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October 15, 2024

The Honorable Vern Buchanan  
U.S. House of Representatives  
2110 Rayburn House Office Building  
Washington, D.C. 20515

The Honorable Greg Murphy  
U.S. House of Representatives  
407 Cannon House Office Building  
Washington, D.C. 20515

**RE: Tax Teams Comment on American Manufacturing**

Dear Congressmen Buchanan and Murphy:

We sincerely appreciate this opportunity to submit feedback on behalf of the American car rental industry. The American Car Rental Association (ACRA) and its members urge you and your House colleagues to continue to support:

- Reinstating full expensing,
- Retaining the current corporate income tax rate or lower it,
- Easing restrictions on interest deductibility, and,
- Making R&D expensing permanent.

ACRA represents over 98% of our nation's car rental industry. ACRA's membership is comprised of over 300 car rental companies, including all of the brands you would recognize such as Alamo, Avis, Budget, Dollar, Enterprise, Fox, Hertz, National, Sixt and Thrifty. ACRA members also include many system licensees and franchisees, mid-size, regional and independent car rental companies as well as smaller, independent operators. ACRA members have over 2.1 million registered vehicles in service in the United States, with fleets ranging in size from one million cars to ten cars, and employ over 160,000 workers at rental locations in every congressional district across the nation.

Before the pandemic, ACRA members annually purchased 1 in every 8 new vehicles in America. The pandemic created significant challenges for our industry, and our companies were forced to sell off hundreds of thousands of vehicles to stay afloat given reduced demand. As our companies sought to rebuild their fleets, lack of vehicle purchase availability due to the pandemic-related supply shortages also significantly impacted our sector. As those difficulties eased, the availability of full expensing in 2022 helped ACRA members recover and return to annual purchasing approximating the 1.7 million vehicles bought in 2019.

Notably, we appreciate that you and your colleagues have been strong supporters of reinstating full expensing, a less restrictive calculation for interest deductibility, and current expensing of R&D costs in the year incurred, and that you sought to address these issues through the Tax Relief for American Families and Workers Act of 2024. We hope there will be an opportunity to enact these changes as soon as possible, as they are critical to not only our industry – which is made up of major employers, and purchases millions of new vehicles from U.S. manufacturers – but also to the U.S. economy overall.

**Full Expensing**



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Enacted as part of the Tax Cuts and Jobs Act (TCJA), full expensing has been critical to promoting domestic investment, especially for capital-intensive industries like ours. Unfortunately, full expensing began to phase out beginning in 2023 and will fully phase out by the end of 2026.

Reinstating full expensing supports car rental operators as we replenish and replace our fleets. In particular, it helps to counteract the detrimental impact on our industry caused by the TCJA's elimination of section 1031 in personal property exchanges, which our industry had relied on heavily to refresh our fleets.

Absent reinstatement of expensing, companies across the car rental industry, particularly small business owners, will be forced to hold their fleets longer and reduce their purchases of new vehicles, or incur expensive debt to stay the course. A significant industrywide reduction in new vehicle purchases will harm automakers, their suppliers, and their workforce.

We therefore strongly encourage the Members of the Committee and the Congress to reinstate full expensing as soon as possible. The ability to fully expense our fleet purchases is critical to the domestic car rental industry's future growth as it lowers the cost of capital, significantly increases our ability to buy new cars, and consequently boosts domestic vehicle and auto supply manufacturing. This ultimately benefits thousands of businesses and millions of workers across the country.

### **Retaining the Current Corporate Income Tax Rate or Lower It**

As you and your colleagues well know, the reduction in the corporate rate from 35% to 21% was one of the most effective provisions in the TCJA in driving economic growth, and continues to be a critical factor in maintaining global competitiveness for the U.S. Proposals to increase the corporate income tax rate will have a chilling effect on the car rental industry, its employees, suppliers, and consumers. As noted, the car rental industry is a major purchaser of vehicles from U.S. auto manufacturers. Raising costs for car rental fleet operators could have a ripple-effect on the U.S. economy. If, for example, the industry purchases fewer new vehicles from U.S. manufacturers due to added tax burdens, U.S. automakers, their employees and the supplier community will feel the impact. Furthermore, like any new taxes on business, any increase in taxes may be passed on to the consumer in the form of higher prices. In our world, that could mean that consumers might pay more for car rentals, leaving them with diminished discretionary funds for spending on restaurants, retail, theme parks, tours, tickets, services and the like while traveling.

According to the Tax Foundation, "A lower corporate income tax rate would make the U.S. a more attractive location for business investment, creating economic opportunities for American households and reducing incentives for businesses to move operations or profits overseas."

Further, the Tax Foundation found that corporate tax hikes result in higher prices for consumers and lower wages for workers. Workers with fewer skills and less experience are the hardest hit. "The tax is intended to fall on shareholders (a title 61 percent of Americans hold, largely through their retirement savings accounts), but in reality, they shoulder about a third of the burden. The rest is split between workers and consumers. If the corporate rate increases, the negative effects won't be contained to just the rich."

### **Ease Restrictions on Interest Deductibility**

The business interest expense deductibility limitation provisions of Sec. 163(j) have taken on a broader scope since the passage of the TCJA. Under the TCJA, many businesses that rely on debt financing and



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historically claimed interest expense deductions associated with it must use a mechanical computation to determine such deductibility.

The starting point for computing the limitation on the business interest deduction is determining adjusted taxable income (ATI). ATI is taxable income computed without regard to (1) any item of income, gain, loss, or deduction that is not allocable to a trade or business; (2) any business interest or business interest income; (3) the amount of any net operating loss deduction; and (4) the amount of any deduction allowed for qualified business income.

For tax years beginning prior to Jan. 1, 2022, ATI was also computed without regard to any deduction allowable for depreciation, amortization, or depletion. That is, these items were added back in calculating ATI. This add-back rule no longer applies for tax years starting after 2021, resulting in even greater interest deduction limitations.

Congress should reverse this restriction and restore interest deductibility to pre-TCJA levels or, at a minimum, to pre-2022 levels. As the economy continues to recover from inflationary pressures and business owners are confronting higher interest rates, easing restrictions on interest deductibility is a mechanism to spur investment. While the owners of large vehicle fleets, especially car rental operators, would directly benefit from easing the current restrictions on interest deductibility, doing so would benefit the U.S. economy by further stimulating economic investment.

#### **Making Research & Development (R&D) Expensing Permanent**

Finally, the car rental industry urges Congress to reinstate expensing for R&D expenses. Like most longstanding and legacy industries, the car rental industry is innovating. From more sophisticated fleet management to improved customer experience to testing shared and autonomous rideshare options, the industry is investing billions of dollars in R&D. These new developments will serve to not only improve the economics for the industry, thereby supporting and creating hundreds of thousands of American jobs, but they also aim to improve the customer experience, making travel more affordable, accessible and enjoyable. As you are well-aware, the travel industry supports millions of jobs and contributed \$2 trillion to the U.S. GDP, according to the U.S. Travel Association. Car rentals play an integral role in the travel and tourism economy and the members of ACRA are investing heavily in the car rental ecosystem of the future. Enabling and preserving the industry's ability to expense R&D costs is an investment in America's economy and we urge Congress to make it permanent.

We greatly appreciate the work you and your fellow Members are doing to prepare for tax legislation next year and the opportunity to share our views. If you have any additional questions, please contact ACRA Board President Sharky Laguana at [sharky@bandago.com](mailto:sharky@bandago.com).

Sincerely,

A handwritten signature in black ink, appearing to read "Sharky", with a long, sweeping underline that extends to the right.

Sharky Laguana  
President  
American Car Rental Association