

# COMPREHENSIVE TAX REFORM

## Promote Long-Term Growth & Infrastructure Investment

### Action Needed:

**Enact Comprehensive Tax Reform** that Simplifies the Tax Code for Construction Companies, Reduces Tax Rates for Corporations and Pass-Through Businesses Alike, Promotes Infrastructure Investment and Does Not Increase Estate Taxes.

At 30.3%, construction companies pay the highest effective rate of any industry.

*According to Treasury Department's Office of Tax Analysis – April 4, 2016*

### Background:

- AGC's members are engaged in all forms of non-residential construction and consist primarily of small businesses, with more than 70 percent organized as S-corporations.

### AGC Message:

- **Reduce Tax Rates for Corporations and Pass-Through Businesses Simultaneously.** The vast majority of construction firms are pass-through entities. Comprehensive tax reform should reduce tax rates on corporations and pass-through businesses alike. This includes the payroll taxes owed on reasonable compensation when distinguishing between business income and wage income for active business owners. If Congress can substantially reduce business tax rates, AGC will support eliminating tax preferences.
- **Simplify the Tax Code.**
  - **Repeal the Alternative Minimum Tax (AMT).** The AMT creates needless complexity and is a stealth tax increase on many construction businesses.
  - **Raise the Small Contractor Exemption From \$10 million to \$40 million.** Section 460 of the Internal Revenue Code requires contractors with over \$10 million in average annual gross to use the burdensome and costly percentage-of-completion method of accounting. Congress recognized this burden when it created the small contractor exemption in 1986, but failed to index the exemption to inflation.
  - **Increase the Availability of Cash Accounting.** The cash method of accounting is a simplified method of accounting which only taxes business income when it is received, and deducts expenses when paid. Cash accounting is currently available to a limited number of businesses based on industry and entity type.
  - **Eliminate Look-back Rules for Long-Term Contracts.** Look-back rules require a construction contractor to file amended tax returns for every prior year in which a currently completed contract was in progress. In most cases this is a waste of time and resources and, the same tax is typically paid.
- **Promote Infrastructure Investment in the Tax Code.**
  - **Cosponsor H.R. 960/S. 326, the "Public Buildings Renewal Act of 2016."** AGC supports the expansion of the private-activity bond (PAB) cap to include additional types of public infrastructure.
  - **Maintain Tax Exempt Status of Municipal Bonds.** Municipal bonds financed \$3.1 trillion in state and local infrastructure investment from 2007-2016.
- **Oppose Efforts to Increase Estate Taxes.** AGC supports full repeal of the estate tax. Barring full repeal, AGC supports the current parameters, with a \$5 million exemption indexed to inflation, spousal transfer and stepped-up basis.