

American Job Builders Tax Reform Act of 2011

OVERVIEW

In 1986, in order to crack down on the use of accounting gimmicks used by procurement giants to defer profits in perpetuity, Congress amended the internal revenue code to require contractors to calculate their progress and remit a prorated tax bill on multi-year projects.

Exceptions were made for residential builders, as well as commercial contractors with average annual gross revenues up to \$10 million, allowing them to employ the accounting technique of their choice, including the Completed Contract Method (CCM). By utilizing the CCM of accounting, taxes on gross profit can be deferred until the project is complete.

If average annual gross revenues exceed \$10 million, contractors are required to use the percentage of completion method (PCM), which reports income based on estimates of job completion. The use of the PCM of accounting does not accurately reflect results because of the required use of estimates. This not only places a costly and cumbersome burden on the contractor to quantify a fluid transaction, but also results in the imposition of punitive taxes on unrealized and often illusory profits. When the contract is completed, the contractor is required to “look back” and perform calculations that substitute the actual costs and revenues for the estimated costs and revenues that were used in the PCM calculations. Look-back calculations to amend PCM estimates can take between 15 hours and 30 hours for each job, with virtually no net gain to the federal treasury.

In the 25 years since this policy was implemented, the Consumer Price Index has more than doubled, yet the \$10 million revenue threshold remains the same. Meanwhile the Small Business Administration size standard for small contractors has risen from \$17 million to \$33.5 million. Thus a provision that was meant to affect only a handful of the very largest contractors, primarily in the defense and aerospace

sector, has gradually ensnared thousands of small construction companies, including nearly 20 percent of ABC’s contractor members.

ABC strongly supports legislation introduced by Reps. Wally Herger (R-Calif.) and Shelley Berkley (D-Nev.) that would provide needed tax relief for small and mid-sized construction companies. The American Job Builders Tax Reform Act of 2011 (H.R. 1993) would boost the small construction contractor exception to the PCM requirement to \$40 million, while indexing the figure to inflation so the burden no longer encroaches on smaller businesses over time. It would scrap onerous look-back accounting adjustments by augmenting the CCM threshold and eliminating the Alternative Minimum Tax (AMT) for construction contracts.

With the rising cost of building materials and a stagnant unemployment rate, our job creators in the construction industry need tax relief now more than ever. To that end, ABC looks forward to working with Reps. Herger and Berkley to pass the American Job Builders Tax Reform Act in the 112th Congress.

ABC SUPPORTS

- The American Job Builders Tax Reform Act of 2011 (H.R. 1993), introduced by Reps. Wally Herger (R-Calif.) and Shelley Berkley (D-Nev.), which would increase the CCM threshold to \$40 million and index it to inflation, while eliminating the Alternative Minimum Tax adjustment for construction contractors.

ABC OPPOSES

- The continued imposition of onerous accounting practices on small construction contractors through PCM and “look-back” calculations for regular and AMT purposes.