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ARArental.org

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The Honorable Vern Buchanan, Chair
American Manufacturing Tax Team
2110 Rayburn House Office Building
Washington, DC 20515

The Honorable Greg Murphy, Co-Chair
American Manufacturing Tax Team
407 Cannon House Office Building
Washington, DC 20515

Dear Chair Buchanan and Co-Chair Murphy:

Attached please find a submission by the American Rental Association (ARA) to your Team regarding ARA's position on Section 163(j) Limitation for Business Interest Expense. If you have any questions or would like more information on our position, please do not hesitate to contact Matthew Hite at Matthew.Hite@ararental.org or John McClelland at John.McClelland@ararental.org.

Respectfully,

Matthew Hite

John W. McClelland, Ph.D.

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Section 163(j) Limitation for Business Interest Expense
Impacts on Independent Equipment and Event Rental Businesses

Background:

The American Rental Association (ARA) represents approximately 5,800 members in the equipment and event rental industry. The vast majority of ARA members are independent businesses, often family-owned and multi-generational. However, ARA also has large publicly traded companies as members. ARA estimates that 2024 revenues from the construction equipment and tool rentals will reach $78.7 billion. Event rentals will add between $5 billion to $10 billion to that total. By 2026, total industry revenues are expected to approach $100 billion. According to the U.S. Economic Census, these revenues make the equipment and event rental industry roughly on par with the electrical equipment manufacturing industry, the paint and coatings manufacturing industry, or the petroleum merchant wholesale industry.

Equipment and event rental companies make significant annual investments in new equipment. Based on information we have developed; ARA members own approximately $213 billion worth of equipment based on original equipment costs. ARA members' investments in the construction equipment and tool segment of the industry are approximately 27% of annual revenues. In 2024 equipment rental companies invested $21.0 billion in new equipment. ARA projects 2026 investments in new equipment to increase to $23.4 billion. Assuming similar investment shares for the event segment adds $1 billion to $2 billion in additional investment to those totals. This means that equipment rental companies are turning over a minimum of ten-plus percent of their rental fleets every year. Most of these investments are for purchases of equipment manufactured in the U.S. and thus support a significant number of jobs in the equipment manufacturing sector. In fact, the equipment rental segment of the industry owns about 60% of all construction equipment in place in the U.S. making the equipment rental segment as the primary sales channel for U.S. equipment manufacturers.

Issue:

Generally, taxpayers can deduct interest expense paid or accrued in the taxable year. However, if the section 163(j) limitation applies, the amount of deductible business interest expense in a taxable year cannot exceed the sum of:

1. the taxpayer's business interest income for the taxable year;
2. 30% of the taxpayer's adjusted taxable income (ATI) for the taxable year; and
3. the taxpayer's floor plan financing interest expense for the taxable year.

The 163(j) interest deduction has been narrowed from EBITDA (earnings before interest, taxes, depreciation and amortization) to EBIT (earnings before interest and taxes) of 30% of adjusted taxable income. This restriction of the deduction has increased financing costs for ARA members over the gross receipts threshold and, therefore, subject to the limitation.

Returning the 163(j) interest deduction limitation back to the larger limitation of 30% of EBITDA is important for ARA members. The equipment and event rental industries are extremely capital-intensive as ARA members regularly update their inventories, and the cost of capital therefore has a material impact on the ability of these companies to reinvest in their employees and their businesses.

ARA supports returning the 163(j) limitation to 30% of EBITDA.