

ENSURING TAX RATE PARITY FOR ALL CONSTRUCTION FIRMS

Make the Section 199A Qualified Business Income Deduction Permanent

Background:

Prior to passage of the Tax Cuts and Jobs Act (TCJA) construction firms organized as C-Corporations were taxed at a top rate of 35 percent, while construction firms organized as pass-through businesses—such as S Corporations, Partnerships, and LLC’s that are taxed at the individual rate—had a top rate of 39.6 percent. The TCJA eliminated many business tax deductions to finance a cut in the corporate tax rate to 21 percent, but only cut the top individual rate to 37 percent. To ensure that there was not a significant rate disparity between businesses organized as a C-Corporation or pass-through business, Congress created the Section 199A Qualified Business Income (QBI) deduction.

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

The QBI deduction is a 20 percent deduction on pass-through business income, which lowers its effective top marginal tax rate to 29.6 percent. Service businesses whose income primarily comes from labor, such as accounting firms, law firms, and lobbying firms are specifically excluded. Other guardrails ensure that, in order to qualify for the deduction, at least half of a business’s income must be wages paid to employees and owners.

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 and Young (EY) found that, without the QBI deduction, pass-through businesses would face a higher effective tax rate of up to 8 percent compared to C-Corporations. For larger businesses, the disparity would increase to up to 16.5 percent.

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, and Sen. Daines in the Senate, would make the Section 199A QBI deduction permanent.