ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

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1625 Eye Street NW
Suite 850
Washington, DC 20006
P 202.238.3400
F 202.238.3401
www.elfaonline.org

Submission to the Ways and Means Committee's Tax Teams

Summary

The U.S. economy stands at a critical juncture, and the decisions made regarding tax policy in the coming years will have lasting impacts on American businesses and workers.

ELFA supports:

- A tax code that promotes economic growth, competition, fairness, and predictability.
- Treating owner-lessors on the same tax footing as an owner-user of equipment.

We will evaluate any individual proposal considered during the upcoming 2025 tax discussions against that framework.

Additionally, by addressing the challenges posed by current interest deductibility limitations and the phasing out of 100% expensing, Congress can ensure that businesses are better equipped to invest in growth, innovation, and job creation. We strongly urge the Committee to consider these recommendations as part of its ongoing efforts to refine tax policy for the future.

Recommendations

There are two specific unresolved issues relating to the 2017 Tax Cuts and Jobs Act (TCJA) to bring to the Committee's attention. TCJA introduced 100% expensing and made significant changes to the ability of businesses to deduct interest expenses. While these provisions were intended to spur growth, some of their limitations have resulted in unintended consequences that increase the cost of capital, impede long-term investment planning, and disproportionately affect certain sectors, such as equipment financing. As tax policy discussions intensify in 2025, it is critical to address these issues to avoid further economic constraints on American businesses and to support continued economic growth.

100% Expensing Phase-Out

100% expensing, introduced by the TCJA, allowed businesses to fully expense capital costs in the first year of asset acquisition, significantly driving investment in equipment. However, the phase-down of this provision started in 2023, with the bonus percentage dropping to 80%, and it will continue to decline until it expires entirely by the end of 2026. This reduction in 100% expensing discourages capital investment and will hinder industries that rely on equipment acquisition to support business growth and innovation, negatively impacting the U.S economy.

- **Recommendation: reinstate 100% expensing.** Restoring 100% expensing would encourage continued investment in equipment, helping businesses grow and contribute to a strong economy. If 100% expensing cannot be accommodated, at a minimum a consistent, permanent depreciation structure should be adopted to allow for long-term capital planning.

Interest Deductibility Changes

Prior to the TCJA, businesses could deduct interest incurred as a regular and necessary cost of doing business. However, under current law, businesses are now limited to deducting net interest expenses up to 30% of adjusted taxable income (ATI). Importantly, the definition of ATI shifted in 2022 from an EBITDA standard (earnings before interest, taxes, depreciation, and amortization) to a stricter EBIT standard (earnings before interest and taxes). This change reduces the deductibility of interest expenses and increases the cost of financing for many businesses, especially those that rely on debt for expansion and operational activities.

In the equipment finance sector, businesses that provide operating leases face additional challenges due to the way rental income is categorized. Operating lessors, who maintain ownership of leased property, incur substantial interest expenses but are unable to offset them because the rental income earned from the lease payments is not classified as interest income for offsetting purposes. This creates an uneven playing field where equipment lessors are disadvantaged compared to traditional lenders, who can fully offset interest expenses with interest income from other unrelated product lines. Addressing this disparity is critical for ensuring fair tax treatment across financial services companies.

- **Recommendation: Revert interest deductibility standards to full deductibility.** For the first century of the existence of the U.S. federal income tax, interest was deductible as an ordinary and necessary business expense. We encourage Congress to go back to this policy because it worked. Interest is an ordinary and necessary business expense for capital formation, its deductibility supports the health of the US economy and avoids artificially raising the cost of capital. If this is not possible, at a minimum, the EBITDA standard for interest expense limitations should be reinstated to alleviate the financial strain on businesses and reduce the cost of capital. Lastly, if this latter course is followed, the netting provisions should be adjusted to consider lease income akin to interest income.

Impact on American Businesses

The combination of stricter interest deductibility rules and the phase-out of bonus depreciation presents a substantial challenge for American businesses. Both provisions increase the cost of capital, discourage long-term investments, and create uncertainty in financial planning, which negatively impacts economic growth and job creation. This is particularly true for the equipment finance industry, which plays a critical role in enabling businesses across sectors to access the machinery, technology, and tools they need to expand.

For more information, contact:
Andy Fishburn
Senior Vice President, Public Policy
Equipment Leasing and Finance Association (ELFA)
Email: afishburn@elfaonline.org