November 28, 2017

Dear Senator McConnell, Senator Schumer, Representative Ryan, and Representative Pelosi:

As members of the design industry representing architecture, engineering, and landscape architecture, we write today to express our concerns with the treatment of pass-through entities in both the House and Senate versions of the Tax Cuts and Jobs Act.

The House-passed version of the Tax Cuts and Jobs Act, H.R. 1, allows for pass-through businesses to apply a new 25% tax rate to a percentage of their income. However, certain service-based professions, including architecture and engineering, may not access the new rate at all. Similarly, the 17.4% deduction created for pass-throughs in the Senate Finance Committee’s version of the bill would not apply to service providers making over $250,000 as an individual or $500,000 for couples filing jointly. This income threshold would encompass some of the smallest businesses, but still represents a selective application of the new rate to exclude certain industries. We fear that a compromise between these bills could further exclude members of our industry.

Small design firms organize as pass-throughs for numerous reasons: increased protection from liability and bankruptcy for partners, greater financial flexibility, and providing all employees the opportunity to share in the profits of the firm. It is wrong to characterize these firms as trying to “game” the system. Although this provision might be intended to ensure that individuals pay their fair share of taxes, excluding whole professions would punish legitimate businesses who follow the letter and spirit of the law. Furthermore, the IRS already has the authority to penalize entities formed solely to avoid tax liability.

Many design firms are small businesses who perform work in communities across the country. They make their investments in recruiting and developing a skilled workforce. This is increasingly the shape of the 21st century economy, where skilled labor is in great demand. In fact, American designers are performing services in the United States which are being exported for projects all around the world.

The design industry represents a lynchpin of the economy, serving as a catalyst for billions in construction activity and thousands upon thousands of jobs. As important credits and deductions are being removed in the pursuit of lower rates, our industry will be disadvantaged with respect to other industries if our businesses are unable to access small business tax relief.

Thank you for your consideration, and we hope to work with you to resolve this issue.
Sincerely,

The American Institute of Architects
The American Society of Landscape Architects
The National Society of Professional Engineers

CC: Members of the Senate and House of Representatives