American Rental Association
1900 19th St., Moline, IL 61265
309.764.2475 | 800.334.2177
ARArental.org

Matthew Hite
Vice President, Federal Advocacy

John W. McClelland, Ph.D.
Vice President, Government Affairs & Chief Economist

777 6th St. NW, Suite 510
Washington, DC 20001
202-289-4460
Matthew.Hite@ARARental.org
John.McClelland@ARArental.org

September 30, 2024

The Honorable Lloyd Smucker, Chair
Main Street Tax Team
302 Cannon House Office Building
Washington, DC 20515

The Honorable Greg Steube, Co-Chair
Main Street Tax Team
2457 Rayburn House Office Building
Washington, DC 20515

Dear Chair Smucker and Co-Chair Steube:

Attached please find a submission by the American Rental Association (ARA) to your Team regarding ARA's position on Section 199(A). 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.

American Rental Association

1900 19th St., Moline, IL 61265
309.764.2475 | 800.334.2177

ARArental.org

Section 199(A)
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 Tax Cuts and Jobs Act of 2017 permanently lowered the tax rate for C corporations from 35% to 21%. The top individual tax rate was lowered from 39.6% to 37%. Because pass-through entities such as S corporations, Limited Liability Corporations (LLC's) or partnerships are taxed at individual rates, lowering the C corporation rate to 21% without similar adjustments in rates for pass-through income would have put owners of pass-through entities at a significant disadvantage relative to C corporations. In order to maintain the advantages of organizing as a pass-through entity, Congress created special deductions for income derived from a pass-through entity.

The Qualified Business Income Deduction in Section 199A, commonly referred to as Section 199A or the 20% Small Business Deduction, allows individuals, trusts, and estates with income from pass-through businesses to deduct up to 20% of Qualified Business Income (QBI) in determining their federal tax liability. QBI is the net amount of the items of income, loss, gain, and deduction for a qualified domestic trade or business.

In other words, as long as ARA members are organized as pass-throughs they can claim up to a 20% tax deduction on their share of the business income.

The vast majority of ARA members are organized as a pass-through entity, and Sec. 199A allows them to reinvest in their employees, fleets, and facilities.

Section 199(A) is set to expire at the end of 2025 (December 31, 2025). Absent Congressional action, the 20% deduction will expire for tax year 2026, resulting in a massive tax hike on ARA members organized as pass-through entities. In such a scenario, ARA members organized as pass-throughs could pay the full individual income tax rate, with a top rate of 39.6%, as opposed to the lower corporate tax rate of 21%.

ARA supports making Section 199A permanent.