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Consumer Business COMPASS

Economic Stimulus: Will Retailers Reap Any Benefits?

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On Tuesday, Feb. 17, President Barack Obama signed into law the $737 billion American Recovery and Reinvestment Act of 2009, commonly referred to as the economic stimulus package. While the plan aims to achieve a variety of objectives appealing to a wide-range of interest groups, the overriding goal of the plan is to stimulate the economy through unemployment relief, job creation and assistance to both corporate America and middle class individuals. As such, the Act contains approximately $300 billion of net tax cuts aimed to benefit both businesses and individuals. Ideally, these tax cuts, in conjunction with other provisions in the Act, will help aid the ailing retail industry.

Business tax provisions disappoint

Although initially hopeful, retailers are now skeptical that the Act will provide any significant relief. During the planning process, many industries and organizations lobbied for stimulus support, intense debates and negotiations in the House and Senate ensued, and little room was left in the package for all of the provisions that retailers hoped would come to fruition. In fact, many of the retail-related provisions were either eliminated or scaled back tremendously. For example, a provision to extend the net operating loss carryback period to five years, which would have put more cash into the hands of struggling retailers, was scaled back so much that it will benefit very few businesses. As it stands now, it only applies to companies with less than $15 million in gross receipts, which narrows its scope and limits its potential impact on the retail industry.

The provisions that were included, such as favorable depreciation provisions which permit retailers to expense a larger amount of capital purchases, will be of little value to most retailers in today's economic climate. For the majority of retailers, capital expenditures are being reduced, stores are closing and, when paired with a significant operating loss, these depreciation deductions are not as valuable as they once were.

Provisions for individuals may be a bright spot

Fewer business incentives in the package means retailers must look to the provisions for individual taxpayers for a possible indirect benefit. Tax relief and credits for individual taxpayers could increase consumer spending, which is a critical step for any kind of economic turnaround.

Everyone should remain hopeful that the package will spur consumer spending, but retailers and consumers alike must keep in mind that some of this spending will be directly impacted by lenders and, of course, unemployment. Unemployment relief, job creation and improvements in the credit environment are critical. For example, even though the purchase of a new home generally leads to a wide range of consumer spending, it is simply not a priority for taxpayers who are unemployed or fear a pending layoff. Even if unemployment is not an issue, a tax credit

Did You Know?

to encourage homeownership will not be successful if a mortgage cannot be obtained.

"Making work pay" and other deductions
The "making work pay" credit could be very important for retailers because it is intended to stimulate the economy by providing additional income to taxpayers, which they can either spend or save. The credit of up to $400 will be implemented by an adjustment to withholding taxes for the remainder of 2009. As a result, taxpayers will receive marginally larger paychecks.
Spending patterns in late April to August 2008, when the stimulus rebate checks were released, indicate that consumers mostly saved the money, despite that fact that the economy was significantly stronger than it is now. As a result, while cautiously optimistic, retailers are concerned that this round of stimulus will also be saved, rather then spent in the marketplace.

There are fundamental differences between the structure of President Obama's stimulus package and the 2008 plan, which could provide hope for retailers who are doubtful that consumer spending will increase. With the current plan, taxpayers will receive smaller increments of money via payroll for the rest of the year, as opposed to one lump sum check. A lump sum payment is probably more likely to be saved, or used to pay down debt, but there is a consensus that smaller payments extended over a longer period of time are more likely to be spent.

In addition to the "making work pay" credit, there are other tax credits and deductions available for individuals on their 2009 and 2010 tax returns, although many individuals will not receive the benefit of these savings until next year when their tax return is filed. Therefore, an uptick in consumer spending may not be evident until taxpayers file their 2009 taxes and are prepared to receive a larger tax refund next spring. Still, it is something that taxpayers can possibly look forward to and plan for. And retailers hope it will have a positive impact on 2009 holiday sales as consumers realize that they can use their tax refunds to pay off any purchases.

After closely analyzing the plan, it is easy to see why retailers are cautious about whether it will help jump start consumer spending. The credit markets and consumer confidence are critical to the success of many provisions in the stimulus plan, and improvements in these segments will be a necessary component in the recovery process. While the stimulus plan is a start towards rebuilding the American economy, most businesses will be looking for the government to continue to address these issues in the coming months. In the meantime, retailers should remain cautiously optimistic and concentrate on the critical decisions that they will undoubtedly face in these unprecedented times.

Did You Know?

According to an **NRF survey conducted by BIGresearch**, two-thirds of Americans expect a tax refund this year and half of Americans will use their tax returns to pay down debt.

The NRF Retail Sales Outlook predicts that retail industry sales will decline 0.5% this year.

In 2008, 27 major retailers filed for Chapter 11, a nearly 400% increase from 2007. **Source: BankruptcyData.com**.

According to the **NRF Retail Industry Indicators 2008**, one-fifth of general merchandise stores' sales come from apparel.

According to the **U.S. Labor Department**, the retail sector lost 39,500 positions in February – after January's decline of 38,500 – which is a modest decline from the 178,000 jobs lost in the prior two months.

Largely because of the economy, domestic expansion dropped out of the top five company priorities for most retailers for 2008 and 2009 after tying for the second spot last year. **Source: Retail Horizons: Benchmarks for 2008, Forecasts for 2009.**

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