



DAVID A. RAYMOND
PRESIDENT & CEO

November 7, 2017

The Honorable Kevin Brady
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

The Honorable Richard Neal
Ranking Member
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

Dear Chairman Brady and Ranking Member Neal:

On behalf of the American Council of Engineering Companies (ACEC) – the business association of the nation’s engineering industry – I am writing to express the industry’s serious concerns over H.R. 1, the Tax Cuts and Jobs Act.

Our organization has long been supportive of the Committee’s efforts to craft a balanced tax reform bill that simplifies the code and provides relief to all taxpayers. As currently drafted, however, the bill creates an uneven tax structure for engineering corporations and passthrough businesses that actually increases the tax burden on most engineering firms in this country. For this reason, we would urge lawmakers to oppose the bill when it reaches the House floor if it is not modified to address this inequity.

The measure includes provisions that we support, including a lower corporate tax rate of 20 percent and a new 25 percent rate for passthrough businesses. We also appreciate the Committee’s recognition of the importance of cash accounting to our industry.

However, engineering firms organized as passthroughs—which represent the majority of America’s engineering businesses — are denied the 25 percent passthrough rate. Based on initial feedback on the bill, more firms will fall within the 35 percent tax bracket than do so currently, and because of the elimination of Section 199 and other tax provisions, these firms face a substantially higher tax burden under H.R. 1 than under current law. Since most of these firms tend to be small and mid-sized businesses, this puts them at a serious competitive disadvantage relative to larger corporate firms.

America’s engineering industry performs a critical function in designing the infrastructure that the public relies on every day, and employs hundreds of thousands of STEM professionals. Capital investment for the engineering industry means investing primarily in people – through very competitive wages and benefits – to ensure success, yet the tax structure in H.R. 1 only recognizes income from more traditional forms of capital investment to qualify for the reduced passthrough rate.

We understand the Committee's intent to prevent taxpayers from inappropriately characterizing wages as business income to benefit from the proposed lower passthrough rate. To this point, we urge the Committee to consider the very competitive environment for engineering talent as described above, coupled with the fact that the majority of engineering firms perform work for federal agencies, state departments of transportation, and local agencies and must comply with rules defined by Federal Acquisition Regulation (FAR) Part 31, which act to ensure the proper characterization of wages and business income in a manner that is consistent with the Committee's intent.

There is no public policy justification for establishing a tax code that favors corporations over smaller firms, or one that creates arbitrary winners and losers among passthrough firms. As a matter of fairness, we believe Congress should establish tax rates that make engineering firms of all sizes and tax structures equally competitive, with rules that recognize business income stemming from various forms of investment.

We look forward to working with you to address these concerns, but we cannot support a tax bill that disenfranchises thousands of engineering firms throughout the country.

Sincerely,

A handwritten signature in dark ink, appearing to read "David A. Raymond", with a stylized flourish at the end.

David A. Raymond
President & CEO