ISSUE BRIEF

Protect Businesses from Costly Tax Increases

AIA POSITION

The American Institute of Architects (AIA) supports the ability of architecture firms to use the cash basis method of tax accounting and opposes any accounting method changes that would penalize larger architecture practices.

BACKGROUND

Under current law, professional services firms, including architecture firms, can generally use cash accounting for tax purposes. This method allows firms to base their tax accounting on payments actually received as opposed to payments accrued.

Some tax reform proposals would limit the use of cash accounting to sole proprietorships and firms with less than $10 million in gross receipts.

A significant number of architecture firms with revenues <u>above</u> $10 million currently use the cash method of accounting, either under the professional service provider exception, or because they are organized as S corporations or partnerships. These firms would no longer be able to use the cash accounting method, which would create significant cash flow and other business problems.

Architecture 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. 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.

Forcing firms to use the accrual method (a method that taxes firms based on billings, rather than when they receive payments) would result in an effective and significant tax increase to the owners because they will be taxed on income that they have not received.

Architecture firms are the leading edge of a design and construction industry that accounts for nearly one in nine dollars of U.S. gross domestic product; every architect hired for a job leads to employment for as many as 30 construction workers. Policies that restrict cash flow for architecture firms will impair business growth and job creation by tying up funds otherwise available for expansion and hiring.

At a time when the design and construction industry is still recovering from one of the worst economic crises in recent U.S. history, placing additional tax burdens on them will damage their ability to keep the economy moving forward.

AIA

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