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Internal Revenue Service

CC:PA:LPD:PR (Notice 2026-16)

Room 5203, P.O. Box 7604

Ben Franklin Station

Washington, D.C. 20044

**Re: Comments on Notice 2026-16 — Interim Guidance on Special Depreciation Allowance for Qualified Production Property; Request to Clarify “Substantial Transformation” for Industrial and Commercial Laundries**

To Whom It May Concern:

The Textile Rental Services Association (TRSA) submits these comments in response to Notice 2026-16, which provides interim guidance under § 168(n) for the special depreciation allowance for qualified production property (QPP) and solicits comments on whether the definitions in Section 5 are representative of their respective industries and on additional examples of activities that are, or are not, manufacturing, production, or refining that result in substantial transformation.

TRSA is the national association of the textile rental industry. TRSA members provide textile rental and maintenance services for commercial, industrial, and institutional customers from

more than 1,500 facilities nationwide and support nearly 200,000 jobs. TRSA members account for approximately 90 percent of annual sales in the linen supply industry and approximately 75 percent of sales in the industrial laundering industry. TRSA's independent and national member companies rent reusable, hygienically clean textile items—such as linens, uniforms, towels, floor mats, and related products—to customers across commerce, industry, healthcare, hospitality, and food service. TRSA also administers its “Hygienically Clean” certification to recognize facilities that meet hygienically clean standards and best practices across markets.

## Executive Summary

- Treasury and the IRS should clarify that industrial and commercial laundries can satisfy the “substantial transformation” requirement when integrated, industrial-scale processes convert textiles from an unmarketable and functionally impaired state into hygienically clean, functionally restored, marketable textile products held for rent, lease, or sale.
- This clarification is consistent with Notice 2026-16’s manufacturing definition, which expressly includes products held for rent or lease, and with the Notice’s tuna-canning example of substantial transformation.
- Household laundry and neighborhood laundromats are not capable of reliably achieving the hygienic outcomes required in hygiene-critical markets because they generally lack engineered wash chemistry, validated temperature/time profiles, and industrial finishing capabilities integral to industrial hygienic processing.
- Judicial authority confirms that industrial laundering changes the marketability and/or state or form of textiles through engineered chemical and mechanical processes, and that rental distribution does not negate the transformative nature of the operation.

## I. Notice 2026-16: Clarifying “Substantial Transformation” for Industrial Laundering

Notice 2026-16 provides that a qualified production activity (QPA) means manufacturing, production, or refining of a qualified product, and that a trade or business activity does not constitute a QPA unless it results in “substantial transformation of the property comprising the qualified product.” The Notice defines “substantial transformation” as further manufacturing, production, or refining of constituent elements, raw materials, inputs, or subcomponents into a final, complete, and distinct item of property in the hands of the taxpayer that is fundamentally different from the original inputs.

Section 168(n) was enacted as part of the One, Big, Beautiful Bill Act (Public Law 119-21) in the portion of the legislation aimed at establishing certainty and competitiveness for American job creators and accelerating domestic investment in production capacity. The provision reflects Congress’s decision to use accelerated cost recovery to influence real-world capital allocation by allowing taxpayers—by election—to expense up to 100 percent of the depreciable basis of qualifying nonresidential real property that is an integral part of domestic manufacturing,

refining, and other qualifying production activities, rather than recovering those costs over the standard 39-year recovery period applicable to nonresidential real property.

This structure indicates that § 168(n) was intended to encourage and accelerate investment in U.S. production facilities—particularly construction, expansion, and modernization—by improving near-term project economics. In that context, the “substantial transformation” requirement operates as a targeting mechanism to ensure the incentive is directed to activities that convert inputs into marketable tangible products through an integrated production process.

This transformation-and-marketability framework is consistent with Treasury’s longstanding approach under former § 199, which focused on whether an integrated domestic process converted property into a marketable product for its intended use, rather than on formal labels or transaction form.

The Notice also defines “manufacturing” to include materially changing the form or function of tangible personal property to create a new item of tangible personal property held for rent, lease, or sale. This explicit inclusion of rent and lease confirms that rental business models can produce qualifying output under § 168(n).

Because the Notice’s illustrative examples focus on classic raw-material-to-new-article conversions, additional examples are needed to ensure consistent application to industries whose production is an industrial-scale hygienic conversion process. Industrial laundering is such an industry: it employs complex logistics, engineered wash chemistry, specialized machinery, and tightly controlled monitoring to convert textiles into marketable hygienically clean rental inventory.

Critically, household laundry and neighborhood laundromats are not a substitute for industrial laundering in hygiene-critical markets. Household and coin-operated systems generally do not apply appropriate wash chemistry in appropriate amounts (including controlled chemical injection and multi-step dosing tailored to soil and pathogen profiles), do not maintain validated water-temperature and dwell-time profiles across loads, and do not employ industrial finishing capabilities—such as high-heat pressing/ironing and steam-tunnel/form-finishing—that restore textiles’ functional condition and can add a final hygiene component.

These industrial finishing and process-control steps are central to why industrial laundering should be treated as “substantial transformation” for purposes of § 168(n) and Notice 2026-16. The relevant “input” is the textile in its pre-process condition—often contaminated or functionally impaired (e.g., non-absorbent or unsuitable for intended use)—and the integrated wash chemistry, temperature/time controls, and finishing operations convert that input into a hygienically clean, functional textile that is marketable for its intended end-use and returned to inventory for rent/lease or sale.

Industrial laundering is distinct from industrial cleaning. Industrial laundering is an integrated, industrial process applied to tangible personal property (textiles) that uses engineered wash chemistry, validated temperature/time profiles, and industrial finishing to convert textiles from an unmarketable or functionally impaired condition into hygienically clean, functional items returned to inventory for rent/lease or sale. By contrast, “industrial cleaning” typically refers to cleaning premises, floors, equipment, or workspaces (janitorial/sanitation services) and generally does not entail an integrated process that converts the condition or state of a tangible product into a marketable product output as contemplated by the qualified production activity and substantial transformation framework in Notice 2026-16.

For avoidance of doubt, TRSA is not asserting that retail drycleaning establishments should be treated the same as industrial laundering facilities for purposes of § 168(n). Traditional drycleaning plants are generally engaged in drycleaning or dyeing apparel and household fabrics (often classified as SIC 7216 / NAICS 812320), whereas the industrial laundering and textile rental operations at issue here are industrial-scale laundering/finishing processes applied to reusable textiles supplied on a rental/contract basis (commonly classified as SIC 7218 / NAICS 812332 and related linen supply NAICS 812331). These industry codes are cited as descriptive context and not as an exclusive eligibility rule.

## **II. Industrial Textile Laundering as an Integrated Production Process**

Industrial and commercial laundries operate integrated, production-like workflows designed to deliver textiles that are safe and functional for their intended markets. Both used textiles and certain new textiles must be processed before being placed into service; new textiles often contain oils, waxes, and other chemicals from manufacturing or shipping that can render them non-absorbent or unsuitable for skin contact until processed.

Industrial textile processing typically includes:

- Receiving and sorting by fabric type, soil profile, and hygiene requirements;
- Industrial washing using engineered combinations of mechanical action, specialized chemistry, temperature, and time;
- Drying and finishing using controlled airflow, heat, pressure, and steam to restore function and appearance; and
- Pack-out, inventory control, and delivery to customers from processed inventory.

## **III. Judicial Authority Recognizing Transformative Industrial Laundering**

Courts have recognized that industrial laundering operations transform textiles by changing their marketability and/or state or form through physical and chemical processes, and that rental distribution does not negate the existence of qualifying processing. These decisions reinforce that industrial laundering satisfies transformation-based production standards.

## **IV. The Tuna-Canning Example and Analogous Industrial Processing**

Notice 2026-16 identifies “freshly caught tuna fish to canned tuna” as an example of substantial transformation. Tuna canning demonstrates that transformation may occur through an integrated sequence of preparation, controlled thermal and mechanical processing, sterilization, and quality assurance that converts inputs into marketable products.

Industrial laundering is analogous in structure and purpose. It converts textiles not marketable for hygiene-critical uses into hygienically clean, functional, marketable products through an integrated, controlled process.

## **V. Requested Clarifications and Additional Guidance**

In exercising its authority under § 168(n)(7) to issue rules defining “substantial transformation” consistent with guidance under § 954(d), Treasury should be guided by the same transformation- and marketability-based production principles that long governed former § 199, under which the inquiry centered on integrated process and marketable output rather than on formal labels, one-time transformation, or whether the output was sold or rented.

TRSA respectfully requests that Treasury and the IRS:

1. Add an example recognizing industrial laundering and hygienic processing of reusable textiles as substantial transformation.
2. Clarify that substantial transformation may be satisfied where industrial processes change state, function, and marketability, even if the same physical article is reused.
3. Confirm that rental and lease business models do not disqualify QPA status.
4. Provide non-exclusive factors consistent with § 954(d) to guide application of the substantial-transformation standard to industrial hygienic-processing industries.
5. Recognize that industry classification (e.g., NAICS 812332/812331 or SIC 7218) may serve as an administrable, non-exclusive indicator to support line-drawing in guidance and examples, in contrast to drycleaning classifications (e.g., NAICS 812320 / SIC 7216), while maintaining the operative standard as the integrated process and resulting substantial transformation under Notice 2026-16.

## **VI. Conclusion**

For these reasons, TRSA respectfully urges Treasury and the IRS to clarify in forthcoming regulations that industrial and commercial laundering operations can satisfy the substantial-transformation requirement when they convert textiles into hygienically clean, functionally restored, marketable products held for rent, lease, or sale—consistent with congressional intent, long-standing federal production standards, and judicial authority.

Respectfully submitted,

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## Appendix A — Continuity With Federal Production Standards (Former § 199)

Former § 199 reflects long-standing federal production principles that support a transformation- and marketability-based approach to “substantial transformation” under § 168(n):

- § 199 focused on whether taxpayers engaged in domestic manufacturing/production activities that substantially transformed property into a marketable product for its intended use, rather than requiring a formal “factory” label or a wholly new article from raw materials.
- Marketability was a key indicator: the relevant question was whether the taxpayer’s activity converted property into something that could be used or sold in commerce in a way it could not before the activity occurred.
- The framework did not hinge on one-time conversion or on whether the output was sold versus rented/leased, so long as qualifying production output resulted from an integrated process.
- Treasury distinguished industrial-scale processes—characterized by process controls, specialized equipment, and repeatability at scale—from consumer-level or incidental activities.
- Congress carried forward this transformation-and-marketability concept into § 168(n) by adopting a “substantial transformation” gatekeeping standard and directing Treasury to issue rules consistent with guidance under § 954(d).

## **Appendix B — Persuasive Judicial Authority Recognizing Industrial Laundering as Transformative Processing (Arizona & Tennessee)**

Note on authority: The decisions summarized below arise under state tax statutes and are not binding for federal tax purposes; they are provided as persuasive, illustrative authority because they analyze whether industrial laundering operations are transformative in condition/state and marketability—concepts that align with Notice 2026-16’s “substantial transformation” inquiry for qualified production activities.

### **Arizona Supreme Court: 9W Halo OPCO, LP (Angelica Textile Services) (Mar. 3, 2026)**

- Held that an industrial healthcare textile laundering facility qualified as a “processing operation” because its operations change the marketability of the textiles for their intended use.
- Found that healthcare textiles are not marketable for their intended use prior to the facility’s integrated laundering and disinfecting process, which includes precise, multi-step chemical application.
- Emphasized that the relevant inquiry focuses on the qualifying operation itself; whether the product is rented rather than sold is not determinative of whether the operation constitutes processing.

### **Tennessee Court of Appeals: AlSCO, Inc. v. Tennessee Department of Revenue (Sept. 6, 2023)**

- Affirmed that an industrial laundry’s sanitization operations constituted “processing” where evidence showed textiles undergo physical and chemical change (contaminants bind to fibers and controlled chemistry breaks those bonds).
- Recognized that the process restores functional characteristics (including absorbency) and converts textiles from unmarketable/unsafe condition into hygienically clean, marketable products.
- Rejected a requirement that processing must create a wholly new article; instead, the transformation from pre-process soiled/contaminated condition to post-process hygienically clean and functional condition was sufficient under the applicable standard.

### **Takeaways for Treasury’s forthcoming § 168(n) regulations (3 points):**

- These decisions support recognizing that industrial laundering can be transformative where an integrated, controlled process converts textiles from an unmarketable or unsafe condition into marketable form for their intended hygiene-critical use.
- They reinforce that downstream transaction form (sale vs. rent/lease) should not control the transformation analysis where the operative question is whether the taxpayer’s activity and facility-based processes produce marketable output.
- They illustrate objective, administrable factors—engineered chemistry, validated temperatures/time, industrial finishing, and quality systems—that distinguish industrial hygienic processing from household/laundromat activity.