

# ENSURING TAX RELIEF FOR ALL CONSTRUCTION FIRMS

## Make the Section 199A Qualified Business Income Deduction Permanent

### Action Needed:

Tell Members of the House and Senate to protect construction firms from a massive tax hike in 2025 by co-sponsoring H.R. 4721/S. 1706, the Main Street Tax Certainty Act.

### Background:

Prior to passage of the Tax Cuts and Jobs Act (TCJA) in 2017, construction firms organized as “C-Corporations” were taxed at a top rate of 35 percent, while construction firms organized as a pass-through business—such as S Corporations, Partnerships, or Limited Liability Corporations (LLC), which are taxed at the individual rate—had a top rate of 39.6 percent. The TCJA eliminated many deductions, used by all businesses regardless of their structure, to “pay for” a cut in the corporate tax rate to 21 percent, but only cut the top individual rate to 37 percent. To ensure that pass-through businesses, including the majority of construction firms, did not experience a significant tax increase, Congress created the Section 199A Qualified Business Income (QBI) deduction.

The QBI deduction is a 20 percent deduction available to businesses organized as a pass-through, which lowers the top effective marginal tax rate to 29.6 percent. Service businesses whose income primarily comes from labor, such as accounting firms, law firms, and lobbying firms do not qualify for this deduction above a certain income level. An additional guardrail ensures that, in order to qualify for the deduction, at least half of a business’s income must be wages paid to employees.

Without this deduction, construction firms organized as pass-through businesses would face a persistent disadvantage to competitors organized as C-Corporations. One recent study conducted by Ernst & Young (EY) found that, without the QBI deduction, pass-through businesses would pay, on average, 8 percent higher taxes compared to C-Corporations. For larger businesses, the disparity would increase to 16.5 percent. Ernst & Young also found that this deduction supports roughly 900,000 direct jobs, and nearly 2.5 million indirect jobs. These jobs would be in jeopardy if the QBI deduction expires.

**Unfortunately, without Congressional action, the QBI deduction will expire in 2025, leading to a massive tax increase on most construction firms.**

### AGC Message:

- **Support the Main Street Fairness Act.** This bipartisan legislation, introduced by Reps. Smucker (R-PA) and Cuellar (D-TX) in the House with 186 bipartisan cosponsors, and Sen. Daines in the Senate with 33 cosponsors, would make the Section 199A Qualified Business Income deduction permanent.