

Background: PHCC contractors vary in size from one-person and small multigenerational businesses to firms employing over 500 skilled professionals. Their businesses might be organized as sole proprietors or S-corps or anywhere in between. They all depend on a regulatory and tax environment that fosters sustainable profit and growth in a marketplace where margins are often razor-thin.

Why is it important? The majority of PHCC members are small business contractors, many of which are multigenerational family businesses, collectively employing approximately 65,000 professionals. Those small businesses are bracing for the financial impact of expiring tax provisions in the Tax Cuts and Jobs Act (TCJA), in addition to other tax policy proposals that would impact the plumbing and HVAC industry and the trade associations that represent them.

PHCC's solution? PHCC urges Congress to extend or make permanent provisions in the TCJA allowing up to a 20% deduction for qualified business income under Section 199A of the tax code while maintaining higher thresholds for the estate tax. Congress must further avoid increasing the corporate tax rate, while avoiding policies that would hurt employers for the sake of modest revenue gains.

Approximately half of PHCC members report paying less taxes since passage of the TCJA.

- The reduction in the corporate tax rate from as high as 38% down to 21% has allowed contractors to save more money, hire and retain more employees, and provide a financial cushion to weather periods of slow business.
- With the other half of PHCC contractors reporting paying the same or more in federal taxes since 2017, there is still work to be done to reduce the tax burden on small business contractors.

Sustainable estate tax thresholds allow small business contractors to thrive.

- 40% of PHCC members will be impacted by estate taxes as contractors consider transitioning their businesses to the next generation.
- Estate tax burdens are a considerable factor for contractors as they determine whether to pass the business on to the next generation or sell their business to private equity firms. Private equity has been the dominant factor in consolidation of the plumbing and HVAC industry.
- Minimizing estate tax burdens will keep a contracting business “in the family” ensuring business continuity and allowing contractors to retain valued employees and customers.

Section 199A allows contractors to reinvest more into their businesses.

- The “pass-through” deduction under Section 199A allows contractors to deduct qualified business income on their personal taxes rather than paying taxes at the entity level, meaning more money for their businesses to invest in more capital, hire and retain more skilled workers and serve more customers.