Tax Reform

OVERVIEW

While the U.S. corporate tax rate stands among the highest in the industrialized world, three quarters of construction businesses are subject to the individual rate, which remains higher still. Some in Washington, including President Obama, have proposed reforms chiefly concerned with lowering the corporate rate, despite the fact that C-corps make up just 5 percent of business entities and account for less than half of all private sector employees. Not only would a corporate-only reform fail to provide relief for tens of millions of small businesses, it would in fact amount to a significant effective tax hike, as broadly shared credits and deductions are eliminated to finance a corporate rate cut. Instead of widening the existing gap between Main Street and the Fortune 500, Congress must enact comprehensive reform that keeps rates low and equitable for all businesses regardless of size, structure or sector.

ABC SUPPORTS

- Comprehensive reform that lowers tax rates and simplifies the internal revenue code while maintaining parity for Main Street businesses and large corporations.
- Fair effective rates across industry, size and structure.
- Repeal of the estate tax ("death tax").
- Repeal of the individual and corporate alternative minimum tax (AMT).
- Increasing and indexing the completed contract method (CCM) threshold.
- Repeal of look-back accounting requirements.
- Reform of depreciation schedules to reflect the useful life of capital investments.
- Making permanent worthy business tax credits and deductions ("extenders").
- Repeal of Affordable Care Act taxes on wages and investment income.

ABC OPPOSES

- Corporate-only tax reform.
- Any proposal that widens the statutory rate gap between pass-through entities and large corporations.

BACKGROUND

More than a quarter century after its last significant reform, the nation’s tax system is creaking under its own weight. The sweeping changes of 1986 have been eroded over time by tens of thousands of pages of new regulations, loopholes and preferences. In its current form, the internal revenue code disproportionately affects small businesses, which are forced to expend significant time and resources in order to comply with increasingly burdensome tax provisions. Moreover, Congress impedes economic growth with unpredictable, ad hoc tax policies extended on a year-to-year basis.

In January 2013, in order to avert much of the “fiscal cliff,” Congress passed legislation to permanently extend Bush-era tax levels for most taxpayers, while creating a new threshold for higher earners who pay an elevated top rate. Although this statutory permanence lends some needed certainty to the business community, it adds further layers of complexity while opening up a significant gap between Main Street and Fortune 500 companies. With the overwhelming majority of construction businesses paying income tax at the individual level, many now face a top marginal rate up to 25 percent higher than that of America’s largest corporations. This new baseline must be used as an opportunity to pursue fundamental, comprehensive reform in a way that keeps rates low and similar for corporations and individuals alike.

As the economy continues to recover, the country can ill afford perpetually higher taxes on small business, the primary engine of job creation. Comprehensive tax reform will establish an encouraging climate for capital investment and economic growth. ABC supports minimizing the overall tax burden while reducing complexity and providing needed certainty to the construction industry and the broader business community.