Issue Brief

AIA Government Relations Issue Position and Analysis February 2017

AIA POSITION

The AIA urges Congress to pass comprehensive tax reform that results in simple, commonsense tax policies for businesses of all sizes, aimed to spur innovative, economically vibrant, sustainable, and resilient buildings and communities

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Promote a Comprehensive, Fair, Pro-Growth Tax Code

The AIA strongly supports comprehensive tax reform that lowers marginal tax rates for individuals, pass-through entities, and corporations, while broadening the tax base and simplifying the tax code.

Tax reform is an opportunity to provide taxpayers with much-needed certainty, simplicity, and fairness, while at the same time encouraging economic growth and job creation.

Our strong hope is that tax reform results in simple, commonsense tax policies for businesses of all sizes, aimed to spur innovative, economically vibrant, sustainable, and resilient buildings and communities. As Congress pursues reform, we urge consideration of the following principles:

- Preserve tax policies that support and strengthen small businesses, which account for the vast majority of U.S. architecture firms;
- Advance tax policies that support economically vibrant, innovative, sustainable, and resilient buildings and communities;
- Ensure fairness in the tax code.

AIA PRIORITIES

Strengthen Small Business

In the architecture profession, as in the broader economy, small businesses are an engine of economic growth and opportunity. The overwhelming majority of U.S. architecture firms are small businesses with fewer than 50 employees. A significant portion of these firms are organized as pass-through entities, including partnerships and S corporations. Support for these small businesses should be a critical part of any tax reform effort.

Comprehensive, Not Piecemeal, Reform

Tax reform can help small businesses expand their operations and drive job creation – but only if Congress takes a comprehensive approach to addressing tax issues for individuals, pass-through entities, and corporations. “Corporate-only” tax reform would leave pass-through entities at a severe disadvantage, harming architecture firms and other small businesses.

Reduced Tax Burdens for Pass-through Businesses
Architecture firms organized as pass-through businesses can face combined tax rates of 45 percent or more when federal, state and local taxes are accounted for – which amounts to one of the highest effective tax rates in the world. As such, we strongly support the blueprint’s proposal to reduce marginal tax rates for all business entities. Allowing businesses to keep more of their hard-earned money will encourage them to reinvest and hire more workers.

At the same time, we urge caution in establishing any requirement for sole proprietorships and pass-through businesses to pay or be treated as having paid “reasonable compensation” to their owners. We are concerned that such a requirement could inappropriately recategorize legitimate business income as compensation, leading to an effective tax increase on pass-through businesses. While the AIA recognizes the need to distinguish business income from compensation, this distinction must be drawn carefully to avoid penalizing the pass-through community.

Driving Investment in Energy Efficient Buildings
Recent proposals to shift to full and immediate expensing of capital investment reflect the strong link between cost recovery and economic growth. In the simplest terms, expensing puts more money back in the hands of business owners faster – encouraging investment in new products and services.

Architects are familiar with the powerful positive effects of accelerated cost recovery through our experience with the Section 179D deduction for energy efficient commercial building property. By allowing business owners to immediately expense to cost of energy efficient improvements, Section 179D has encouraged billions of dollars in capital investment and has supported hundreds of thousands of jobs in the construction, engineering, design, and manufacturing industries since it was added to the tax code in 2005.

While there may not be a place for a deduction like Section 179D in the context of full expensing, the AIA believes that it remains important to offer tax incentives for energy efficient design. The benefits of greater energy efficiency – cost savings, energy independence, and reduced carbon emissions, to name a few – are significant and demonstrate the impressive “return” on taxpayer investment in provisions like Section 179D.

Improving International Competitiveness
Architecture is a global profession in which America leads the world. Overseas demand for American architects is immense and growing as architecture firms engage with developing markets abroad. In this context, we strongly support the blueprint’s proposals to enhance the international competitiveness of the U.S. tax code. For too long, our country’s disproportionately high tax rates and complex “worldwide” method of taxation have curbed the potential for American businesses operating overseas. Eliminating these policies will make it easier for architecture firms and other American companies to compete abroad, driving growth here at home.

Supporting a Vibrant Built Environment
The tax code can be a powerful tool to support innovative, economically vibrant, sustainable, and resilient buildings and communities. To that end, we encourage Congress to continue and improve tax policies aimed at historic preservation and innovation.

Preserve Incentives for Historic Preservation
Among the most important incentives supporting revitalization of communities throughout the country is the Section 47 Historic Rehabilitation Tax Credit ("HTC"). Weakening or eliminating this credit would endanger the economic feasibility of nearly all historic rehabilitation projects. Without the HTC, the numbers simply do not work. The rehabilitation of historic building suffers from a financing gap because rehabilitation is more expensive than new construction. Also, 84 percent of all HTC transactions are located in low-income census tracts. Without tax incentive support, these properties could sit vacant for decades, exerting a blighting influence on the surrounding neighborhood.

Research conducted for the National Park Service by the Rutgers Center for Urban Policy Research documents that since enactment of the HTC in 1981, the credit has leveraged $117 billion in private investment in historic rehabilitation, created nearly 2.5 million jobs and supported the rehabilitation of more than 40,000 historic buildings. The HTC is the most significant federal investment in historic preservation. It has also proven to be an efficient use of taxpayer dollars. Over the credit's 34 year history, the federal government has allocated just over $24 billion in tax credits, but collected $28.6 billion in federal tax revenue from rehabilitation projects – more than paying for the program. For every dollar of public expenditure, private investors contribute four dollars toward the rehabilitation of historic properties.

Rehabilitation projects across the country are putting Americans back to work. In a typical project, 60-70 percent of the total cost is labor as compared to new construction where labor often accounts for less than 50 percent of the total cost. Laborers on a rehabilitation project are more likely to be hired locally, so their earnings support the local economy. In fact, 75 percent of the total economic impact of a historic rehabilitation project accrues to the state and city where the property is located. Moreover, projects are ideally suited to completion by emerging small businesses.

Given the HTC's proven track record of driving economic and employment growth across the country, we strongly urge Congress to retain this important incentive in tax reform.

Enhance Incentives for Innovation
As buildings become more complex and clients demand more from their designs, architects must innovate to develop new ways to redefine what is possible. This often requires complex modeling and advanced computational analysis to assess everything from soil composition to wind resistance, supported by bespoke software and other tools. The R&D Credit provides a critical incentive for firms to pursue these innovations.

However, while a number of activities associated with architectural design qualify for the R&D Credit, over the years AIA members have reported a variety of complications in claiming the incentive, leading to costly and time-consuming audits. We note the Committee's interest in evaluating options for making the R&D Credit more effective and efficient, and submit that improving the administrability of the R&D Credit for design-related innovations should be an area of focus. Making it easier for design firms to claim the credit will help drive new advances in design, and enhance architects' efforts to transform the built environment.