National Retail Federation

May 20, 2021

The Honorable Richard Neal Chairman House Committee on Ways and Means Washington, DC 20515	The Honorable Kevin Brady Ranking Member House Committee on Ways and Means Washington, DC 20515

RE: Leveraging the Tax Code for Infrastructure Investment

Dear Chairman Neal and Ranking Member Brady:

I am writing on behalf of the National Retail Federation to provide our views on the Committee's efforts to identify funding and financing options to bolster American infrastructure. The retail industry, which depends on the nation's roads, rails and ports, strongly believes investment in transportation infrastructure is an essential need. However, we believe it is critically important that funding options that may be enacted to finance infrastructure should not have a worse impact on the economy than the benefits that infrastructure spending is expected to bring to the economy.

NRF recently engaged EY to conduct a study of the economic considerations of raising the U.S. corporate income tax rate and using the proceeds to invest in infrastructure. The results of the study were that GDP, wages and jobs would all decline, even if the proceeds were invested in infrastructure spending, which by itself would have a positive impact on the economy. Most critically, there would be more than 700,000 fewer jobs in the economy if the corporate tax rate is increased to fund infrastructure.

NRF, the world's largest retail trade association, passionately advocates for the people, brands, policies and ideas that help retail thrive. From its headquarters in Washington, D.C., NRF empowers the industry that powers the economy. Retail is the nation's largest private-sector employer, contributing $3.9 trillion to annual GDP and supporting one in four U.S. jobs — 52 million working Americans. For over a century, NRF has been a voice for every retailer and every retail job, educating, inspiring and communicating the powerful impact retail has on local communities and global economies.

<u>An Increase in the Corporate Tax Rate is One of the Worst Ways to Fund Infrastructure</u>

Increasing the corporate tax rate and investing the proceeds in infrastructure reduces investment, productivity, jobs and wages.

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The EY study showed that using a corporate tax rate increase to fund this investment would cause:

- 730,000 fewer jobs
- GDP to decline by .3%,
- Consumption to decline by .2%,
- Investment to decline by .8%,
- Labor Income to decline by .5%

Retailers Are High Effective Taxpayers

One of the arguments that is made for increasing the corporate tax rate is that some corporations have high profits but pay low amounts of income tax. So, the argument is made that by raising the corporate tax rate, these businesses will pay more tax. The reason that the identified companies pay low amounts of tax is not because of the tax rate on their taxable income, but because they are able to utilize various tax credits and other incentives to reduce the base of income upon which the tax rate is applied. If a business is able to reduce its tax base to zero, then they would not pay more in tax even if the corporate tax rate were 100%, because 100% of zero is still zero.

Most retailers have high effective tax rates because they are able to utilize few of the tax incentives or credits in the Internal Revenue Code. A recent survey of NRF members found that effective tax rates in 2018 and 2019 ranged between 22.5% and 29.9%, inclusive of state and local income taxes which average 4.8%. If the tax rate were raised by 7 percentage points, it would directly impact the ability of retailers to maintain their current level of stores and employment, expand to new locations, and invest in e-commerce to better compete in a post-pandemic shopping environment.

Many retailers told us that one of the ways that they invested the savings from the Tax Cuts and Jobs Act (TCJA) corporate rate cut was to increase the overall level of wages and compensation (retirement and other employee benefits) for their employees. If Congress now takes back a portion of the rate cut, employers cannot take back that boost in level of wages. The only way to address an overall level of labor cost that may be more than a company can afford would be to reduce the level of employment. This is essentially what EY's macroeconomic study confirmed.

The Corporate Tax Rate Should Not Be Raised As the Economy Recovers From Recession

Most economists agree that taxes should not be raised during an economic downturn. They do not want to repeat the example from the Great Depression, where tax increases between 1929 and 1932 are credited with turning a recession into a depression, even though ill-advised monetary policy may have been the fundamental cause of the economic crisis.

There remains a widespread view that the U.S. economy is not yet out of the danger zone. There are 8.5 million fewer workers today than before the pandemic. In addition, the unemployment report for April suggested an uncertain pace of economic recovery, where economists expected about 1 million new jobs, but only 266,000 were created.

For those retailers and restaurants that are finally moving out of a loss position caused by closures and lack of discretionary spending by consumers during the pandemic, a 33.3% increase in tax on profits will greatly hinder their opportunities to recover. Some of the anticipated effects are:

- Retailers will continue to close their least profitable stores. This not only eliminates jobs of those retailers, but also impacts the survival of other stores in those malls.
- Retailers will eliminate jobs. As stated above, since businesses will not be able to reduce wages if the tax rate cut is rescinded, the only alternative will be to eliminate jobs.
- Retailers will not be able to invest in new stores and new hiring.
- Retailers will not be able to invest in new and expanded e-commerce capability to enable them to better compete in post-pandemic shopping trends.
- Retailers will not be able to invest in more permanent modifications to their stores aimed at addressing long-term health and safety concerns of employees and customers.

We hope that you will take into account our concerns with the impact of a corporate tax rate increase as you examine various options for financing infrastructure. Attached for your information is a copy of the **EY study** conducted for NRF on, Economic Considerations for Raising the US Corporate Income Tax Rate.

Sincerely,

David French
Senior Vice President
Government Relations

CC: House Committee on Ways and Means Members