



EQUIPMENT LEASING BUSINESS MODEL

THE TAX-EFFICIENT PATH TO ASSET OWNERSHIP

Complete Guide to Section 179, Bonus Depreciation,
Cash Flow Generation & Asset-Backed Tax Strategy

This guide provides general educational information and does not constitute tax, legal, or financial advice. Consult with qualified professionals before implementing any strategy.

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The Opportunity: A \$60 Billion Market

The U.S. construction equipment rental market exceeds \$60 billion annually and continues to grow, fueled by record federal infrastructure spending and a structural shift from ownership to rental among contractors. This creates a unique opportunity for business owners and high-income professionals.

Equipment leasing is not a new concept. But when structured correctly as a business activity, it combines three powerful benefits that most tax strategies cannot deliver simultaneously.

Key Benefits:

- Monthly cash flow from national rental fleet placement
- Accelerated tax depreciation (up to 100% in year one)
- Tangible asset ownership with 56% contractual remarketing floor
- Turnkey operations managed by a national fleet operator

Three Pillars of the Strategy

Monthly Cash Flow

Your equipment is placed into a national rental fleet and actively rented to construction companies. As the owner, you receive monthly rental revenue — creating a self-sustaining business that offsets your financing costs. Revenue is

deposited between the 20th and 25th of each month.

Accelerated Tax Depreciation

Under IRS Section 179 and bonus depreciation, you can deduct up to the full cost of the equipment in year one. For a \$1M equipment portfolio, that could mean up to \$1M in tax deductions — dramatically reducing your taxable income in the year of acquisition. These are standard IRS provisions, not loopholes.

Tangible Asset Ownership

You hold title to real, physical heavy equipment with residual value. At the end of the 6-year business term, a contractual remarketing floor of 56% of the original cost protects your ownership position. This is a depreciable business asset — not a paper product.

AE Tax Advisors is commenting on this business model for educational purposes. AE Tax Advisors does not sell, broker, or arrange equipment leasing transactions.

How Equipment Leasing Works

The process is simple, turnkey, and fully managed. The equipment owner focuses on the tax benefits and cash flow — the fleet operator handles everything else.

Step 1: Tax & Business Assessment

Review your income, entity structure, and tax goals with your tax advisor to determine whether equipment ownership fits your situation and model the projected tax impact.

Step 2: Equipment Selection & Acquisition

Choose from high-demand heavy construction equipment — excavators, wheel loaders, dozers. Typical structure: 10% down with competitive financing. You take legal ownership.

Step 3: Fleet Placement & Operations

Equipment is placed into a national rental fleet spanning 300+ locations across 44 states. The operator manages insurance, maintenance, GPS telematics, and customer relationships.

Step 4: Depreciation + Monthly Revenue

Claim Section 179 and bonus depreciation deductions while collecting monthly rental income. At term end (6 years), equipment is remarketed at a contractual 56% floor price.

Real-World Examples

The following hypothetical examples illustrate how the business model works in practice for different income levels and goals. Actual results will vary based on individual circumstances.

EXAMPLE 1: ORTHOPEDIC SURGEON | W-2 INCOME: \$1.2M

The Situation

A high-earning surgeon paying an effective federal rate of over 35% with limited deduction opportunities as a W-2 earner sought compliant strategies to reduce her annual tax burden.

The Strategy

Acquired \$750,000 in heavy equipment (10% down / \$75,000 out of pocket). Equipment placed into national rental fleet. Claimed Section 179 deduction in year one.

\$750K Year-One Depreciation Deduction

\$8,288/mo rental income | \$7,750/mo financing | +\$538/mo net cash flow

The Outcome

Reduced taxable income by \$750,000 in year one. At a 35% effective rate, this represented approximately \$262,500 in tax savings — while the equipment generates positive monthly cash flow.

EXAMPLE 2: TECH FOUNDER | BUSINESS INCOME: \$3M+

The Situation

A software company founder with significant pass-through income needed strategies beyond retirement contributions and entity structuring. He wanted asset-backed deductions that also produced ongoing revenue.

The Strategy

Acquired \$2,000,000 in construction equipment through his business entity (10% down / \$200,000). Equipment immediately placed in rental fleet across multiple states.

\$2M Year-One Depreciation Deduction

\$22,100/mo rental | \$20,668/mo financing | +\$1,432/mo net cash flow

The Outcome

Offset \$2M of business income with depreciation deductions. Reduced effective tax rate from 37% to under 24%. Equipment operates as a separate, self-sustaining business line.

EXAMPLE 3: REAL ESTATE INVESTOR | PORTFOLIO INCOME: \$800K

The Situation

An experienced real estate investor had already maximized cost segregation. She wanted an additional asset class with accelerated depreciation without adding property management complexity.

The Strategy

Acquired \$500,000 in equipment (10% down / \$50,000). Used depreciation to offset passive income gains from her real estate portfolio.

\$500K Year-One Depreciation Deduction

\$5,525/mo rental | \$5,167/mo financing | +\$358/mo net cash flow

The Outcome

Added a new depreciation asset class, reducing portfolio-level taxable income by \$500,000. The 56% remarketing floor provided downside protection unavailable in additional real estate purchases.

**These examples are hypothetical illustrations. They do not represent actual clients or guaranteed outcomes. Consult a qualified tax professional.*

The Tax Mechanics

The tax advantages of equipment ownership are standard IRS provisions specifically designed to encourage business investment in tangible assets. Here is how they work.

Section 179 Deduction

Section 179 allows businesses to deduct the full purchase price of qualifying equipment in the year it is placed in service. For 2025/2026, the deduction limit exceeds \$1.2 million — meaning a business owner who acquires \$1M in qualifying equipment could potentially deduct the entire amount in year one.

- For a business owner in the 37% bracket, a \$1M Section 179 deduction could equal approximately \$370,000 in federal tax savings in year one alone

Bonus Depreciation

The Tax Cuts and Jobs Act introduced bonus depreciation for qualifying assets. While the rate has been phasing down, when combined with Section 179, it remains a powerful tool for front-loading deductions. Your tax advisor will model the optimal combination for your specific income profile.

Equipment vs. Other Tax Strategies

Strategy	Year-One Deduction	Produces Income?	Asset Backed?
Equipment Leasing	Up to 100%	Yes (monthly)	Yes (56% floor)
Retirement Contributions	Up to \$69,000	Deferred	Market dependent
Real Estate / Cost Seg	Varies (20-40%)	Yes (rental)	Yes (property)
Charitable Giving	Up to 60% AGI	No	No

Comparison is for general illustration only. Actual deduction amounts depend on individual circumstances. Consult a qualified tax professional.

Material Participation Requirements

To claim equipment depreciation deductions against active income (W-2, business income), you must meet one of the IRS material participation tests under Section 469. If you do not materially participate, losses are classified as passive and can only offset passive income.

Common Tests for Equipment Owners

Test	Requirement
Substantially All	You perform substantially all the work in the activity and no one else is significantly involved. Since the fleet operator handles day-to-day operations, this test requires careful structuring.
100+ Hours / No Less Than Others	You participate 100+ hours during the year AND no other individual participates more hours than you. This is often the most practical test for equipment owners.
500+ Hours	You participate more than 500 hours during the tax year. This provides the clearest path to material participation but requires significant documented involvement.
5 of 10 Years	You materially participated (under any test) in 5 of the prior 10 tax years. Useful for established equipment owners with a track record.

Material participation is determined on an activity-by-activity basis. Documentation of hours and activities is essential. Your tax advisor will assess which test applies and help structure your participation accordingly. See IRS Reg. 1.469-5T for the full seven-test framework.

Built-In Protections

Every piece of equipment in the program is covered by multiple layers of protection, managed by a professional operator with a national footprint.

Full Insurance Coverage

Comprehensive coverage against damage, theft, and liability — included at no additional cost to the owner.

Professional Maintenance

All preventive and corrective maintenance by certified technicians to protect long-term asset value.

GPS Telematics Monitoring

Real-time location tracking and diagnostics for full visibility into equipment condition and utilization.

56% Remarketing Floor

Contractual minimum resale value at end of term, protecting your ownership position against market fluctuation.

Frequently Asked Questions

Is this an investment or a security?

No. This is a business model involving the direct ownership of physical equipment. You purchase and hold title to specific assets. There is no pooling of funds, no investment fund structure, and no reliance on a promoter. This is a business activity — not a securities transaction.

Do I have to manage the equipment?

No. The national fleet operator manages all operations: rental placement, insurance, maintenance, telematics, and customer relationships. Your involvement is limited to ownership and tax reporting.

What types of equipment are available?

High-demand construction equipment including excavators, wheel loaders, dozers, skid steers, and similar machinery. Equipment is selected based on national utilization data and rental demand.

Can I use this alongside my existing tax strategies?

Absolutely. Equipment depreciation complements strategies like retirement contributions, cost segregation, and entity structuring. Your tax advisor will model how it fits your overall plan.

Important Disclosures

Nature of This Document

This document is provided by AE Tax Advisors for informational and educational purposes only. AE Tax Advisors does not sell, broker, arrange, or administer equipment leasing transactions. AE Tax Advisors is a tax advisory firm commenting on equipment leasing as a legitimate business model. Nothing herein constitutes investment advice, tax advice, legal advice, or financial planning advice.

Not a Security or Investment Offering

The equipment leasing model described herein is NOT a security, investment contract, or investment product under federal or state securities laws. Participants purchase, own, and hold title to specific equipment as a business activity. There is no pooling of assets.

No Guaranteed Outcomes

All figures, scenarios, and examples are hypothetical illustrations only. They are NOT guarantees, promises, or representations of future results. Actual outcomes will vary based on equipment type, market conditions, utilization rates, financing terms, and individual circumstances.

Excess Business Loss Limitations — Section 461(l)

Under the TCJA, non-corporate taxpayers are subject to excess business loss limitations. Business losses exceeding business income by more than \$512,000 (married filing jointly) or \$256,000 (single filers) cannot offset non-business income in the current year. Excess losses carry forward as a net operating loss. Thresholds are adjusted annually for inflation and currently apply through 2028.

Passive Activity Loss Rules — Section 469

If you do not materially participate in the equipment leasing activity, losses are classified as passive and can generally only offset passive income. If participation is passive, depreciation deductions may be suspended until you have sufficient passive income or dispose of the activity.

At-Risk Rules — Section 465

Deductions are limited to the amount you have 'at risk' — generally your cash investment plus amounts you are personally liable for. Non-recourse financing may limit the depreciation you can claim.

NOL Carryforward Limitations

Net operating losses can be carried forward but may only offset up to 80% of taxable income in any given carryforward year. There is no carryback period for most NOLs under current law.

Business vs. Personal Use

Equipment must be used more than 50% for business purposes to qualify for Section 179 and bonus depreciation. If business use drops below 50%, previously claimed deductions may be subject to recapture.

Remarketing Floor

The 56% remarketing floor is a contractual provision, not a guarantee of market value. Actual resale may vary depending on equipment condition and prevailing market conditions.

Role of AE Tax Advisors

AE Tax Advisors is a tax advisory firm. AE Tax Advisors does not sell, broker, arrange, manage, or administer equipment leasing programs. Any decision to pursue equipment ownership should be made in consultation with independent tax, legal, and financial advisors.

IRC references and legal citations are provided for educational purposes. This guide does not create an attorney-client relationship. Readers should verify all information with their own advisors before taking action.

Work With AE Tax Advisors

Most business owners choose tax strategies based on what their accountant suggests. Strategic business owners analyze the financial impact and structure for both current tax savings and future flexibility.

Why Structure Matters

Equipment leasing as a business model can be a powerful addition to a comprehensive tax plan. The right analysis ensures you understand how depreciation deductions interact with your existing income, entity structure, and long-term financial goals.

- Confidential consultation to assess your tax situation
- Modeling of Section 179 and depreciation impact on your returns
- Analysis of material participation requirements
- Integration with your existing tax strategies

Schedule a confidential consultation with AE Tax Advisors to discuss whether equipment leasing could complement your overall tax strategy. We provide the tax analysis — you make the decision.

Legal Disclaimers

This whitepaper provides general educational information about equipment leasing as a business model. AE Tax Advisors does not sell, broker, or arrange equipment leasing transactions. This is not a security or investment offering. All strategies discussed require analysis of individual tax situations. AE Tax Advisors does not guarantee any specific tax savings. Actual benefits depend on individual circumstances, proper implementation, and ongoing compliance.

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