

November 27, 2017

The Honorable Orrin Hatch
Chairman, Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Hatch:

The undersigned trade associations support tax reform that benefits all employers and results in increased investment and job creation here in the United States. To that end, we share the concerns raised by a number of Senators regarding the treatment of pass through businesses in the proposed Senate reform.

While the bill's 17.4 percent deduction is a welcome effort to lower rates on all pass-through businesses, the provision is both temporary and too low. The deduction's 50-percent payroll limitation would leave behind pass-through businesses that do not add direct payroll at a one-to-one ratio as they grow while blocking trust and estate income from the deduction would hurt multi-generation family businesses. The fraction of pass-through businesses that do get the full deduction would be subject to a 32 percent effective marginal rate, well short of the 25 percent rate forecast in the Framework and significantly higher than the 20 percent rate applied to C corporations.

The disallowance of the State and Local income tax deduction would increase this gap further, raising effective tax rates on pass-through businesses operating in States with income taxes. Meanwhile, the proposed limitation on a businesses' ability to deduct active pass-through losses would discourage entrepreneurial activity, business formation and investment, as would the exclusion of pass-through businesses from the new, territorial regime on international income.

As a result of these provisions and others, we are concerned that the Senate bill would increase the tax burden on many pass-through businesses relative to current law, while the bill's rate disparity with C corporations creates a significant competitive disadvantage for many more.

As the Senate continues to refine its proposal, we encourage you to address the concerns expressed by the pass-through community and its representatives, and modify the legislation to ensure that it spurs investment, jobs and economic growth by all forms of business.

We look forward to continuing to work with you towards the common goal of tax reform that benefits all America's job creators.

Sincerely:

Air Conditioning Contractors of America (ACCA)
American Supply Association
American Veterinary Distributors Association
Associated Builders and Contractors
Associated Equipment Distributors

Associated General Contractors of America
The Association of Union Constructors (TAUC)
The American Institute of Architects
Auto Care Association
Convenience Distribution Association
Door and Hardware Institute
Door Security & Safety Foundation
Energy Equipment & Infrastructure Alliance
Equipment Dealers Association
Heating, Air-conditioning & Refrigeration Distributors International (HARDI)
Independent Community Bankers of America
Independent Electrical Contractors
International Foodservice Distributors Association
International Franchise Association
International Warehouse Logistics Association
Irrigation Association
ISSA-The Worldwide Cleaning Industry Association
Mechanical Contractors Association of American (MCAA)
Metals Service Center Institute
National Apartment Association
National Association of Electrical Distributors
National Association of Wholesaler-Distributors
National Beer Wholesalers Association
National Electrical Contractors Association (NECA)
National Grocers Association
National Marine Distributors Association
National Multifamily Housing Council
National Roofing Contractors Association
Outdoor Power Equipment & Engine Service Association
Pet Industry Distributors Association
Petroleum Equipment Institute
Printing Industries of America
The Real Estate Roundtable
S Corporation Association
Secondary Materials and Recycled Textiles Association
Sheet Metal and Air Conditioning Contractors' National Association (SMACNA)
Textile Care Allied Trades Association