

Senate OKs Wage Hike with \$1 Billion Tax Relief for Retailers

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The Senate this week overwhelmingly approved a minimum wage increase bill that included more than \$1 billion in tax relief sought by NRF for the retail industry, but the vote set up a battle with the House on whether the final legislation should include tax relief provisions at all.

"This legislation gives small businesses in the retail industry the tax relief they need in order to continue to compete when faced with the additional expenses of a higher minimum wage," NRF Senior Vice President for Government Relations Steve Pfister said. "This is a fair and balanced bill that increases the minimum wage while recognizing its impact on the business community. The House should follow the Senate's example and move quickly to adopt the tax relief package provided by the Senate."

The Senate on Thursday voted 94-3 to approve an amended version of H.R. 2, the Fair Minimum Wage Act of 2007. Like the original bill passed by the House in January, the Senate version would increase the current \$5.15 minimum wage to \$7.25 over two years. But the measure also includes \$8.3 billion in tax relief for small businesses that originated in legislation sponsored by Senate Finance Committee Chairman Max Baucus, D-Mont., and Ranking Member Charles Grassley, R-Iowa.

The House refused to consider tax relief when it voted on the wage hike, but Senate Majority Leader Harry Reid, D-Nev., and Minority Leader Mitch McConnell, R-Ky., agreed to work together on a wage hike/tax relief combination acceptable to both parties, resulting in the package drafted by Baucus and Grassley. The Senate last week rejected the House minimum wage-only bill and moved on to consider the Baucus/Grassley package adopted Thursday.

Of particular importance to retailers -- especially small merchants who will be hit hardest by a minimum wage increase -- is language that would end the difference in depreciation rules for improvements made to stores that are leased and those that are owned. Under current law, improvements made to leased stores can be depreciated over 15 years but improvements made to stores that are owned must be depreciated over 39 years. The Baucus/Grassley language would extend the 15-year depreciation period for leased stores (currently set to expire December 31, 2007) through March 31, 2008, and expand it to owned stores, making the depreciation period 15 years for both. While the provision as written would expire after next March, NRF would seek annual extensions if the measure is enacted.

Expanding 15-year depreciation to owned stores would save retailers \$1 billion over 10 years for improvements made during the one-year period, according to Congress' Joint Committee on Taxation.

The change was proposed by NRF and included in the bill after NRF conducted a major lobbying campaign, working with Baucus, Grassley and other Finance Committee members, and also urging all senators to support the language. Last month, NRF member Dave Ratner, owner of Dave's Soda and Pet City, a mini-chain of pet supply stores in Massachusetts, testified before the committee on retailers' behalf. NRF has argued that retailers remodel stores every five to seven years and that the 39-year period was unrealistic. Approximately half of retail stores are owned and the other half leased.

The legislation would also grant the Work Opportunity Tax Credit program a five-year extension. The program is widely used by retailers to help low-income would-be workers move into the workforce. The WOTC extension is expected to save businesses \$3.6 billion over 10 years, but the program is used by a variety of industries and a breakdown of retailers' savings was not available.

Even though minimum wage legislation has now been passed by both chambers of Congress, it is not clear how soon the initiative will get to President Bush for his signature. House Speaker Nancy Pelosi, D-Calif., insisted on passing a "clean" wage hike bill without tax provisions as part of her "first 100 hours" agenda after Democrats took control of the House in January, and Ways and Means Committee Chairman Charles Rangel, D-N.Y., has objected to the Senate bill on the grounds that the Constitution requires tax measures to originate in the House. Baucus has indicated that the Senate will hold its bill rather than sending it immediately to the House, and could seek to attach it as an amendment to a tax-related bill coming over from the House.

Bush has said he would sign a minimum wage hike only if it is accompanied by tax relief, and reiterated his position Thursday.

"The Senate has passed significant legislation that will benefit America's workers and small businesses," Bush said. "I strongly encourage the House to support this combined minimum wage increase and small business tax relief."