TAX REFORM FOR INVESTMENT AND GROWTH

As Congress examines ways to simplify and restructure the Internal Revenue Code (IRC) the Highway Materials Group believes the following principles should guide tax reform:

**Tax reform should benefit corporations and pass-through businesses.** While corporate tax reform is critically important to ensuring U.S. companies remain globally competitive, improvements to the IRC must benefit all U.S. businesses. The construction materials industry is dominated by family-owned small businesses in which the tax liability of the company is passed along to the owners. **Provisions of the current code that benefit corporations and pass-throughs alike should not be traded away solely to lower the corporate tax rate.**

**Tax reform should serve as vehicle for a new long-term, sustainable user fee-based infrastructure funding mechanism.** Despite enactment of a fully-funded, five-year surface transportation bill in late 2015, the long-term outlook for the federal Highway Trust Fund (HTF) is bleak. Gas taxes and other user fee revenues paid to the HTF will be inadequate to support current investment levels beyond FY 2020. Congress must use the historic opportunity presented by the tax reform debate to create a new user-based funding mechanism to sustain federal transportation infrastructure programs well into the future. Congress should also protect provisions of the code that encourage private infrastructure investment (e.g., tax-preferred treatment for certain bonds) and consider other ways the code can be improved to encourage more public and private investment (e.g., by raising the cap on private activity bonds for water projects).

**Tax reform should create a more favorable climate for capital investment.** To grow, create jobs, and become more efficient, construction materials suppliers and supporting industry sectors must constantly invest in new facilities and equipment. Congress should create a more favorable environment for business investment to ensure the long-term economic health of the U.S. construction sector and the U.S. economy in general. With that in mind, lawmakers should carefully examine cost recovery for capital assets and find ways to simplify a highly-complex system. Congress should reject proposals to repeal IRC Sec. 1031 (allowing for like-kind exchanges), which is used regularly by construction companies to invest in newer, more efficient, more environmentally-friendly technology. Congress should also protect the business interest deduction, an important part of the current IRC that encourages investment.

**The estate tax should be reformed to mitigate its impact on family businesses.** The estate tax is a perfect storm for the family-business dominated, capital intensive construction industry. Despite improvements to estate tax laws in recent years (e.g., increasing individual exclusions), many construction materials companies must still spend considerable sums each year on accountants and insurance premiums to design and fund estate plans to protect the business from the tax when the current generation of owners dies. While eliminating the estate tax is preferable, Congress must use tax reform as an opportunity to ensure, at a minimum that businesses assets are not subject to the tax until they are sold and that rules in this area are sufficiently simple to help businesses comply.