Tax Reform: Key Considerations

Construction Employers of America (CEA) Position:

Comprehensive Tax Reform would have significant implications for the construction industry and proposed 2017 reforms would be the most significant since 1986. Tax Reform should not eliminate or cap the exclusion for employer provided health care; should reform the tax code on misclassification of employees as independent contractors; should address infrastructure investment to drive job creation and economic growth; should address S-corporations as well as C-corporations; should address issues related to estate taxes on small businesses; and should lower the rate and simplify the code and should eliminate the alternative minimum tax.

Key Points:

CEA is comprised of members with businesses of all sizes but the majority of firms are small, family-owned businesses. CEA members are lawful, high-road contractors, paying good wages and providing good benefits helping to grow the middle class and adding to economic growth. Tax Reform needs to ensure that businesses of all sizes maintain a fair and competitive playing field.

- **Misclassification/Payroll Fraud** is well-documented to be epidemic in the construction industry and is blatantly used as a cost-cutting tool to the detriment of competing lawful contractors. The "common industry practice" safe harbor in Section 530 ties the hands of the IRS. Employers who misclassify avoid paying Social Security and Medicare taxes, federal and state unemployment insurance taxes, payment of workers' compensation premiums and even overtime pay. Increasing taxpayer compliance would generate substantial revenue to the federal government to reduce the tax gap. Congress should improve tax compliance of service providers in the construction industry without hurting the legitimate independent contractor.

- **Employer Provided Health Care** covers roughly 177 million Americans. Eliminating or capping the employer exclusion would be a direct tax increase on the middle class. Approximately 59% of the population under 65 receive their insurance from employer provided insurance. Joint labor-management plans have successfully provided health care coverage through the collective bargaining process. Each year a larger portion of the negotiated wage package goes to health care, yet employers who provide health care also pay for the cost of uncompensated care for uninsured workers, resulting in even higher premiums. The cost-shifting continues. Tax reform should not undermine the one part of the health care system that works or burden the employers who do the most to take care of their employees.

- **Tax Reform Should Address Infrastructure Spending** because decades of failure to adequately invest in our infrastructure has taken a toll on the system of public buildings, hospitals, schools, airports and waterways. This neglect extends to lack of utilization of proven technologies which would provide greater energy efficiency in the nation's buildings. Investment in infrastructure represents a significant job creation opportunity where studies show every $1 billion invested in nonresidential construction would add $3.4 billion to the GDP, add $1.1 billion to personal earnings and create or sustain 28,500 jobs. Reform should include sustainable revenue to sustain the Highway Trust Funds and direct investment in infrastructure projects.

- **Establish Reasonable Tax Rates** because at 35% America has the highest corporate tax rate in the world. Reducing the tax rate would free capital for businesses to grow and invest. S-Corporation and C-Corporations should be treated equitably. Currently top tax rates for S-corps are nearly 45%. Tax reform needs to reduce taxes for all employers and should include repeal of the Alternative Minimum Tax (AMT).

Status:

The House Ways and Means Committee has indicated it will produce a "consensus blueprint for comprehensive, pro-growth tax reform" by June. For now, the principal document for reference is the House Republican "Blueprint" but no statutory language has been released and the current "Blueprint" will be changed.

Committees of Jurisdiction:

Senate Finance; House Ways & Means