ACEC
American Council of Engineering Companies
100 Years of Excellence

David A. Raymond
President & CEO

April 8, 2015

The Honorable Orrin Hatch
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Hatch, Ranking Member Wyden, and members of the Senate Finance Committee:

The American Council of Engineering Companies (ACEC) – the business association of the nation's engineering industry – is pleased to submit comments to the Senate Finance Committee tax reform working groups in support of a comprehensive, balanced approach to reforming the nation's tax code.

ACEC members – numbering more than 5,000 firms representing hundreds of thousands of engineers and other specialists throughout the country – are engaged in a wide range of engineering works that propel the nation's economy, and enhance and safeguard America's quality of life. The Council represents engineering businesses of all sizes, from the single professional engineer to firms that employ tens of thousands of professionals working in the United States and throughout the world. Nearly 80 percent of the Council's member firms are organized as some type of passthrough entity, such as S corporations, partnerships, and sole proprietorships.

The broad distribution of ACEC members across both the C corporation and passthrough structures drives the Council's support for comprehensive tax reform. Although reforming the corporate and individual sides of the tax code simultaneously will be challenging, it is the only approach that will not disadvantage a large segment of the business community and their employees.

Key leaders of the congressional tax-writing committees have embraced a general approach to tax reform of lowering tax rates by eliminating tax preferences. Using the revenue from business tax provisions that are claimed by both C corporations and passthrough businesses to lower the corporate tax rate would disadvantage passthrough businesses in two ways. They would face higher marginal rates, and at the same time their effective tax rates would increase because of the loss of tax preferences. We strongly recommend that Congress only pursue comprehensive tax reform that treats all business structures equally.

T 202-347-7474 F 202-898-0068 draymond@acec.org
1015 15th Street, NW, 8th Floor Washington, DC 20005-2605 www.acec.org

As Congress considers the elimination of business tax preferences, ACEC believes that our tax code should be designed in a manner consistent with achieving key policy goals, including enhancing the competitiveness of American firms in the global marketplace. The tax code should encourage research and development, as well as investment in new equipment and technologies. Reform of the tax code should also be consistent with a national energy strategy that seeks to achieve energy sustainability and self-sufficiency. Many engineering firms are employee-owned, and the Council recommends that Congress continue to support tax provisions that support employee-ownership and other retirement savings incentives.

A proposal that would change the rules regarding the use of the cash method of accounting would have a particular impact on the engineering industry. The Tax Reform Act of 1986 requires most businesses, particularly those that have inventories, to use the accrual method of accounting. However, professional services firms of all sizes, including engineering firms, are generally allowed to use cash accounting for tax purposes, either under the QPSC exception or because they are organized as passthrough entities.

One proposal that has received attention would change these long-standing rules and limit the use of cash accounting only to sole proprietorships and firms with less than $10 million in gross receipts. While increasing the basic small firm threshold from $5 million to $10 million makes sense, the larger impact of forcing engineering firms with revenues over $10 million to switch to accrual accounting presents major problems.

Engineering firms normally carry large balances of accounts receivable and work in progress, representing work performed for clients for which they have not yet been paid. The primary cost for engineering firms is labor, and approximately 85 percent of a typical firm's expenses can be attributed to payroll, benefits, and similar regular expenses. Engineering firms generally have to wait at least 120 days to be paid for services rendered to their clients, and at the same time must pay their employees every two weeks. While this situation can create cash flow challenges for firms, the use of cash accounting helps to mitigate those challenges by allowing firms to make tax payments after receiving payment for their services.

By contrast, forcing firms to switch to accrual accounting would require them to use debt financing to cover the delta between expenses and receipts, which is much harder for small and mid-size firms to access today. This would take money out of the productive economy, jeopardize well-paying jobs, and burden firms that continue to struggle in the soft economy. For these reasons, ACEC strongly recommends that Congress continue to allow engineering firms and other similar businesses to use cash accounting as they have done for decades.

Finally, ACEC believes that the tax code should promote the development of the nation's critical infrastructure – including highways, bridges, transit systems, water, and wastewater. Infrastructure underpins American communities, and is an essential component of a thriving economy.

In particular, ACEC urges Congress to address the long-term stabilization of the Highway Trust Fund (HTF) as part of a comprehensive tax reform package. Unless Congress acts, the balance of the HTF will soon be depleted, necessitating dramatic cuts in highway and transit spending. Cutting transportation investment would have a devastating impact on state and local transportation agencies and postpone critical projects to improve safety, reduce congestion and enhance mobility. Conversely, a long-term solution to the revenue challenges facing the HTF would boost the economy. With predictable, sustainable and growing revenue sources – particularly user fees – the Highway Trust Fund will support infrastructure investments that foster economic growth in a fiscally responsible way.

Once again, on behalf of the nation's engineering industry, we thank the Senate Finance Committee for the opportunity to submit comments.

Sincerely,



David A. Raymond
President and CEO