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The Honorable Adrian Smith, Chair
Rural America Team
502 Cannon House Office Building
Washington, DC 20515

The Honorable Michelle Fischbach, Co-Chair
Rural America Team
1004 Longworth House Office Building
Washington, DC 20515

The Honorable Randy Feenstra, Co-Chair
Rural America Team
1440 Longworth House Office Building
Washington, DC 20515

Dear Chair Smith and Co-Chairs Fischbach and Feenstra:

Attached please find a submission by the American Rental Association (ARA) to your Team regarding ARA's position on the federal estate tax. 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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Federal Estate Tax
Impacts on Family-Owned 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 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. In 2017, the federal estate tax exemption was $5.49 million per person. Passage of the Tax Cuts and Jobs Act of 2017 (TCJA) increased the exemption to $11.18 million per person. Indexing for inflation has seen the per person exemption steadily increase to $13.61 million per person or $27.22 million for a married couple. With recent inflation, the 2025 exemption is likely to surpass $14 million per person. However, the provisions in the TCJA governing the estate tax exemption sunset at the end of 2025 and the exemption will revert to the provisions that existed pre-TCJA. While an exact calculation is not possible because we do not know how the inflation adjustment for 2025 will impact the final calculation, we can estimate the 2026 exemption post-TCJA will be about $7 million, or about half the projected 2024 per person exemption.

Because the equipment and event rental industry is so capital intensive, significant portions of the business owners' wealth is wrapped up in the rental inventory they use to generate income. ARA is concerned that changes in the current estate tax will have a material effect on the ability of independent family-owned rental businesses to pass the business along to the next generation.

Based on ARA’s analysis we estimate that an equipment rental company needs an inventory (based on the original equipment cost (OEC)) of approximately $2.8 million to generate an annual revenue of $1 million. This calculation shows how easy it is for an equipment rental company that is classified as a small business under the Small Business Administration’s (SBA) size standards to buy, hold and maintain a significant asset base. An equipment rental business with a NAICS (North American Industrial Classification System) code 532412 is classified as a small business under the SBA standards if it has annual revenues under $40 million. Generating those revenues requires a fleet with an OEC value well over $100 million.

Because of the high levels of capitalization in the equipment and event rental industry, many family-owned business could face an existential tax burden upon the death of the owner causing the business to fail, employees to lose their jobs and a community to lose a partner.