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National Roofing Contractors Association

Statement on Tax Reform Priorities

Senate Finance Business Income Tax Working Group

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Introduction

The National Roofing Contractors Association (NRCA) commends Chairman Hatch, Ranking Member Wyden and members of the Committee for their commitment to reform the nation's tax code. NRCA is grateful for the opportunity to share our recommendations with the Senate Finance Committee Tax Reform Working Groups on how the tax code can work better for roofing industry employers. 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 3,500 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 commercial, institutional 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 another. 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

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. With the passage of the American Taxpayer Relief Act (ATRA) on January 1, 2013, many small business owners have seen their taxes increase significantly. Many entrepreneurs in pass-through businesses now face federal 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. 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. Seventy-five (75) percent of NRCA members are organized as pass-through entities that pay their business income tax at the individual level, while one quarter (25 percent) of its members are C-corporations. NRCA contractor members range in size from companies with less than $1 million in annual sales volumes (54 percent of the current membership) to large, commercial contractors with annual sales volumes of more than $20 million (one percent of the current membership). 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. 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 nine (9) percent or $26 billion annually.[1] There is already a large disparity between the top corporate and individual tax rates. Increasing this disparity anymore would only encourage businesses to try and circumvent the higher rates, ultimately resulting in wasted resources and lower growth.

Depreciation Reform for Commercial Roofs

During the 113th Congress, Senators Mike Crapo (R-ID) and Ben Cardin (D-MD) introduced bipartisan legislation in S. 2388, the Energy-Efficient Cool Roof Jobs Act, to reform the depreciation schedule for commercial roofs. This legislation, which enjoyed bipartisan support, simplifies taxes for small businesses of all types by reducing the depreciation schedule for commercial roofs from 39 years to 20 years. By removing this obstacle within 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 real 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 in most cases must continue to depreciate that

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[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.

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 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.

NRCA was encouraged by former Senator Max Baucus' efforts to reform the tax code during the 113th Congress. He even went so far as to introduce a discussion draft regarding cost recovery reforms. NRCA shared the stated goal of the draft to "establish a system of cost recovery that better approximates the decline in the economic value of assets." The current depreciation schedule for commercial roofs is not a realistic measure of the average life span of a commercial roof. We agree with the draft that the "current system of cost recovery violates the principles of neutrality, fairness and simplicity." Which is why NRCA was extremely disappointed that the draft extended the depreciation schedule for nonresidential real property from 39 years to 43 years. This moves the deprecation schedule for commercial roofs in the wrong direction. NRCA will strongly oppose any tax reform legislation that will increase the 39-year depreciation schedule for commercial roofs.

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 Senators Crapo, Cardin and other cosponsors of this legislation for their leadership and support on this issue.

Section 179 Expensing

NRCA supports making permanent Section 179 expensing levels at $500,000 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

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

investment is made, rather than claiming the deduction over a longer depreciation period, greatly simplifying tax preparation. The continued uncertainty in Section 179 availability is unacceptable to business owners who make strategic business decisions based on allowable expensing levels.

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.

Complexity

The maze of the United State tax code is incredibly complicated for the average taxpayer to understand. The tax code contains almost four million words and on average, has more than one new provision added to it daily.[7] According to the Office of the National Taxpayer Advocate, taxpayers (both individuals and businesses) spend more than 6.1 billion hours to file their taxes[8] and on average spend more than $250 to comply with the tax code paying a tax preparer or purchasing tax filing software.[9] As well, the Internal Revenue Service has continually failed to issue a legally mandated report to Congress addressing the complexities of the tax code and legislative solutions since 2002. This report could provide much needed data on how to best alleviate taxpayer frustrations and improve compliance. Businesses need a more permanent, fair, simple and easy to understand tax code to allow them to spend more of their time and resources working to grow their business rather than filing their taxes

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.
[8] National Taxpayer Advocate, "2012 Annual Report to Congress" December 2012.
[9] George Contos, John Guyton, Patrick Langetieg & Melissa Vigil, Individual Taxpayer Compliance Burden: The Role of Assisted Methods in Taxpayer Response to Increasing Complexity 26 (presented at IRS Research Conference, June 2010).