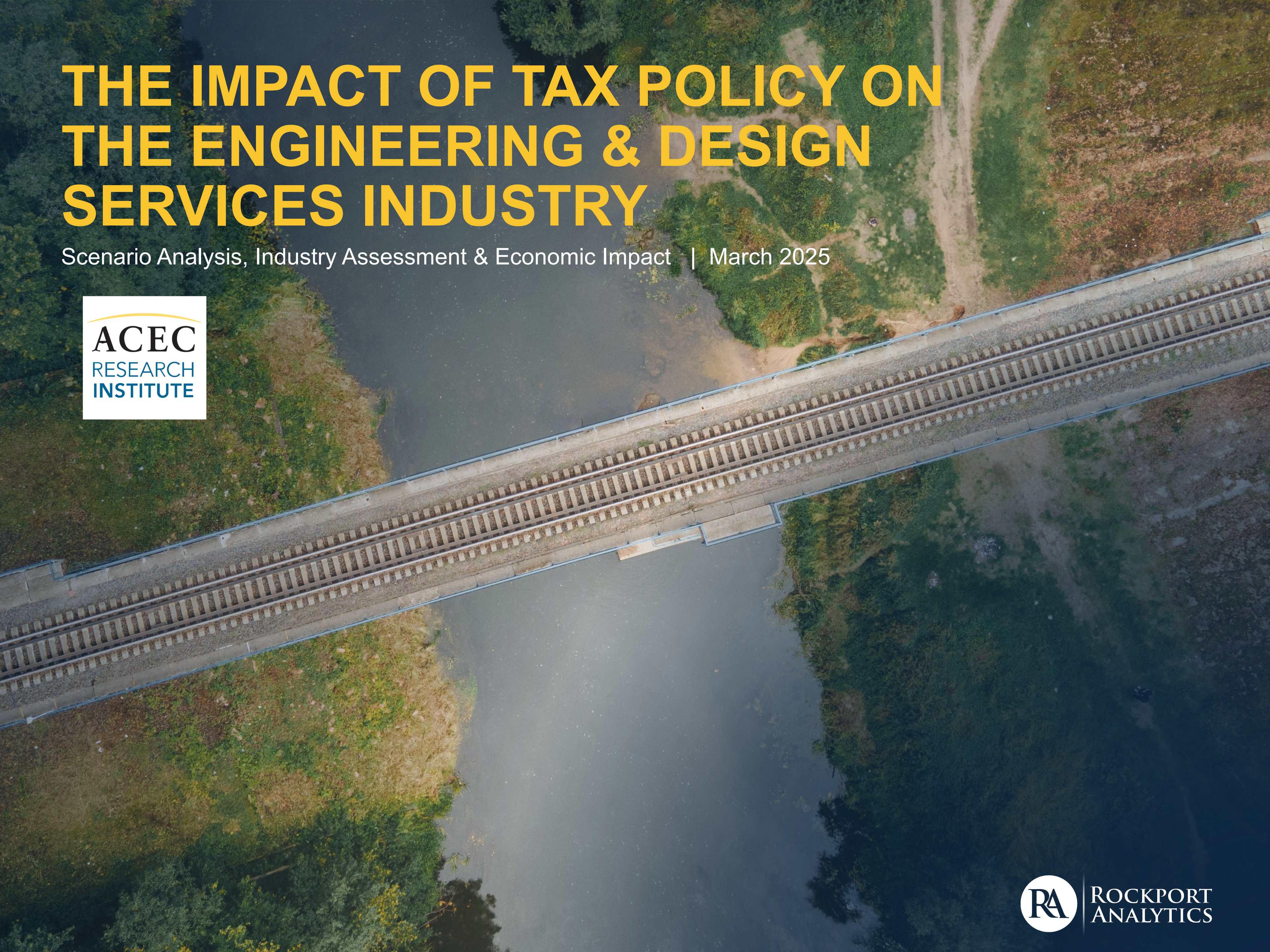


THE IMPACT OF TAX POLICY ON THE ENGINEERING & DESIGN SERVICES INDUSTRY

Scenario Analysis, Industry Assessment & Economic Impact | March 2025

ACEC RESEARCH INSTITUTE

ROCKPORT ANALYTICS

Overview

The Tax Cuts and Jobs Act took effect in 2018 and has played a crucial role in driving revenue and employment growth within the A/E Services sector. The potential expiration of key TCJA provisions at the end of 2025 presents an inflection point for the industry—either reinforcing continued expansion through extension and additional cuts or introducing new financial burdens that may restrain growth. Policymakers' decisions in the coming years will be instrumental in shaping the future trajectory of the A/E industry and the broader economy.

Executive Summary

1

TCJA has generated significant revenue for Engineering & Design Services firms. Rockport's econometric modeling shows that in the case that TCJA were to be extended, the A/E Services industry is projected to generate $108 billion in new total revenue between 2026 and 2029. In contrast, a counterfactual scenario where the effects of TCJA were removed forecasts $45 billion less than the Extension and Further Cuts scenario during this period. **The survey also indicated that firms largely allocated their additional revenue from tax savings to "Investments in People," including increased wages, benefits, and hiring, as well as technological improvements.**

2

Cuts to both individual and business taxes helped to fuel industry growth. On the individual side, higher after-tax compensation incentivized work, expanding the labor supply and easing wage pressures. On the business side, the lower corporate tax rate and the qualified business income deduction encouraged higher investment levels, leading to a substantial increase in capital stock. The ACEC Research Institute survey revealed that most firms, particularly mid-sized and large ones, experienced lower federal tax rates and reduced tax burdens, directly benefiting from the corporate tax rate reduction from 35% to 21% and the qualified business income deduction for passthrough entities.

3

Extension of TCJA and the prospects of additional cuts could help to further fuel growth. With several TCJA provisions set to expire, extending and enhancing these cuts, such as restoring the full SALT deduction and effectively reducing the corporate tax rate on domestic production to 15%, could further boost industry revenue. The TCJA Extension & Further Cuts scenario, which includes these potential extensions, projects $10 billion more in revenue in 2026 than the scenario where key provisions are allowed to expire.

Executive Summary

4

A/E Firms have clearly benefited from TCJA.
Most firms saw tax reductions, with mid-size and large A/E firms, especially in the Midwest, benefiting most, while smaller firms saw more limited gains due to deduction limits and R&D amortization rules. The majority expect higher taxes without renewal, creating financial uncertainty, especially for smaller firms.

5

The industry impacts of tax cuts are significant.
Rockport's modeling indicates that without extending TCJA, industry jobs would be 39,400 lower and wages $4 billion less in 2026 alone. Over the 2026-2029 forecast period, the scenario where key provisions expire would result in 391,000 fewer A/E jobs and $14 billion less in A/E wages.

6

The broader economic impact of TCJA is even greater.
Considering the indirect (supply chain) and induced (income) effects, the additional A/E activity spurred by tax cuts would generate $1.4 trillion in revenue for the U.S. economy in 2026, supporting 7 million jobs, $454 billion in wages, and $785 billion in GDP.

Study Background & Methodology

The American Council of Engineering Companies (ACEC) Research Institute commissioned Rockport Analytics to assess the impact of the Tax Cuts and Jobs Act (TCJA) on the Engineering and Design Services (A/E Services) industry since 2018, as well as its potential future effects. This study utilizes public, private, and proprietary data sources to create a framework that tracks historical industry performance and models future revenue trajectories, providing valuable insights for ACEC members in planning, advocacy, and education.

At the core of the study are three distinct economic models designed to estimate and forecast A/E Services revenue under different scenarios related to TCJA. The models serve to analyze the relationship between tax legislation and industry dynamics. By developing a granular scenario-based approach, Rockport can compare key economic indicators—including revenue, value-added contributions, jobs, and wages—across different legislative scenarios. It assesses the TCJA's impact on the A/E Services industry both retroactively, from 2018 to 2025, and prospectively, from 2026 to 2029.

This research employs scenario-modeling to analyze distinct frameworks, assessing the potential impact of various tax provisions and trade policies on the A/E Services industry. Data inputs for these scenarios were sourced from the Tax Foundation, the Tax Policy Center, the International Monetary Fund (IMF), FMI Corp, Dodge Construction Network, S&P Global, Moody’s, the Bureau of Economic Analysis (BEA), the Internal Revenue Service (IRS), and the U.S. Census Bureau. Our study also drew insights from a survey fielded by the ACEC Research Institute and distributed to member firms to gauge the impact the TCJA has had at the firm level.

TCJA and New Tax Policy

- The landmark Tax Cuts and Jobs Act (TCJA), passed in 2017 and taking effect in 2018, represented a sweeping overhaul of the U.S. tax code. By delivering broad-based tax rate reductions for individuals, estates, and businesses, TCJA was designed to stimulate investment by lowering capital costs and marginal rates. Economic research indicates the resulting stimulus boosted GDP by 0.3% to 0.9%, with the most significant impact on output and demand occurring in the short term, while these effects moderated somewhat over the longer term.[1]
- The Tax Foundation did a comprehensive study on the effects of each individual provision of the current and proposed TCJA legislation on a 10-year forecast horizon, spanning from 2025 through 2034, and found that it has the potential to boost the economy-wide GDP, wages, and full-time equivalent (FTE) jobs.[2]

Several key individual provisions of TCJA are set to expire at the end of 2025, with various business provisions expiring between 2025 and 2028. The current administration has expressed its intent to not only extend these provisions but also implement further tax adjustments. These proposals include restoring the full State and Local Tax (SALT) deduction—which allows taxpayers to deduct state and local taxes paid from their federal taxable income—exempting overtime pay from income taxes and reducing the corporate tax rate on domestic production from 21% to 15%.

Topline Long-run TCJA Estimates		
10-Year Revenue ($ Billions)	Long-run GDP	Long-Run Wages
-$3,013.2	+0.8%	+0.8%

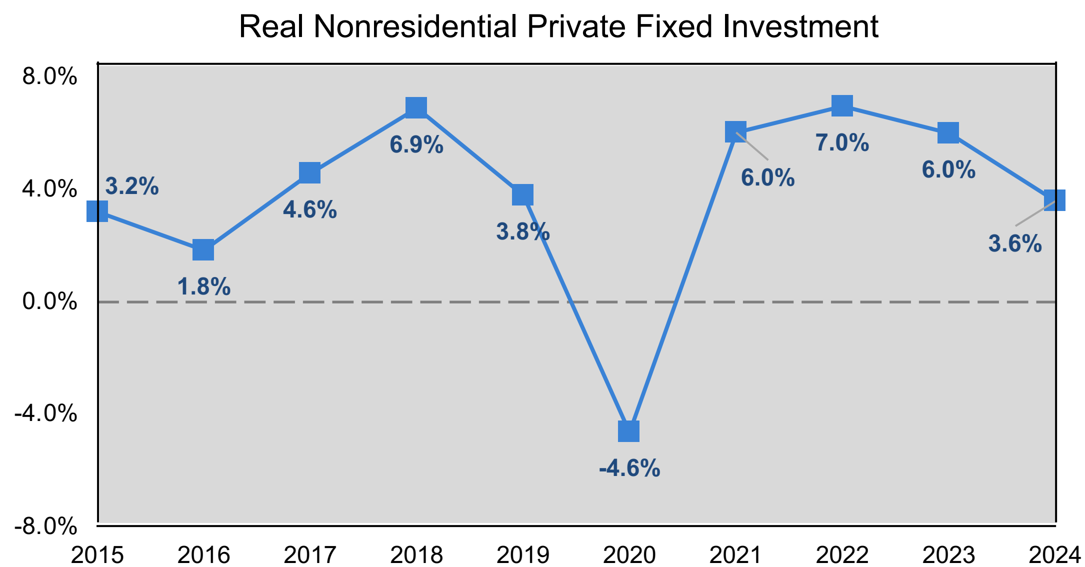
Source: Tax Foundation, 2024

[1] Urban-Brookings Tax Policy Center. "What Were the Economic Effects of the Tax Cuts and Jobs Act?" Tax Policy Center Briefing Book. Last modified January 2024.
[2] For a more detailed breakdown of the impact by provision as compiled by the Tax Foundation, see Appendix I

How do Taxes Impact The Engineering & Design Services Industry?

- In recent years, Architecture and Engineering (A/E) Services revenues have been driven by multiple factors, including increased infrastructure investment from the Infrastructure Investment and Jobs Act (IIJA), rapid technological advancements, and fiscal monetary stimulus. Additionally, TCJA has played a key role in boosting revenues since 2018, with both individual and business tax provisions contributing to overall growth.

- On the individual side, higher after-tax compensation incentivized work, expanding the labor supply and easing wage pressures from labor shortages.[3] On the business side, the lower corporate tax rate, as well as the qualified business income deduction encouraged higher investment levels, leading to a substantial increase in capital stock. There is some debate regarding the degree to which the TCJA was directly responsible for this increased investment, since the strength of expected aggregate demand undoubtedly played a key role in boosting U.S. business investment.

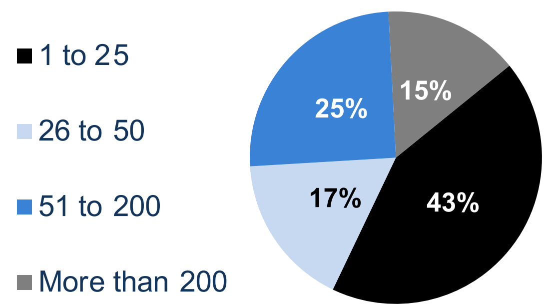


[3] Penn Wharton Budget Model. "The Budgetary and Economic Effects of Permanently Extending the 2017 Tax Cuts and Jobs Act's Expiring Provisions." *Penn Wharton Budget Model*. Last modified May 22, 2024.

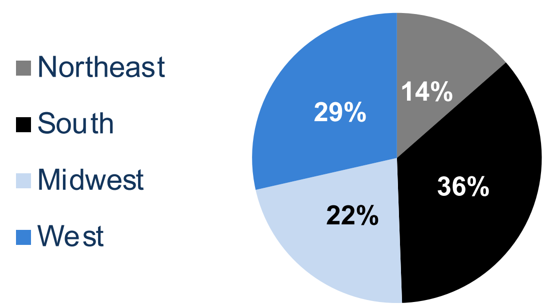
ACEC MEMBER FIRM SURVEY

The ACEC Research Institute surveyed over 350 A/E firms nationwide, achieving a 95% confidence interval. Survey respondents were primarily from the South and West and consisted mainly of small and mid-sized firms operating both before and after the TCJA's implementation, providing robust regional and size-based insights.

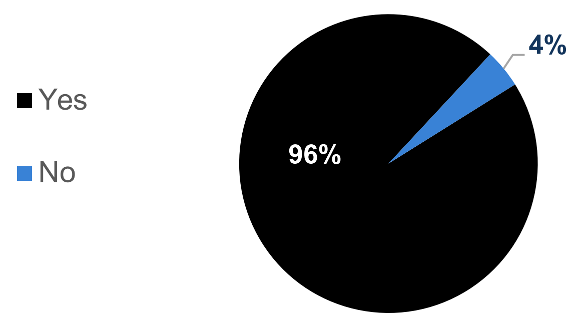
Responses by Firm Size



Responses by Region



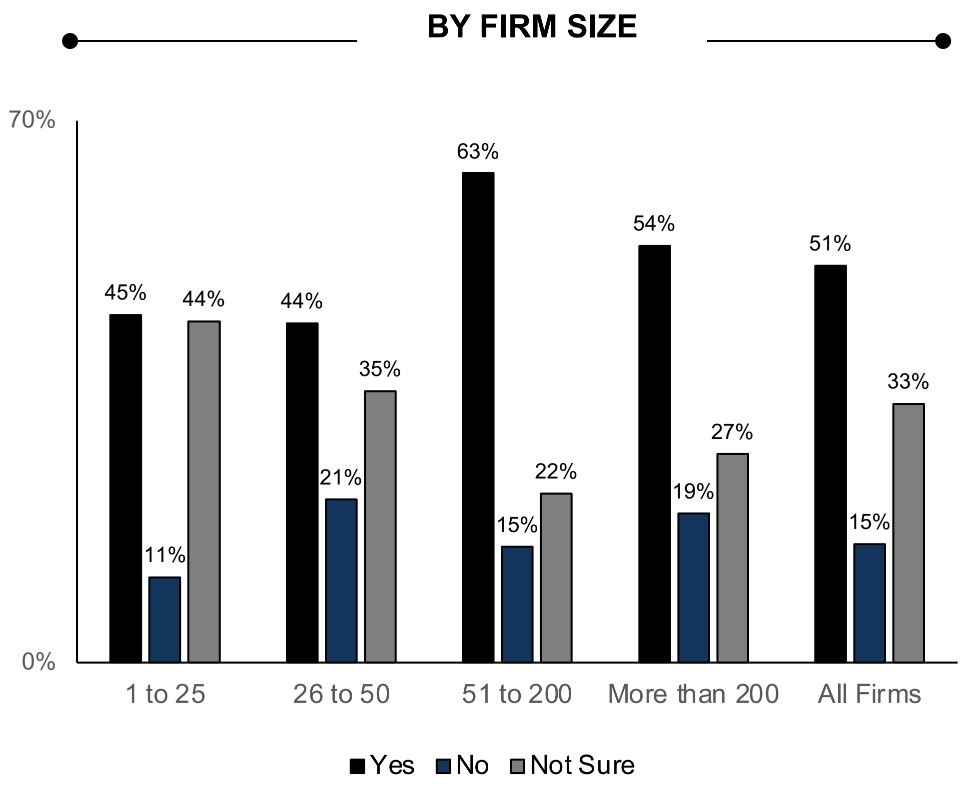
Was your firm operating in the United States in 2017 AND 2018?



How Has Tax Policy Impacted A/E Firms?

- The revenue boost provided by the TCJA was not symmetrical across industries. By some estimates, the services sector experienced the highest decrease in tax liability over the 2018-2027 period—a total reduction of $349 billion, or 16%. In contrast, other sectors saw significantly smaller benefits, with the transportation sector projected to experience only a $30 billion reduction, equivalent to just 5% of its tax burden.[4]
- Survey results revealed some regional variation in federal tax rate changes from 2017 to 2018. Most firms in the West and Midwest experienced lower rates, with Midwest businesses reporting the highest frequency of decreases. In contrast, only a plurality of firms in the Northeast and South saw reduced tax rates. This trend was also observed across company sizes: while most mid-size and large firms benefited from lower rates, only a plurality of small firms experienced a decrease.
- These lower tax rates have naturally led to decreased government revenues. In the initial years following tax cuts, revenue typically falls below baseline projections. However, if tax cuts sufficiently stimulate economic growth, the lost revenue may eventually be offset and recuperated through a larger tax base. This growth could potentially create a break-even point where the tax cut effectively pays for itself in coming years.[5]

Did your firm realize a reduction in its federal tax rate in 2018 compared to 2017?



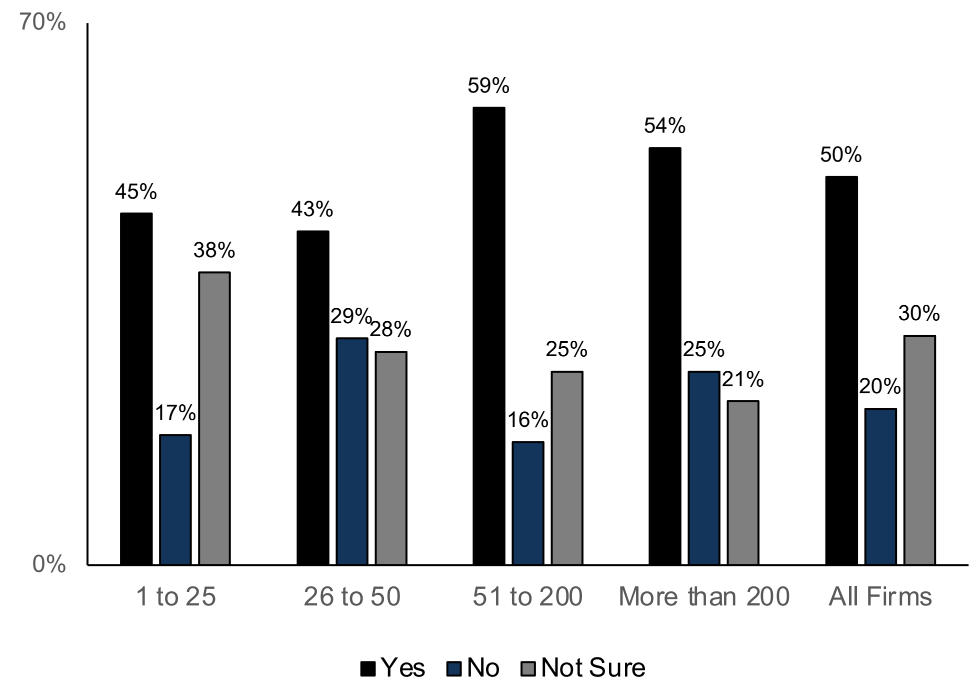
[4] Ernst & Young LLP. Tax Reform's Effects on Businesses and Key Industries. Madison, WI: University of Wisconsin-Madison, 2018.
[5] Edwards, Chris. 2019. "Did the Tax Cuts and Jobs Act Pay for Itself?" *Cato at Liberty* (blog), December 19, 2019. Cato Institute.

Did Firms Pay Less Taxes in Post-TCJA?

- The trends in federal tax rates largely corresponded to the total amount of federal taxes paid, though with some variation. In the case of total taxes paid, only the Midwest had most firms reporting lower payments, while in all other regions, just a plurality of businesses saw a lower federal tax burden.
- The pattern observed across firm sizes also persisted, with mid-sized and large companies most frequently reporting a reduced tax burden. This disparity likely stems from the TCJA's reduction of the corporate tax rate from 35% to 21%, which directly benefited C corporations. In contrast, small businesses primarily benefited from the 20% qualified business income deduction for pass-through entities.

Did your firm realize a reduction in the total amount of federal taxes it paid in 2018 compared to 2017?

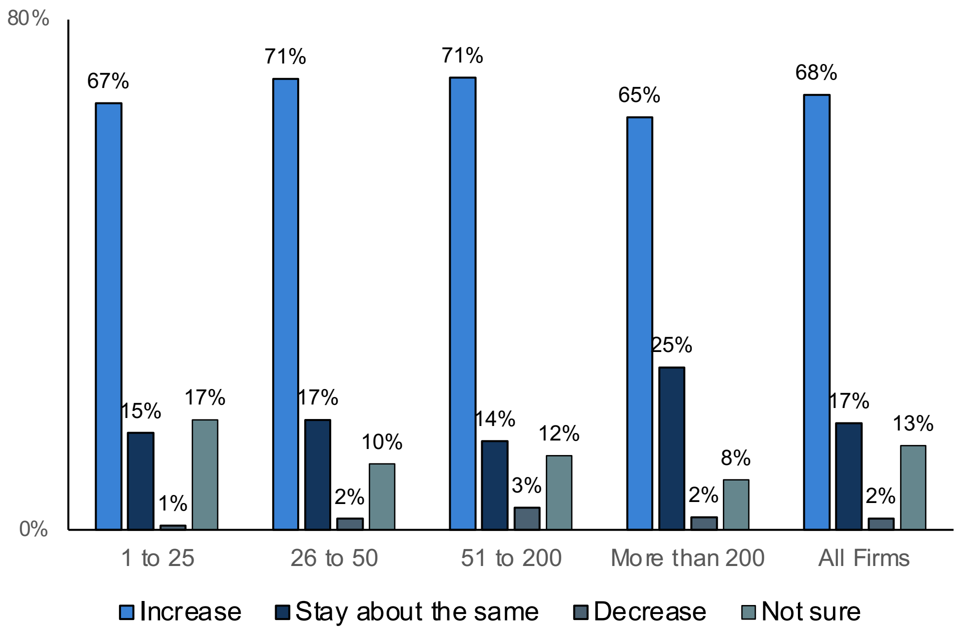
BY FIRM SIZE



Will A/E Firms Pay More Federal Taxes if TCJA is not Renewed?

If the 2017 Tax Cuts and Jobs Act is NOT renewed in 2025, what do you anticipate will happen to the federal taxes your firm will pay in 2026 compared to 2025?

BY FIRM SIZE



- Most firms (68%) indicated they believe their federal tax burden would increase in 2026 if the TCJA is not renewed in 2025. The uncertainty surrounding the temporary nature of TCJA provisions makes financial planning difficult for firms across the industry. Smaller firms face a particular disadvantage due to their inability to deduct wages and expenses in the year they occur.[6]

- Regional and size-based differences are evident in survey responses regarding expected tax impacts. Firms in the South and Midwest more frequently reported anticipating higher federal taxes without TCJA renewal, while small- to mid-size firms appear more vulnerable than the largest member firms. This vulnerability is particularly pronounced since most small businesses are sole proprietorships, meaning the expiration of individual tax provisions could have an outsized impact on these businesses.[7]

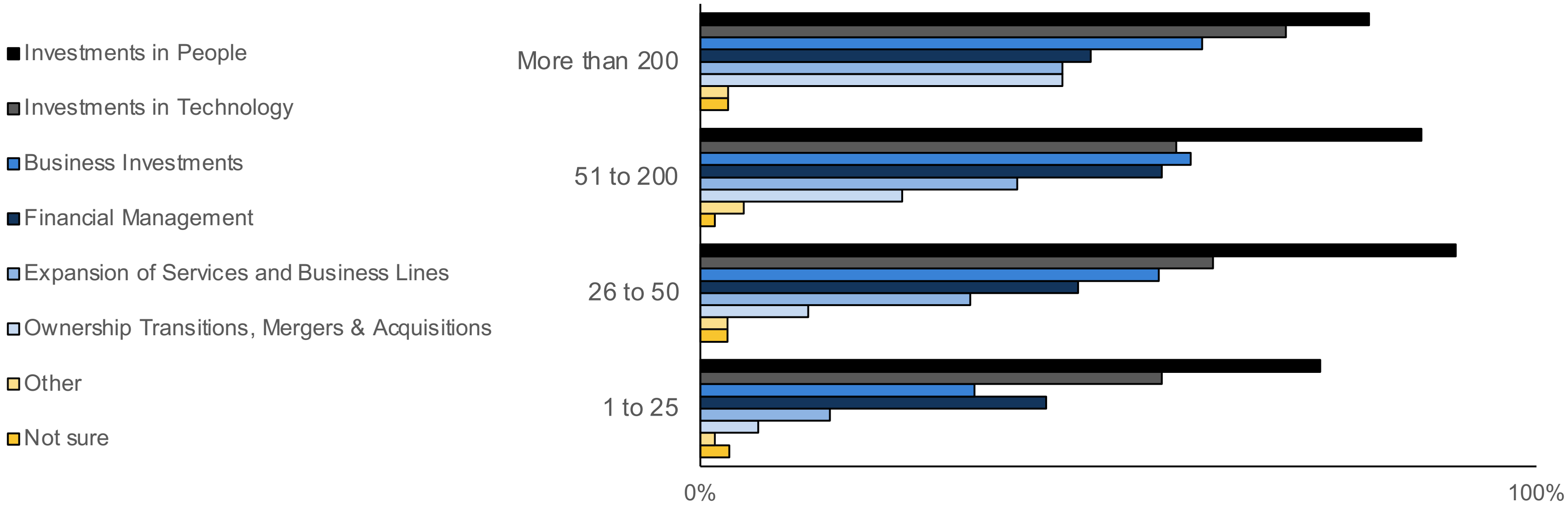
[6] Houf, Dan. "Tax Uncertainty Hurts AEC Firms." *Zweig Group*, May 26, 2024.
[7] Ayromloo, Shalise S. 2024. "Most U.S. Businesses Have Only One Owner." *America Counts: Stories Behind the Numbers*, November 21, 2024. U.S. Census Bureau.

How did Firms Use the Additional Revenue Realized in 2018?

- When asked how they allocated their additional revenue from tax savings in 2018, most firms identified "Investments in People" as their primary focus. This category encompassed increased wages and benefits, new hiring initiatives, and expanded training programs. Firms also directed savings toward technological improvements, including software upgrades, as well as various business and financial investments.

- Regional analysis revealed distinctive patterns, with an overwhelming 91% of Midwestern firms prioritizing people-focused investments and 73% allocating funds to technology. A similar distribution appeared when examining firms by size: among businesses with 26 to 50 employees, 90% reported investing in their workforce while 61% directed resources toward technological advancement.

In which of the following ways, if any, did your firm utilize the additional revenue it realized in 2018, compared to what it would have been had the 2017 TCJA NOT been enacted?*



* Firms were allowed to pick more than one response, so the percentages add up to more than 100%.

OVERVIEW OF OUR FORECAST SCENARIOS

The following scenarios represent distinct iterations of Rockport's econometric model. In each iteration, the predictor variables are systematically adjusted upward or downward based on the net effect of individual provisions within each scenario. These adjustments serve as "shocks" to the model, influencing the forecast trend across the projection horizon. From these results Rockport was able to estimate the impact on industry revenue, jobs, wages, and value added.

Historical Scenario

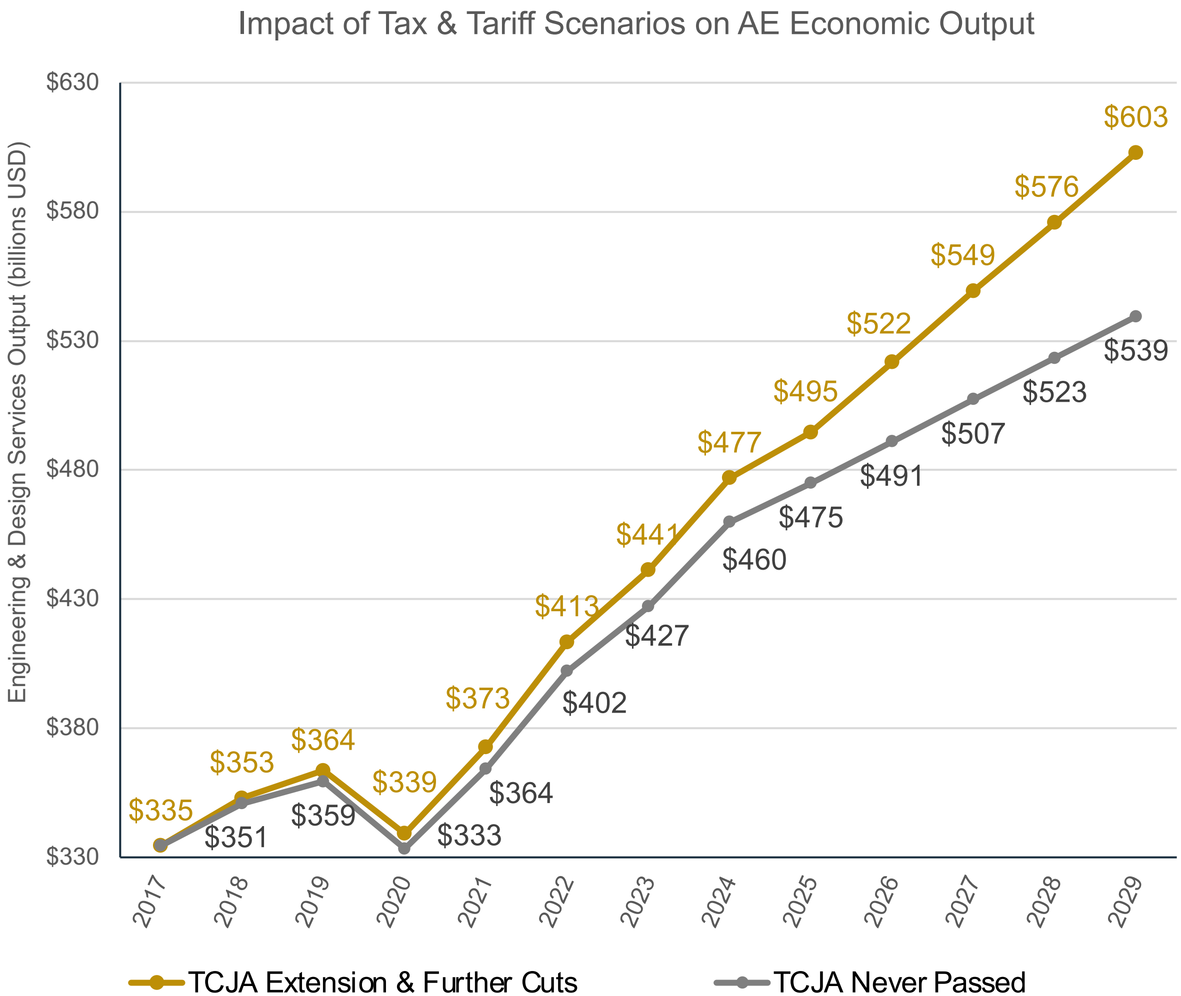
TCJA Never Passed Scenario
This counterfactual scenario analyzes the impact on A/E industry revenues if TCJA was never signed into law.

Future Scenarios

TCJA Extension & Further Cuts Scenario
Focuses on key provisions most likely to impact the Architecture and Engineering (A/E) Services Industry. This scenario synthesizes current and upcoming tax provisions while excluding estate, social security, and peripheral tax considerations.

TCJA Sunset Scenario
Projects economic impacts under current provisions through 2026, assuming key expiring provisions are not renewed after 2025. These include the 20% pass-through income deduction (Section 199A), business interest deduction limitations, and the $10K state and local tax (SALT) deduction cap.

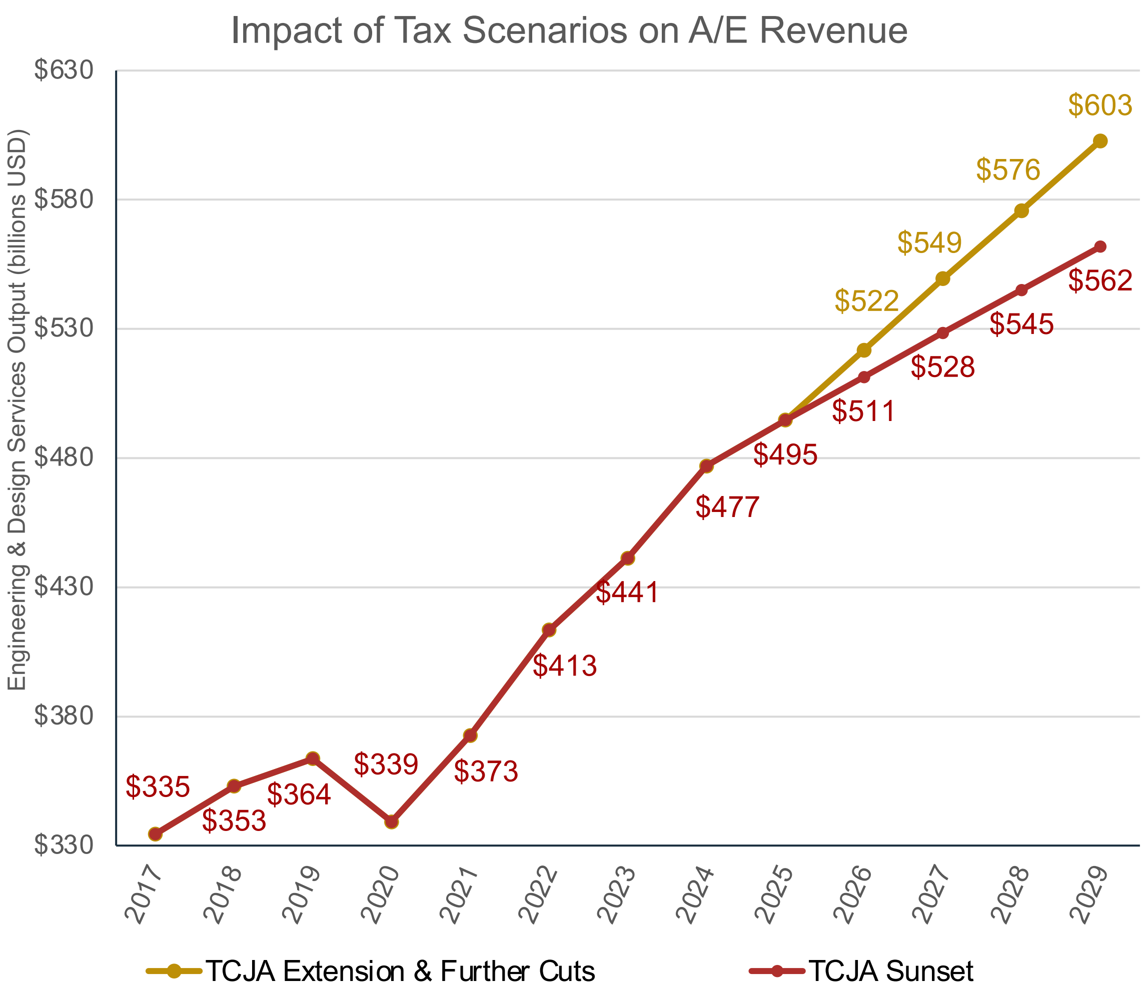
TCJA Extension versus No TCJA



- Fully isolating the effects of the TCJA, we find that the legislation potentially increased A/E revenue by 14% between 2018 and 2024, generating over $17 billion in additional revenue. The gap widens in the forecast period, with the Extension and Further Cuts scenario projecting $603 billion in revenue by 2029, while the scenario without TCJA reaches only $539 billion—a shortfall of over $63 billion.

- Without the TCJA boost, new A/E revenue between 2026 and 2029 would total approximately $65 billion—$44 billion less than the Extensions and Further Cuts scenario. The average annual revenue increase during this period would be $16.1 billion without TCJA, compared to $27.1 billion under the Extension and Further Cuts scenario.

TCJA Extension versus TCJA Expiration



- When accounting for the historical effects of TCJA and only looking at the potential effects in 2026, where the model shocks for both scenarios shown take effect, the models diverge considerably. By maintaining existing provisions and introducing new tax cuts—including full SALT deduction, overtime tax exemption, and a 15% corporate rate for domestic production—the Extension scenario generates $108 billion in additional revenue from 2026 to 2029, compared to only $67 billion if key TCJA provisions were to sunset.

- In the Extension and Further Cuts scenario, we project an annual average growth rate of 5.1%, with revenue increasing by an average of $27 billion annually from 2026 to 2029. Conversely, the TCJA Sunset scenario shows a more modest 3.2% annual growth, adding approximately $17 billion in revenue per year on average during the same period.

What is the Broader Economic Impact of Tax Policy?

- Under the TCJA Extension & Further Cuts scenario, A/E Services could experience a total revenue boost of over $108 billion. This would translate to an average annual revenue increase of $27 billion, yielding an annual growth rate of over 5%.

- In the Sunset scenario, the industry would see a total increase of over $67 billion between 2026 and 2029, which is $41 billion less than the Extension & Further Cuts scenario. Under these conditions, the average annual revenue increase would be approximately $17 billion, representing an average annual growth rate of 3%.

	TCJA Extension & Further Cuts		TCJA Sunset		Difference
	$ increase (billions)	% increase	$ increase (billions)	% increase	$ difference (billions)
2026	$27.2	5.5%	$16.8	3.4%	$10.4
2027	$27.7	5.3%	$17.0	3.3%	$10.7
2028	$26.4	4.8%	$16.6	3.1%	$9.8
2029	$27.0	4.7%	$16.8	3.1%	$10.2
Total	**$108.2**	**5.1%**	**$67.2**	**3.2%**	**$41.1**

What is the Broader Economic Impact of Tax Policy?

Without extending TCJA provisions, we estimate industry revenue would reach $511 billion in 2026, while the TCJA Extension & Further Cuts scenario could generate $522 billion—$10 billion more than the TCJA Sunset scenario. The Extension & Further Cuts scenario would support approximately 2 million industry jobs, 39,000 more than the non-extended scenario. In terms of wages, the Extension & Further Cuts scenario would generate $207 billion in labor income, $4 billion higher than the Sunset scenario. A/E GDP could reach $300 billion under the Extension & Further Cuts scenario, representing a $6 billion rise over the non-extension scenario. Across the 2026-2029 forecast period, the Sunset scenario would ultimately generate $103 billion less industry revenue, 391,000 fewer jobs, $41 billion less in wages, and $59 billion less in GDP.

Examining the total economic impact, we estimate that if key TCJA provisions expire, A/E Services would generate $1.37 trillion in revenue in 2026—$28 billion less than the Extension and Further Cuts scenario. The Sunset scenario would also produce 133,000 fewer economy-wide jobs, $9 billion less in wages, and $16 billion less in U.S. GDP compared to the extended provision scenario. Over the entire 2026-2029 forecast period, the TCJA Sunset scenario would result in $276 billion less U.S. revenue, 1.3 million fewer jobs, $90 billion less in wages, and $155 billion less in U.S. GDP relative to the Extension and Further Cuts scenario.

Direct Industry Impacts

Scenario	Revenue	Jobs	Wages	GDP
TCJA Extension & Further Cuts	$522B	2.0M	$207B	$300B
TCJA Sunset	$511B	1.9M	$203B	$294B
Difference	*$10B*	*39.4K*	*$4B*	*$6B*

Total Economic Impacts

Scenario	Revenue	Jobs	Wages	GDP
TCJA Extension & Further Cuts	$1.40T	6.6M	$454B	$785
TCJA Sunset	$1.37T	6.5M	$445B	$770B
Difference	*$28B*	*132.7K*	*$9B*	*$16B*

Detailed Economic Impacts: 2026 Projections

2026 Metric	Direct	Indirect	Induced	Total
Revenue				
TCJA Extension & Further Cuts	$522B	$319B	$554B	$1.40T
TCJA Sunset	$511B	$313B	$543B	$1.37T
Difference	*$11B*	*$6B*	*$11B*	*$28B*
Jobs				
TCJA Extension & Further Cuts	2.0M	1.7M	3.0M	6.7M
TCJA Sunset	1.9M	1.7M	2.9M	6.5M
Difference	*39K*	*34K*	*59K*	*133K*
Wages				
TCJA Extension & Further Cuts	$207B	$101B	$146B	$454B
TCJA Sunset	$203B	$99B	$142B	$445B
Difference	*$4B*	*$2B*	*$4B*	*$9B*
GDP				
TCJA Extension & Further Cuts	$300B	$177B	$308B	$785B
TCJA Sunset	$294B	$173B	$302B	$770B
Difference	*$6B*	*$4B*	*$6*	*$15B*

Impact Glossary

Direct: These impacts represent the value added of those sectors that interact directly with the industry. These figures account for the impacts exclusive to the industry.

Indirect: These impacts represent purchases throughout the supply chain in business-to-business transactions.

Induced: These impacts are derived from industry-generated wages as they are spent throughout the local economy.

Tax Scenario Impacts on U.S. Economy
(Projected Change Under Tax Scenarios)

Estimated 2026 U.S. Revenue

TCJA Sunset	TCJA Extension & Further Cuts
$1.37T	$1.40T

Difference
-$27.8B

Estimated 2026 U.S. Jobs

TCJA Sunset	TCJA Extension & Further Cuts
6.5M	6.7M

Difference
-133K

Estimated 2026 U.S. Wages

TCJA Sunset	TCJA Extension & Further Cuts
$445.4B	$454.5B

Difference
-$9.0B

Estimated 2026 U.S. GDP

TCJA Sunset	TCJA Extension & Further Cuts
$769.7B	$785.3B

Difference
-$15.6B

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Source: Rockport Analytics, IMPLAN, ACEC, Bureau of Economic Analysis, U.S. Census Bureau

Appendix: Defining Each Forecast Scenario

The following scenarios were developed to comprehensively model potential tax policy outcomes and isolate the economic impacts of TCJA on industry performance:

TCJA Extension & Further Cuts: Individual Tax Provisions (Permanent, Except SALT Cap)

- Retention of TCJA tax rates and brackets
- Standard deduction and personal exemption
- Child tax credit and other dependent tax credits
- Limitations on itemized deductions (excluding SALT) and elimination of the Pease limitation
- Alternative Minimum Tax (AMT) modifications
- Section 199A pass-through deduction and noncorporate loss limitations
- Restoration of key business tax provisions (effective January 1, 2026):
  - 100% bonus depreciation
  - R&D expensing
  - EBITDA-based interest limitation
- Restoration of Full SALT Deduction
- Tax Exemptions for Overtime Pay
- Reintroduction of Domestic Production Activities Deduction (DPAD) at 28.5%, reducing the effective corporate tax rate for domestic production to 15%

TCJA Sunset: Current active TCJA provisions until the end of 2025, where many key provisions expire.

TCJA Never Passed: Pre-TCJA tax code as it existed in 2017, without any provisions from the Tax Cuts and Jobs Act implemented.

ROCKPORT ANALYTICS

About Rockport Analytics

Rockport Analytics is a research and analytical consulting firm providing high quality quantitative and qualitative research solutions to business, government, and non-profit organization clients across the globe. We provide fast, nimble service in a completely transparent environment.

Capabilities include:

- Market Analysis and Forecasting
- Economic Impact Assessment, Tourism Satellite Accounting, and Economic Development
- Market Modeling and Decision Support Tools
- Project Feasibility Assessment
- Primary and Secondary Research Synthesis
- Stakeholder Surveys – internal & external

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