National Roofing Contractors Association
Washington, D.C. Office
324 Fourth Street, N.E.
Washington, D.C. 20002
202/546-7584
Fax: 202/546-9289
http://www.nrca.net

National Roofing Contractors Association

Statement on Tax Reform Priorities

House Committee on Ways and Means Working Groups

April 15, 2013

Introduction

The National Roofing Contractors Association (NRCA) commends Chairman Camp, Ranking Member Levin, members of the Committee and working group members for their commitment to reform the nation's tax code. NRCA is grateful for opportunity to share our thoughts on how the tax code can work better for roofing industry employers with the House Ways and Means Committee Tax Reform Working Groups. Any tax reform legislation considered by Congress must contain pro-growth policies that enable entrepreneurs to invest in and grow their business, which will in turn create more jobs.

Established in 1886, NRCA is one of the nation's oldest trade associations and the voice of professional roofing contractors worldwide. NRCA represents approximately 4,000 members located in all 50 states from all segments of the roofing industry, including contractors; manufacturers; distributors; architects; consultants; engineers; building owners; and city, state and government agencies. NRCA members' work primarily focuses on repairs to existing roofs and construction of new roofs to both commercial and residential structures. Member businesses are mainly small and privately held, with one-third in business for more than twenty-five years. Many of these long-standing businesses are family-owned and handed down from one generation to the other and in some cases to the third generation. During peak season the average member employs 45 people.

As the committee looks to overhaul the nation's tax code, we ask that you address key issues of importance to the roofing industry as outlined below.

Lower Tax Rates

With the passage of the American Taxpayer Relief Act (ATRA) of 2012 on January 1, 2013, many small business owners have had their taxes increase significantly. Many entrepreneurs in pass-through businesses now face tax rates as high as 39.6 percent on income that is often the only source of capital for reinvesting in their business. These job creators are also impacted by other tax increases included in the ATRA, such as the phasing out of personal exemptions, limiting itemized deductions, and the increase in capital gains and dividends rates. Additionally, many business owners now face the new 3.8 percent Medicare tax authorized by the Affordable Care Act of 2010. With the federal government digging deeper into businesses' pockets it's no wonder we have not seen the strong economic growth that normally follows a recession.

Each employer must choose the best structure for their business, whether it is an S-corporation, Limited Liability Company, Partnership, Sole Proprietor or C-corporation. NRCA members are comprised of both C-corporations and various types of pass through entities that pay business income tax at the individual level. NRCA contractor members range in size from companies with less than $1 million in annual sales volumes (40 percent of the current membership) to large, commercial contractors with annual sales volumes of more than $20 million. NRCA also represents manufacturers, distributors and other roofing industry participants that have a wide array of business structures.

Given NRCA's diverse membership, it is imperative that tax reform be comprehensive, lowering both the corporate and individual tax rates in order to provide employers with more capital to invest in and grow their business. A study conducted by Ernst & Young found that pursing so-called "corporate-only" tax reform, in which only the tax rate for C-corporations is lowered, would increase the income taxes paid by individual owners of flow-through construction businesses, on average, by 9 percent or $26 billion annually.[1] NRCA supports tax reform that lower rates for all types of businesses and opposes any tax legislation that increases taxes on businesses in the roofing industry.

Depreciation Reform for Commercial Roofs

During the 112th Congress, Representatives Tom Reed (R-NY) and Bill Pascrell (D-NJ) introduced bipartisan legislation in H.R. 2962, the Roofing Efficiency Jobs Act, to reform the depreciation schedule for commercial roofs. This legislation, which had over 70 bipartisan cosponsors, simplifies taxes for small businesses of all types by reducing the depreciation schedule for commercial roofs from 39 years to 20 years. By removing an obstacle in the tax code to economic growth, this legislation would facilitate the creation of an estimated 40,000 new private sector jobs among roofing contractors and manufacturers.[2]

Depreciation reform for commercial roofs is crucial today because between 1981 and 1993 the depreciation schedule for nonresidential property was increased from 15 years to 39 years. However, the current 39-year depreciation schedule is not a realistic measure of the average life span of a commercial roof. A study by Ducker Worldwide, a leading industrial research firm, determined the average life expectancy of a commercial roof to be 17 years.[3]

The large disparity between the current 39-year depreciation schedule and the actual 17-year average life span of a commercial roof is a major obstacle that prevents building owners from replacing failing roofs in a timely manner. This slows economic activity because an owner who replaces a roof before the 39 years have elapsed must continue to depreciate that roof for tax purposes even though it no longer exists. A Treasury Department Report corroborated this problem, finding "…a 'cascading' effect, where several roofs are being depreciated at the same

---

[1] Robert Carroll and Gerald Prante, "The Flow-Through Business Sector and Tax Reform," April 2011.
[2] Ducker Worldwide, "Comprehensive Nonresidential Building Analysis to Estimate the Current Reality of Roofing Longevity," September 2003.
[3] Ducker Worldwide.

time, even though only one is physically present."[4] Given this situation, many building owners choose to do only piecemeal repairs rather than replace a failing roof in its entirety.

Depreciation reform for commercial roofs would also provide additional economic benefits by reducing energy costs for businesses that install new roofs. Due to technological advances within the industry, today's commercial roofs are much more energy-efficient than their predecessors. Removing the obstacle in the tax code that inhibits building owners from performing full roof retrofits in a timely manner will not only create new jobs in our industry, but also will reduce energy costs and consumption within the commercial building sector.

Reforming the out-dated 39-year depreciation schedule for commercial roofs will produce the following benefits by accelerating demand for commercial roofs:

- Make the tax code simpler and more equitable for small businesses of all types;
- Add $1 billion of taxable annual revenue in the construction sector;[5]
- Create nearly 40,000 new jobs among roofing contractors and manufacturers; and
- Reduce energy usage by an estimated 13.3 million kilowatt hours, saving small businesses millions of dollars in energy costs.[6]

Due to the unique economic benefits of this legislation, depreciation reform for commercial roofs enjoys the support of a broad array of constituencies, including business, manufacturer, labor union and energy efficiency organizations. NRCA strongly urges the inclusion of this timely reform in any comprehensive tax reform bill, and we wish to commend Representatives Reed, Pascrell and other many cosponsors of their legislation for their leadership on this issue.

Section 179 Expensing

NRCA supports making permanent Section 179 expensing levels at $250,000 and allowing the deduction to be used for qualified real property. This expensing provision encourages businesses to immediately deduct a sizable portion of their investments in equipment in the year the investment is made, rather than claiming the deduction over a longer depreciation period, greatly simplifying tax preparation. Allowing Section 179 to fall back to $25,000, as scheduled under current law, is unacceptable to business owners who make strategic business decisions based on allowable expensing levels.

S-Corporation Modernization

NRCA supports H.R. 892, the S-Corporation Modernization Act, bipartisan legislation recently introduced by Reps. Dave Reichert (R-WA) and Ron Kind (D-WI). Many of the rules that govern the day-to-day management of S-corporations date back more than half a century and are badly in need of updating. This legislation is designed to improve the tax rules governing S-corporations to provide entrepreneurs with increased access to much-needed capital. Key provisions include permanently setting the built-in gains tax holding period to five years (down from 10 years); increasing the "Sting Tax" gross receipts threshold from 25 percent to 60 percent

---

[4] US Department of Treasury, " Depreciation Recovery Periods and Methods," July 2000
[5] Ducker Worldwide.
[6] Ducker Worldwide.

on passive investment income; and expanding the ability of S corporations to make charitable donations.

Estate Tax

As stated earlier, many NRCA member businesses are closely-held family businesses, passed on from generation to generation. Much of the value of family-owned businesses, especially those in the construction industry, is tied to illiquid assets such as land, buildings, and equipment. As such, new owners are often forced to sell these assets, or the business itself, in order to pay the tax due when entrepreneurs transfer their business to their heirs. This financial burden can be crippling to the viability of the family business. Protecting these job creators from the estate tax is important in order to keep them operating for future generations. In order to alleviate the burden placed on family-owned businesses, Congress should permanently repeal the estate tax in any truly comprehensive tax reform legislation.

Reform the Completed Contract Method of Accounting

Under current law, a business cannot use the Completed Contract Method (CCM) if average annual revenues exceed $10 million. The business must instead use the Percentage of Completion Method (PCM), adding complexity and potential cash-flow problems by requiring quarterly income estimates. Because the $10 million threshold has existed since 1986, Congress should increase the threshold to a more reasonable $40 million, and indexing it for inflation. This would ease the compliance burden and let contractors focus on job creation.

Complexity

According to the Office of the Taxpayer Advocate, taxpayers (both individuals and businesses) spend more than 6.1 billion hours to file their taxes. [7] The tax code contains almost four million words and on average, has more than one new provision added to it daily.[8] In addition to low, pro-growth tax rates, business owners need a permanent, cleaner, simpler and easily understandable tax code to allow them to spend more of their time and resources working to grow their business.

Conclusion

NRCA looks forward to working with the Committee and the working groups towards enacting tax reform that will generate greater economic growth within the roofing industry by addressing the issues outlined above. If you have questions or need more information regarding any of these matters, please contact Duane Musser or Andrew Felz at 202-546-7584.

Thank you for your consideration of NRCA's views.

---

[7] National Taxpayer Advocate, "2012 Annual Report to Congress" December 2012.
[8] National Taxpayer Advocate.