family-owned business – whether retail and wholesale grocers, farmers, restaurant owners, or others. Senate Finance Committee members Jon Kyl (R-AZ) and Senators John Breaux (D-LA), Phil Gramm (R-TX), and Blanche Lincoln (D-AR) have introduced the Estate Tax Elimination Act of 2001 (S.275). Numerous other estate tax elimination proposals have been introduced as well.

The important point for the Finance Committee is to act now is support of estate tax repeal legislation. Privately-owned and operated businesses cannot compete competitively when the federal government makes small business its indentured servant. N.G.A. urges the Finance Committee members to act now to preserve the future of privately-owned and operated businesses before it's too late.

Studies Confirm the Need for Estate Tax Repeal

The case for eliminating the estate tax has been studied to death. The Joint Economic Committee (JEC) released its study, *The Economics of the Estate Tax*, concluding that the estate tax generates costs to the taxpayer, the economy and the environment that far exceed any potential benefits. Specifically, the report found the following:

- *The estate tax is a leading cause of dissolution for thousands of family-run businesses. Estate tax planning further diverts resources available for investment and employment.*
- *The estate tax is extremely punitive, with marginal tax rates ranging from 37% to nearly 80% in some instances.*
- *The existence of the estate tax in this century has reduced the stock of capital in the economy by approximately $497 billion, or 3.2%.*
- *The estate tax violates the basic principles of a good tax system: it is complicated, unfair and inefficient.*
- *The distortionary incentives in the estate tax result in the inefficient allocation of resources, discouraging saving and investment, and lowering the after-tax return on investments.*
- *The estate tax raises very little, if any, net revenue for the federal government. The distortionary effects of the estate tax result in losses under the income tax that are roughly the same size as estate tax revenue.*
- *The enormous compliance costs associated with the estate tax are of the same general magnitude as the tax's revenue yield, or about $23 billion in 1998.*

"*The Case for Burying the Estate Tax*" by Tax Action Analysis, the Tax Policy Arm of the Institute for Policy Innovation, reaffirmed the JEC study, and found that:

> "Estate taxes strike families when they are at their most vulnerable: along with the family member, families can lose what the family member built. High marginal tax rates often force heirs to sell family farms or businesses just to pay the estate tax bill. Eliminating the estate tax altogether would eliminate all these complexities and injustices with no revenue loss to the Treasury. In fact, after ten years, eliminating the estate tax would produce sizeable economic gains, actually increasing federal revenues above the current baseline.

Eliminating the federal estate tax in 1999 would cause the economy to grow faster than in the current baseline, mainly due to a more rapid expansion of the U.S. stock of capital. by the year 2010:

- Annual gross domestic product would be $117.3 billion, or 0.9% above the baseline.
- The stock of U.S. capital would be higher by almost $1.5 trillion, or 4.1% above the baseline.
- The economy would have created almost 236,000 more jobs than in the baseline.
- Between 1999 and 2008, the economy would have produced of $700 billion more in GDP than otherwise.

The damage that estate taxes do to capital formation further magnifies the loss to society. Doing away with estate taxes would produce positive economic growth effects large enough to offset most of the static revenue loss.

- Between 1999 and 2008, elimination of the estate tax would cost the Treasury $191.5 billion.
- But the over $700 billion in additional GDP would yield $148.7 billion in higher income, payroll, excise and other federal taxes.
- In other words, higher growth would offset 78% of the static revenue loss over the first ten years.
- By 2006, the dynamic revenue gain from eliminating the estate tax would be enough to offset the annual static revenue loss completely."

More importantly, N.G.A.'s own 1995 study of its family-owned members confirms the real life need for elimination of the federal estate tax. In the event of the owner's death, 56% of the survey respondents said they would have to borrow money, using at least a portion of the business as collateral, and 27% said they would have to sell all or part of the business to pay federal estate taxes. Grocers reported that this would result in the elimination of jobs. These findings were similar to those that were conducted as part of a broader industry-wide study conducted by the Center for the Study of Taxation.

Here is what other real family-owned grocers have to say about the effects of the estate tax:

From a New Jersey retailer: "***Estate tax has a negative impact on what should be positive business decisions. Many business owners feel that they cannot expand because they have to pay this tax. Also, Americans should be encouraged to save and invest to plan for their future. With estate tax, the more assets one has with death, the more they have to pay the federal government."***

An Alabama grocers stated: ***"As the only son and heir to our family-owned business, our family lives under the constant fear that we will be forced to sell or liquidate our business upon the death of my parents in order to pay the estate tax. Inasmuch as my father, who is 85 years of age, and my mother who is not far behind, have worked hard to develop a business that could be passed on not only to their immediate family, but as a legacy for their 4 granddaughters. How would we be able to explain to them that all the hard work and dedication that has been put into the business for the past 27 years was only to pay off the federal government because their grandparents passed away."***

A Washington retailer writes: ***"I am a small businessman, a grocer, running 2 small grocery stores in Naselle and Ocean Park, Washington. My wife and I have been operating this business since 1967. Having recently done extensive and expensive financial planning, I know first hand how badly we (our country) need to consider repealing our Death Tax. Without going into great detail, I will tell you this: Hire a financial planner, hire a lawyer, set up trusts and limited partnerships and buy a huge insurance policy and you <u>may</u> survive a tax burden that is so huge you would have to close your business and sell your assets in order to pay it. The cost for all of this planning for my small business is approximately $20,000 per year. This seems an extreme about of money. Money that could be going to capital improvements, extra labor dollars, etc., etc."***

An Oregon retailer states: ***My grocery business was founded by my parents 64 years ago. I am the second generation in the family business. My son hopes to carry the business to the fourth generation. This is highly questionable with death taxes at 55%. If it has to be sold to satisfy the government for the unfair and excessive tax, then another small independent business is gone, along with the jobs my stores offer to this community."***

Conclusion

Numerous studies exist that reinforce the need for elimination of the estate tax. Now is the time for Congress to act. Privately-owned and operated retail grocers, as well as other community businesses, face unprecedented competition and need capital in order to compete with multi-billion dollar megachains and supercenters such as Wal*Mart. The federal estate tax robs privately-owned entrepreneurs of the necessary capital needed to maintain their competitive position in the marketplace with multi-billion dollar public companies. Failure to act now places the competitive diversity of our free enterprise system in serious jeopardy. On behalf of N.G.A. members and family-owned companies across the country, we encourage the Finance Committee to support repeal of the estate tax now.