



July 13, 2017

The Honorable Peter Roskam
Tax Policy Subcommittee of the
House Ways and Means Committee
United States House of Representatives
Washington, DC 20515

The Honorable Lloyd Doggett
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Dear Mr. Chairman and Mr. Doggett:

Please add these comments of The National Retail Federation (NRF) to the hearing record for the Tax Policy Subcommittee July 13 hearing on how tax reform will enhance the contribution that small businesses make to the growth of the economy and the creation of jobs for American workers.

Small businesses make up 98% of the retail industry and provide 40% of the industry's 42 million jobs. Our retail members believe that a reform of the income tax, by providing a broad base and low rates, will bring the greatest economic efficiency and simplicity to the federal tax system. These changes will lead to greater investment, more jobs and greater economic growth. In making these reforms, it is important that the tax code not place different tax burdens on taxpayers in similar economic circumstances. For this reason, tax reform must be applicable to all businesses, not just C corporations. A reformed income tax code should not include tax preferences based on the form of legal entity (e.g. C corporations vs. pass-through entities), how property is owned (e.g. leased stores vs. owned stores), or distribution channel for sale of merchandise (e.g. brick and mortar sales vs. remote sales). Our small retail members are also very concerned about tax reform efforts that might shift the burden of taxation to consumption. Increased costs to the consumer will cause sales to decline and result in a contraction in their businesses.

We have surveyed NRF's small retail members with respect to the impact of the House Blueprint for Tax Reform on their businesses. The provision that causes them the greatest concern is the border adjustment tax (BAT). (A summary of their responses to questions about the BAT is [here](#).) Of small business retailers that source merchandise from overseas, 85% say it's important that they do so for their business to succeed. Three out of five small retailers expect a negative business impact if BAT is enacted.

Some retailers said that the only costs they could cut to try to offset the impact of the higher tax from enactment of the BAT was payroll, since all other costs were fixed. If the 9% of retail small business owners that said they would lay off workers reduced their headcount by just 5%, that would

result in 215,000 jobs being lost. If the 11 % of retail owners that said they would cut cost by decreasing employee hours cut just two hours of work per week, that would cause about \$490 million in lost wages in the first year.

Other respondents believed that the higher product costs would have such a devastating effect on their sales that they would probably be driven out of business. Eighteen percent of small retailers say a border adjustment tax on all items they source from overseas would threaten their business or cause it to fail. The estimated employee loss of these retail small businesses going under is 772,000 jobs.

Our small retailers were also greatly concerned about the loss of the interest deduction. All of our small businesses raise capital for inventory purchases or remodeling expenses through loans. The Blueprint's provision allowing for expensing of capital assets does not offset the loss of the interest deduction for small retailers, as their capital expenditures are sporadic.

We appreciate the opportunity to continue to work with the Committee on pro-growth tax reform. Small retailers are probably the business group that is hardest hit by the potential impact of the BAT, as they do not have the economies of scale to be able to reduce the higher costs of their merchandise with the BAT imposed and are most likely to lose sales to lower-priced competition. We hope to work with you towards an alternative to the BAT and protect small retailers and the almost 17 million jobs that they contribute to the U.S. economy.

Sincerely,



David French
Senior Vice President
Government Relations

cc: Ways and Means Subcommittee on Tax Policy