Associated Builders and Contractors, Inc.

September 13, 2012

The Honorable Joe Walsh Chairman Subcommittee on Economic Growth, Tax and Capital Access House Committee on Small Business 2361 Rayburn House Office Building Washington, D.C. 20515	The Honorable Kurt Schrader Ranking Member Subcommittee on Economic Growth, Tax and Capital Access House Committee on Small Business B 343-C Rayburn House Office Building Washington, D.C. 20515

Dear Chairman Walsh and Ranking Member Schrader:

On behalf of Associated Builders and Contractors (ABC), a national association with 74 chapters representing 22,000 merit shop construction and construction-related firms, I am writing in regard to the Economic Growth, Tax and Capital Access subcommittee hearing entitled "Adding to Uncertainty: Small Business' Perspectives on the Tax Cliff." With the growing specter of the broadest and steepest tax increase in history, immediate congressional action is necessary to spare taxpayers and millions of small businesses from plunging into the fiscal abyss.

Absent bipartisan legislative agreement, one thing is certain: Every American wage earner faces a significant tax hike come Jan. 1, 2013, ultimately totaling as much as $500 billion. First and foremost, individual tax rates are set to rise for every income level. With pass-through entities such as S corporations and LLCs employing the majority of American workers, these increases will have a devastating effect on job creation and the U.S. economy as a whole. After more than a decade of steady tax policy, these rates will jump across the board, along with rising taxes on capital gains, dividends and succession. What's more, small businesses face $18 billion in new and increased taxes on wages and investments to finance President Obama's health care law. Finally, the annual "extenders" charade has been pushed to the brink yet again, imperiling and ultimately undercutting the efficacy of certain vital business tax incentives.

Just months away from the so-called tax cliff, the two chambers remain dangerously far apart in their respective proposals. House-passed H.R. 8 remains the only bill that forestalls this massive hike in its entirety, and the only measure to enjoy bipartisan support. Senate-passed S. 3412, on the other hand, falls woefully short. By allowing the top two brackets to expire, the bill would mean a double-digit tax increase on 14 percent of small business employers, according to the National Federation of Independent Businesses. A recent study by Ernst & Young also found these tax increases would cost more than 700,000 American jobs and reduce the economy by 1.3 percent while diminishing capital investment and lowering wages on the very middle class the bill is meant to support. With roughly 80 percent of commercial contractors paying business income taxes at the individual level, this scenario would disproportionately harm the construction industry.

Worse yet, the Senate bill ignores the resurgent estate tax burden that is poised to harm family businesses across the board. Under this proposal, uncertain business owners would be faced with an escalated 55 percent rate with a severely diminished $1 million exemption. According to the National Small Business Association, one-third of all small business owners would be forced to sell outright or liquidate a significant portion of their company to pay this punitive tax. In a capital-intensive industry such as construction, with a large proportion of closely-held and family-owned businesses, a reversion to pre-2001 estate tax levels would be nothing short of disastrous.

Rather than exposing American taxpayers and job creators to a perilous fiscal cliff, Congress must act swiftly to extend current policies as a bridge to comprehensive tax reform. We appreciate the committee devoting its time to this important issue, and we look forward to working with you toward the extension of current policies on marginal rates, estate tax, capital gains and dividends, and worthy tax extenders.

Sincerely,

Liam P. Donovan
Director, Legislative Affairs