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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 Depreciation and Expensing. 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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Depreciation and Expensing
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:

The equipment and event rental industry is very capital intensive and there is a simple maxim in the industry: when equipment and event rental businesses have money, they buy equipment. The Tax Cuts and Jobs Act (TCJA) allowed businesses to depreciate 100 percent of the cost of capital in the year in which the assets were purchased and put into service. This policy continued through tax year 2021. In subsequent tax years, the amount of allowable expensing has declined by 20% per year. In tax year 2025, businesses will only be able to expense 20% of the cost of their capital assets. If this policy continues there will be both short- term and long-term implications for the equipment and event rental industry.

In the short-term, capital-intensive companies that replace assets continuously will face significant tax liabilities through the normal operations of renewing their fleets/inventories. Equipment and event rental businesses can sell 12% to 20% of their fleet/inventory each year and replace that equipment with new equipment. The sale of this equipment generates a capital gain because the equipment was fully depreciated when it was purchased. With full expensing being phased out equipment and event rental companies have seen growing tax liabilities because they do not have enough depreciation on newly purchased equipment/inventory to offset their capital gains. This tax burden will result in reduced levels of investment by the equipment and event rental industry.

In the long run, having depreciation rules revert to the old MACRS system will remove the incentives equipment and event rental companies have to reinvest in their fleets and rental inventories. Rental fleets and equipment inventories are very dynamic with some assets being replaced annually but others lasting for longer periods. However, almost all of the assets held by equipment and event rental companies are classified as five-year property. Just as in the short term, having a relatively high level of allowable expensing in the first year of an asset's service life provides an offset to the capital gains generated by the sale of rental inventories. Part of the long-term result for the economy if depreciation rules revert to MACRS is an inefficient deployment of capital. Equipment rental companies maintain high rates of utilization for their equipment, which is the reason for its rapid turnover. High rates of utilization also imply a high level of capital efficiency within the economy.