



Statement of Tom Pace, CFO of Thomas & Hutton
On behalf of the American Council of Engineering Companies

Before the
House Ways and Means Committee Main Street Tax Team

September 10, 2024

Good morning, Chairman Smucker and members of the Main Street tax team. Thank you for the opportunity to speak with you today about the Section 199A passthrough deduction and its importance to the engineering industry.

My name is Tom Pace and I'm the Chief Financial Officer for Thomas & Hutton, a well-respected and established multidisciplinary engineering firm in the southeastern United States. We currently have 500 employees branching out to 15 locations in Georgia, South Carolina, North Carolina, and Tennessee. I also serve as the Chair of the Tax & Regulatory Affairs Committee for the American Council of Engineering Companies (ACEC).

Founded in 1906, ACEC is a national federation of 51 state and regional organizations representing several thousand engineering firms and more than 600,000 engineers, surveyors, architects, and other specialists nationwide. ACEC member firms drive the design of America's infrastructure and built environment.

ACEC member firms range in size from a single professional engineer to businesses that employ thousands of professionals. Approximately one-third of ACEC member firms are organized as C corporations and two-thirds are organized as passthrough entities, including S corporations, LLCs, partnerships, and sole proprietorships.

For this reason, ACEC has consistently advocated for balanced tax treatment of C corporations and passthrough entities. ACEC supported the 2017 Tax Cuts and Jobs Act (TCJA) because it created the Section 199A passthrough deduction at the same time as it lowered the corporate rate from 35 percent to 21 percent. Without Section 199A, the disparity in the tax treatment of C corporations and passthroughs would have created a competitive disadvantage and forced many small businesses to bear the administrative costs of changing their tax structure. Among ACEC member firms, 75 percent have 50 or fewer employees.

ACEC would like to thank you, Chairman Smucker, for sponsoring the Main Street Tax Certainty Act to make Section 199A permanent, and to thank all of your Republican colleagues on the House Ways and Means Committee for cosponsoring H.R. 4721.

Section 199A has allowed Thomas & Hutton to make investments in our firm and in our people. In April of this year, we increased salaries across the board an average of 11 percent as a workforce retention measure, and the Section 199A deduction gave us the financial flexibility to do so. The engineering industry is facing a significant talent shortage and our firm relies on measures such as this salary increase to retain our workforce and remain competitive.

I appreciate the opportunity to share the history of why engineering and architecture were removed from the specified services trade or business (SSTB) category in Section 199A during congressional consideration of TCJA. As you may be aware, in the initial House and Senate versions of what eventually became TCJA, engineering and architecture were part of the SSTB category that could not take full advantage of the passthrough tax benefits.

ACEC made the case to Congress that engineering and architecture were different from the others in the SSTB category for one key reason: our member firms qualified for the former Section 199 domestic production activities deduction that was repealed in TCJA. When Section 199 was enacted as part of the American Jobs Creation Act of 2004, Congress explicitly provided that engineering and architecture qualified for the deduction as it applied to the construction of real property.

Moving to the debate in 2017, had Congress denied engineering and architecture firms full access to Section 199A, they would have actually experienced a tax increase. The other "specified services" industries such as law and accounting did not feel this impact because they didn't qualify for the former Section 199. This key distinction resonated with then-Ways and Means Committee Chairman Kevin Brady and members of the Committee, who ultimately agreed that it would be unfair to impose a net tax increase on engineering and architecture, which led to the decision to remove these industries from the SSTB category.

As Congress prepares for consideration of tax legislation in 2025, ACEC urges the House Ways and Means Committee to make Section 199A permanent and continue to allow engineering and architecture firms full access to the deduction. Thank you for your time and I would be happy to answer any questions.