PREVENT A MASSIVE TAX INCREASE IN 2026

Extend The Tax Cuts and Jobs Act

Background:

The AGC-supported Tax Cuts and Jobs Act of 2017 (TCJA) scaled back, capped, and eliminated many deductions, credits, and other incentives to "pay for" a reduction in the corporate rate from 35 percent to 21 percent, and a modest reduction in the individual tax rates, among many other changes. Other provisions important to the construction industry included doubling the size of the estate tax exemption, from $5 million to $10 million (adjusted for inflation), and allowing businesses to deduct the full cost of new *and used* equipment in the year that it is purchased, rather than depreciated over many years.

The legislation also created a new 20 percent tax deduction for pass-through businesses—such as S-Corporations, LLC's, and partnerships that are taxed at the individual rate—called the Qualified Business Income (QBI) or "Section 199A" deduction. This was to ensure that these businesses, which are generally small and/or family-owned, would not pay a significantly higher tax rate than a larger, publicly traded C-Corporation.

Unfortunately, due to Congressional budget constraints, changes to the "individual" sections of the tax code—including the 199A/QBI deduction, the estate tax exemption, and the reduction in individual rates—are temporary, and will expire at the end of 2025. If Congress fails to act before then, **pass-through businesses, on average, will face a 20 percent tax hike in 2026**—a higher tax rate than before TCJA passed.

Action Needed:

Make the temporary provisions from the Tax Cuts and Jobs Act permanent in order to prevent a 20 percent tax increase on most construction firms in 2026.

AGC Message:

- **Help Small Construction Companies Avoid a 20% Tax Increase by Making the 199A/QBI Deduction Permanent.** Throughout the economy, pass-through businesses employ 58 percent of the private sector workforce, and in construction most firms are organized this way as well.
- **Increase the Estate Tax Exemption to Help Family-Owned Construction Companies**. A construction firm's assets, such as construction equipment, offices, and goodwill can grow beyond the exemption level of the estate tax. If the owner of a family-owned firm unexpectedly dies and is assessed with an estate tax bill, the surviving family could be faced with a choice of selling off company assets or going into debt to pay the bill. Congress should make the $10 million exemption level from the TCJA permanent or eliminate it entirely.
- **Restore Full Expensing to Incentivize Investment in Construction Equipment**. The TCJA allowed companies, of every size, to fully deduct—or expense—the cost of new *and used* equipment in the year that it is purchased, rather than depreciated over time. This simplifies tax preparation, accelerates cost-recovery, and increases investment by eliminating complicated and costly depreciation schedules. Unfortunately, this pro-growth policy expired in 2023, and will phase down over the next 5 years. Full expensing should be fully restored and made permanent.

For more information, contact Matthew Turkstra at matthew.turkstra@agc.org or (202) 547-4733

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