National Retail Federation
The Voice of Retail Worldwide

Statement
Of

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Economic Stimulus for Small Business: A Look Back and Assessing Need for Additional Relief

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I am Rachelle Bernstein, Vice President and Tax Counsel for the National Retail Federation which is the world's largest retail trade association, with membership that comprises all retail formats and channels of distribution including department, specialty, discount, catalog, Internet, independent stores, chain restaurants, drug stores and grocery stores as well as the industry's key trading partners of retail goods and services. NRF represents an industry with more than 1.6 million U.S. retail establishments, more than 24 million employees - about one in five American workers - and 2007 sales of $4.5 trillion. Most retailers are small businesses – 96% of retail companies have only one location.

Chairwoman Velazquez, Ranking Member Chabot, and Members of the Committee, NRF commends you for holding this important hearing to evaluate the impact on small business of the economic stimulus package enacted earlier this year and assess the need for additional relief.

Economic Impact of Tax Rebate Payments

Early this year, Congress and the Administration worked together in a bipartisan fashion to enact economic stimulus legislation to aid a slowing economy. The NRF commends the Congress for its quick action to address the nation's economic needs. Because consumer spending represents 70% of GDP, we believe that the tax rebate payments were particularly important. Today, we would like to share with the Committee what we have learned to date about the impact of these tax rebates.

In the current economy, most categories of merchandise and most types of retail outlets are struggling to achieve even modest sales increases. Tax rebate payments are providing some stimulus, but consumer spending remains subdued because of the stresses of declining home values, escalating fuel and food costs, increasing unemployment and weak financial markets.

Consumers are concentrating their spending on essentials. They are also more concerned than ever with pricing of merchandise. Consumers are shopping more on line so that they can more easily make price comparisons and also save money on gas.

For small retailers, this economic climate is even more difficult than for larger retailers. Small retailers tend to compete more on service than on price. Because small retailers cannot benefit from economies of scale, they are hit harder than other merchants by rising costs, particularly the rising cost of fuel. Small retailers who do not sell their goods on line are not be able to take advantage of the shift to online sales.

Direct deposits of tax rebate payments began the last few days of April, followed by the mailing of rebate checks through July 11 for all eligible taxpayers who filed a tax return. After a decline in retail sales in March, there has been a bump in retail sales of general merchandise[1] for April, May and June, which we attribute to the distribution of the tax rebate checks.

The April bump in retail sales was .6 percent seasonally adjusted month-to-month, which was the largest month-to-month increase since November of 2007.

With substantially more checks distributed in the month of May, amounting to more than $40 billion in rebates, retail industry sales increased by .9 percent on a seasonally adjusted month-to-month basis. Most of the May sales increase went to discounters and grocers, although some shoppers splurged on electronics and appliances.

The Treasury Department distributed almost $30 billion in rebate checks in the month of June, but consumer spending remained soft, with an increase of .2 percent on a seasonally adjusted month-to-month basis. Most of this increase seemed to be focused on necessities.

A survey of consumers' use of tax rebate checks was performed by BIG Research the week of June 3 – 10. As of that date, 45.3% of survey respondents had received their tax rebate payments. 42.9% of respondents said that they used the money to purchase something. However, nearly half the money that was spent went to gas or necessities such as groceries rather than to general merchandise as envisioned when the rebate check program was passed by Congress. 17.1% of respondents said that they saved their money. As a survey released earlier this week demonstrated, respondents who initially saved their rebate money may use it for purchases in upcoming months.

In survey findings released just this week, NRF found that one-fifth of parents nationwide have set aside a portion of their stimulus check for back-to-school purchases. Specifically, parents say they will use some of their tax rebate check to fund electronics, such as computers and cell phones. The survey found that the average family with school-aged children will spend $594.24 on back-to-school purchases, compared to $563.49 last year. Total back-to-school spending for Kindergarten through 12th grade this year is estimated to reach $20.1 billion.

Assessing the Need for Additional Relief

Economic forces have impacted the consumer over the past few months that were not foreseen when the economic stimulus package was first enacted, particularly the escalating costs of fuel and food. As a result, consumers have

[1] Retail sales of general merchandise exclude automobiles, gas stations and restaurants.

used their rebate money to pay for the higher costs of these items, rather than increasing purchases of consumer goods that would have had a broader impact on the economy. Despite the modest rise in retail sales over the last few months, we believe the results are better than they would have been if Congress had not enacted the tax rebates.

Based on the economic information that is currently available, we believe that a compelling case can be made for providing additional economic stimulus legislation. If Congress does act on a second economic stimulus package, we believe it should once again include relief for the consumer. Since consumer spending is the largest contributor to GDP, it is difficult to foresee an improvement in overall economic growth until consumer spending improves.

AMT

If Congress further delays action on the alternative minimum tax (AMT) there will be negative economic ramifications. Legislation is pending in both Houses of Congress that would extend the so-called AMT "patch" so that 25 million more Americans are not subject to the AMT next year. When Congress delays action on this legislation until the end of the year, as they did last year, it delays the IRS' timing for printing tax forms and processing tax returns. As a result, payments of refunds are delayed. Given the fact that economists predict the economy will still be soft in the first half of next year, receipt of tax refunds will be very helpful to consumers and should not be delayed.

Other Tax Relief for Small Retailers

The NRF has long advocated depreciation reform that will help small retailers. In the 2004 Tax Act, Congress provided a temporary 15-year depreciable life for retailers that lease their property, but continued to require retailers that own their property to depreciate their improvements over 39 years. In many cases, retailers that own their buildings are small businesses, and they are placed at a competitive disadvantage compared with retailers that lease their stores. Furthermore, in the current economic climate, some retailers look at remodeling as a way to revitalize a failing store, but the anticipated return has to pay for the costs involved. When the costs must be written off over 39 years, it is much more difficult to make the decision to remodel the store. We hope that this Committee will support extension of the temporary tax measures that expired at the end of 2007, as well as depreciation reform for retailers. The retail depreciation reform is part of Senate Finance Committee Chairman Baucus' AMT and extenders tax bill, S. 3125, and has been introduced in the House as H.R. 2936 by the Chairman of the Ways and Means Select Revenue Measures Subcommittee, Rep. Richard Neal.