

Federal stimulus package contains benefits for retail

by Scott Watkins, Anderson Economic Group



While the word “retail” does not appear in the 407 pages of the American Recovery and Reinvestment Act of 2009, better known as the stimulus plan, retailers will still see benefits from the legislation. The plan, unprecedented in size and debatable in likely effectiveness, will give consumers a shot in the arm in terms of a tax credit, and others an economic lifeline by extending jobless benefits social programs. The legislation also includes business tax breaks that some retailers can benefit from.

For retailers, the most significant aspects of the \$787-billion plan may be those that put money into consumers’ pockets. This includes \$237 billion in tax relief for individuals, nearly half of which will take the form of a payroll tax credit. This credit of about \$400 per middle- and lower-income worker will be “dripped” into pockets one check at a time. This slow infusion is hoped to result in more being spent, a few dollars at a time, as opposed to sending out larger checks that may be put straight into savings or used to pay off debt. So, while your customers won’t be getting a lump sum check any time soon, many will see a few extra dollars in each paycheck through the end of 2010.

The legislation also includes \$74.1 billion to extend unemployment benefits and increase them by \$25 per week; to provide one-time payments of \$250 to Social Security recipients; and to expand the food stamp program. These funds will help the lower income and the unemployed over the coming months and, in turn, help some retailers retain them as customers.

Tax relief for businesses includes bonus depreciation and bigger expensing write-offs for depreciable assets. To take advantage of these, a retailer will have to make investments in new assets such as computers, leasehold improvements and other long-lived assets. Together, these provisions can speed up the time it takes to recover the costs for major purchases by allowing a large portion of the cost to be deducted in the current year, as opposed to being depreciated over a long period.

Another tax provision of the stimulus lengthens the “loss carry-back” period from two years to five. With this, retailers that incurred an operating loss for the 2008 tax year can now use it to offset profits from the prior five years, instead of just two. To take advantage, a retailer will have to have had an operating loss in 2008, and file amended returns for prior years, before reclaiming previously paid taxes.

Finally, the expanded Work Opportunity Tax Credit offers retailers and others a \$2,400 credit if they hire from specific groups in the workforce. The credit is expanded to cover two new groups — unemployed veterans and those under 25 who have been unemployed or out of school for at least the past six

months. The credit still applies to nine previously covered groups, including those receiving selected government benefits, qualified veterans and qualified ex-felons.

The stimulus is, of course, much farther reaching than described above. Its most important provisions are those that direct money to infrastructure improvements, worker training and new research. This will, hopefully, expand America's competitive advantage and create a much stronger economy in years to come, allowing us to not only pay for these programs, but also to keep visiting retailers throughout Michigan.

Scott Watkins is a senior consultant and the director of finance for Anderson Economic Group, LLC (www.AndersonEconomicGroup.com). The firm, headquartered in East Lansing, provides economic, policy, and finance consulting services, including retail market analysis, location analysis and site selection, demographic analysis, and business valuations.