ELFA
EQUIPMENT LEASING AND FINANCE ASSOCIATION

EQUIPMENT LEASING AND FINANCE ASSOCIATION
1825 K Street NW
Suite 900
Washington, DC 20006
P 202.238-3400
F 202.238-3401
www.elfaonline.org

Maintain Business Interest Deductibility in Tax Reform

Background

It is a long-standing principle in the U.S. tax code that we tax business income and that income is broadly defined as revenues less expenses. Many capital intensive businesses rely on debt to provide a significant portion of the funds necessary to acquire the plant and equipment necessary to conduct business. The interest paid on the debt is an ongoing cash expense of conducting business, which has been recognized as a proper federal income tax deduction since the income tax came into existence. To deny a tax deduction for interest expense relating to the acquisition of plant and equipment will artificially inflate taxable income. This will result in a dramatic increase in the cost of, and reduce the overall level of, investments in capital equipment, thereby reducing the competitiveness of American business.

Research conducted by EY's Quantitative Economics and Statistics (Quest) group shows that limiting interest deductibility to finance a lower corporate tax rate reduces long-run economic growth. This research specifically examines the impact of limiting the deductibility of corporate interest to its noninflationary component to finance a revenue neutral 1.5 percent reduction in the corporate income tax rate and finds:

- GDP falls by an estimated 0.2% in the long-run or $33.6 billion in today's economy;
- Investment falls by an estimated 0.3%, or $6 billion in today's economy; and,
- Economic welfare, measured by the value of household's consumption and leisure, falls by an estimated 0.4%.

For more information, contact Andy Fishburn at afishburn@elfaonline.org or (202) 238-3419.

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Key Points

- ELFA recognizes that the Committees of jurisdiction have done good work laying out the issues presented by debt financing vs. equity financing.

- It is critical to our membership that any resolution aimed at solving these larger issues not impact the basic ability of a business to deduct the cost of doing business from their revenues when calculating their income.

- Research shows that limiting interest deductibility to finance a lower corporate tax rate reduces long-run economic growth.

- Unintended consequences in this area could have a chilling effect on the $1 trillion equipment leasing and finance sector contributes to our nation’s economy each year.

- ELFA supports tax reform proposals that maintain the ability of businesses to deduct business interest associated with the financing of equipment acquisitions.