



AMERICAN COUNCIL OF ENGINEERING COMPANIES

Tax Reform

ISSUE

America's engineering industry ranges from small, family-owned firms to large companies that employ tens of thousands of professionals. These businesses include C corporations and passthrough entities, such as S corporations, partnerships, and sole proprietorships. **ACEC supports comprehensive tax reform that treats all business structures equally, and retains key tax provisions that promote economic growth and competitiveness. ACEC also urges Congress to use tax reform to raise revenue and create financing mechanisms that will support a robust infrastructure package.**

BACKGROUND

There is growing consensus that the top corporate tax rate of 35 percent – the highest among OECD nations – makes American firms less competitive at home and abroad. The tax reform blueprint under consideration in the House would lower the top corporate tax rate to 20 percent, the top passthrough business tax rate to 25 percent, and the top individual tax rate to 33 percent. It would provide full expensing for capital purchases, and limit interest deductibility. The plan also proposes significant changes to the taxation of international business activities – referred to as border adjustability – in order to incentivize exports and American jobs.

While tradeoffs may be necessary for achieving the goal of lower tax rates and a simpler tax code, certain provisions are essential to growth and job creation in the engineering industry.

KEY PRIORITIES FOR TAX REFORM

- **Balanced Reform:** Tax reform should ensure that all business structures – C corporations and passthrough entities – are treated equally.
- **Preserving Cash Accounting:** Many engineering firms use the cash method of accounting, where taxes are paid when payment is received for services rendered, versus the accrual method, where taxes are paid when the service is delivered. Since firms often wait many months to be paid by clients, forcing them to switch from cash to accrual would create serious cash flow problems, as they may need to resort to debt financing to satisfy tax obligations or meet salary and benefit expenses.
- **Competitiveness:** Section 199 of the tax code provides a deduction for engineering work on domestic construction projects that enables firms to be competitive in the global marketplace.
- **Interest Deductibility and Expensing:** Interest deductibility is important for industries such as engineering, where the principal expense is labor and firms often use financing to grow. By contrast, expensing is beneficial to industries that have high capital expenditures. The tax treatment of these forms of investment should be balanced to recognize the needs of different industries.
- **Promoting Exports:** The U.S. is a major exporter of engineering services around the world, and ACEC is supportive of tax reforms that encourage the export of American goods and services. As engineering firms employ professionals worldwide, Congress should include transition rules so that firms can adjust their staffing as needed.
- **Protecting Employee Ownership:** Many engineering firms are employee-owned, and ACEC urges Congress to maintain tax provisions that support employee ownership and other savings incentives.
- **Infrastructure:** Tax reform offers an excellent opportunity to promote the development of the nation's critical infrastructure through public funding and tools for private investment, such as private activity bonds and tax credits. Congress should retain the tax-exempt status of municipal bonds, which finance almost two-thirds of core infrastructure investments in the U.S.