

ONE HUNDRED SEVENTH LEGISLATURE

SECOND SESSION

LEGISLATIVE RESOLUTION 416

Introduced by Lindstrom, 18.

PURPOSE: The purpose of this resolution is to propose an interim study to examine the risks and potential adverse economic consequences to the State of Nebraska, and its residents, from the transfer of business interests from one generation to the next.

The continued economic growth and success of the Nebraska economy is dependent on the retention of successful Nebraska small businesses as the baby boomer generation continues to age and retire.

Over the next fifty years, Nebraskans will pass nearly one trillion dollars of economic value to the next generation, with a large proportion attributed to the transfer of small business interests. In fact, more than forty percent of small businesses are owned by baby boomers, which employ more than twenty-five million people in the United States. Notwithstanding, nearly sixty percent of small business owners have failed to develop a succession plan.

The failure to adequately develop a succession plan is likely to disrupt the economic output of otherwise profitable Nebraska small businesses due to:

- (1) Conflicts between stakeholders following the business owner's death;
- (2) Lack of liquidity of business interests to finance retirement;
- (3) Lack of adequate financing mechanisms to facilitate a subsequent sale to employees of or outside investors in the small business; and
- (4) Unanticipated federal tax consequences.

The failure of certain small business owners to adequately develop a succession plan is a threat to the continued growth of the Nebraska economy and overall economic well-being of Nebraska's residents. Following the death of the business owner, such a failure jeopardizes the continued viability of an

otherwise profitable Nebraska small business as a going concern. Often times those who inherit Nebraska small businesses decide to liquidate or sell the business, frequently at a discounted value. The sale or liquidation of a Nebraska small business results in the loss of Nebraska jobs and removes economic value from the Nebraska economy.

Presently, the State of Nebraska and its institutions lack appropriate infrastructure to facilitate the sale of Nebraska small businesses to Nebraska residents, creating an obstacle to the development of an adequate succession plan. Due to the lack of such infrastructure, the sale of a small business will more likely be to a nonresident of Nebraska and at a discounted value. Moreover, the sale of a Nebraska business to such a foreign buyer risks the relocation of the business to a competing state with a more favorable tax environment.

NOW, THEREFORE, BE IT RESOLVED BY THE MEMBERS OF THE ONE HUNDRED SEVENTH LEGISLATURE OF NEBRASKA, SECOND SESSION:

1. That the Revenue Committee of the Legislature shall be designated to conduct an interim study to carry out the purpose of this resolution.

2. That the committee shall upon the conclusion of its study make a report of its findings, together with its recommendations, to the Legislative Council or Legislature.