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HEARING ON NATIONAL SALES TAX HOLIDAY: HOW WILL THIS PROPOSAL IMPACT AMERICA'S SMALL BUSINESSES

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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CONTENTS

	Page
Hearing held on November 15, 2001	1

WITNESSES

Graham, Hon. Lindsey, Member, U.S. House Of Representatives	4
Abercrombie, Hon. Neil, Member, U.S. House Of Representatives	5
Lav, Iris, Deputy Director, Center on Budget and Policy Priorities	12
Norquist, Grover, Americans for Tax Reform	14
Karl, Elmer, Karl TV and Appliance Store	14
Holland, Elizabeth, Chief Executive, Abbell Credit Corporation	16
Wilson, Rush, Rush Wilson, LTD	18
Gornik, Katherine, Vice Chair, Consumer Electronics Association	20

APPENDIX

Opening statements:	
Manzullo, Hon. Donald	41
Velazquez, Hon. Nydia	45
Jones, Hon. Stephanie Tubbs	47
Prepared statements:	
Graham, Hon. Lindsey	49
Abercrombie, Hon. Neil	50
Lav, Iris	53
Norquist, Grover	55
Karl, Elmer	58
Holland, Elizabeth	62
Wilson, Rush	67
Gornik, Katherine	75
Additional Information:	
Statement of William Wright, President & Chief Executive Officer, Access Integrated Networks, Inc	79

HEARING ON NATIONAL SALES TAX HOLIDAY: HOW WILL THIS PROPOSAL IMPACT AMERICA'S SMALL BUSINESSES

THURSDAY, NOVEMBER 15, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:06 a.m., in room 2360 of the Rayburn House Office Building, Hon. Donald Manzullo [Chairman of the Committee] presiding.

Chairman MANZULLO. We are going to call the Committee hearing together because Senator Murray has arrived, and I promised her as soon as she got here we are going to start her testimony and we are going to do that right now, Senator Murray, even before any opening statements, to accommodate you. And then we will have opening statements later on. I look forward to your testimony. Thank you.

STATEMENT OF HON. PATTY MURRAY

Ms. MURRAY. Well, thank you very much, Mr. Chairman. It is an honor to be here with you and Ranking Member Velazquez and all the members of this Committee who will join you as you go along. I appreciate you holding this hearing on what I think is a very important idea. I want to thank all of you today for allowing me to talk about how a national sales tax holiday can help our country's small businesses through these tough economic ideas.

This idea, Mr. Chairman, has won a lot of support across the political spectrum. I want to thank Representative Blagojevich and Representative Graham who are here today and Representative Abercrombie for their work here on the House side. I also want to mention Congressman Baird who has worked with me on this. He has introduced legislation to allow citizens in states like Washington to deduct sales tax from their federal tax returns. And I know he is going to be here later and I thank him as well.

Mr. Chairman, last week I was pleased to introduce S. 1643, The Sales Tax Holiday Act of 2001, with Senator Snowe. We have 14 cosponsors, including Senators Lieberman, Santorum, Dorgan, Thurmond, Durbin, Craig, Cleland, Bond, Feinstein, Johnson, Warner, Mikulski, and Carnahan. I think that is an impressive list of bipartisan senators. And I think we have come together on this issue because we all know that our economy really does need a shot in the arm.

The GDP is declining, consumer confidence is at a seven-year low, and consumer spending has slowed to its lowest level in eight years. But consumer spending is just what our economy needs to get it going. In fact, two-thirds of our economy depends on consumer spending. The Sales Tax Holiday Act will get Americans back into our stores and will help get our economy back on its feet.

The Sales Tax Holiday will help consumers and businesses save money on everything from cars and computers to books and baby clothes. It will boost retail sales and consumer confidence and it will help everyone in the retail chain, from small businesses on Main Street to anchor stores in large malls.

Mr. Chairman, this National Sales Tax Holiday is immediate. Every American can take advantage of it, and it won't break the bank. It will directly stimulate our economy by boosting sales and supporting retail, transportation, and manufacturing jobs throughout the country.

As this Committee knows well, even before September 11, this was shaping up to be a very difficult time for retail businesses and the thousands of workers that they employ. Many small businesses rely on the holiday season to make it through the entire year. And many workers count on having retail jobs during the holiday season. Our bill helps both. Seven states plus the District of Columbia have used sales tax holidays and they have had great results.

Here is how our bill works. The tax holiday would run for ten days, from November 23 to December 2. The Federal Government will reimburse states for lost sales tax revenue. Right now, we estimate the cost of this to be about $6.5 billion, depending on how many states participate and how strongly consumers respond.

Under our plan, every penny of this $6.5 billion will go directly into the economy. Every state that participates in the holiday will receive a quick payment of their estimated lost revenue. Before the tax holiday, a state can decide that it wants to be reimbursed for the exact amount of its loss. Those states that ask for an exact accounting will go through a reconciliation process with the Federal Government after the tax holiday.

I believe the Sales Tax Holiday Act can be an important part of a balanced economic stimulus package. Our proposal will stimulate economic activity and consumer confidence. States and businesses that have participated in sales tax holidays report an increase in sales during the sales tax holiday. These businesses have found that consumers don't just shift their spending to the holiday period, but that these holidays create new spending that would not have otherwise occurred.

Our proposal will stimulate business investment and job creation. Retail businesses will need to boost their inventories to prepare for larger crowds. That is good news for manufacturers, distributors, and other businesses that help meet consumer demand for all kinds of products.

Our proposal benefits all Americans. Low, middle, and upper-income people, all pay sales tax on the products they buy. And since the sales tax is the most regressive kind of tax, lower-income consumers will benefit the most.

Mr. Chairman, our proposal is fiscally responsible. This proposed tax day holiday will last for no more than ten days in any state

and, therefore, there are no exploding costs in the long term. In addition, as I mentioned, our proposal will not hurt state and local budgets. Our plan is optional. So states can choose to opt in if they want to stimulate their economy.

Mr. Chairman, President Bush has urged all of us, in the wake of the September 11 attacks, to return to our daily lives and get back to business. I believe this proposal will get our country back in business. It is fair. It is responsible. It will help families, and it will stimulate our economy.

And I just want to say one more thing. The time to act is right now. We cannot afford to have a bad holiday shopping season. That could drag our economy down into next year. Retailers and consumers need time to prepare for this proposed holiday. So we, in Congress, need to pass it now. So I thank you, Mr. Chairman, your Ranking Member, and all your members for the opportunity to testify today. And I look forward to working with all of you to pass this very important legislation. Thank you, Mr. Chairman.

Chairman MANZULLO. Thank you, Senator. To expedite your time, I want to open the Panel here to see if any members have any questions of Senator Murray. Otherwise, I will excuse you. Do you have time for a couple of questions?

Ms. MURRAY. Yes, I do.

Chairman MANZULLO. The question is, Senator Murray, is Thanksgiving is next week.

Ms. MURRAY. Yes.

Chairman MANZULLO. And this would be set to take place on the Friday after that. And in the Senate yesterday, was this made part of the Senate Majority Proposal and voted down or could you tell us——

Ms. MURRAY. No. We intended to offer it as amendment on that proposal that was presented to the Senate last night. But we are in a state of limbo at this point to see how that is going to proceed.

Chairman MANZULLO. Okay. I guess my question would be, and perhaps the suggestion is that in the unlikely case that this cannot be enacted ready to go the day after Thanksgiving, that it would be my suggestion—and I think that you and Lindsey would concur—it would be to prepare a package to get out all of the stumbling blocks or any of the problems that the governors may have so that if Congress decides to use this, it could pass immediately and be implemented with the full blessings of the governors. Would that be a good suggestion?

Ms. MURRAY. Indeed. I believe some states have already moved to have provisions made that if this passes they are immediately ready to move forward on it. And I think if other states do that, that will help put some pressure on all of us here to get it done.

Chairman MANZULLO. That is great. Look forward to working with you and thank you for coming to our hearing this morning.

Ms. MURRAY. Thank you very much, Mr. Chairman. I appreciate being here.

Chairman MANZULLO. Thank you, Senator.

Ms. MURRAY. Thank you, Lindsey.

Chairman MANZULLO. Okay. Let us finish with the Panel of the members and then we can go into opening statements. Congressman Graham.

STATEMENT OF HON. LINDSEY GRAHAM

Mr. GRAHAM. Thank you, Mr. Chairman. If this thing takes off, it will be due in large part to this hearing. The momentum for the bill is building. We have 39 cosponsors in the House and growing. And Neil and I have been marketing a little bit on the Floor, but people have been coming up to us wanting to sign on the bill because our retailers and Chamber of Commerce, NFIB, and other business groups are really getting behind this bill. CEOs of retail sales organizations have said this will help.

The message I want to leave the Committee is, with your involvement, in a bipartisan fashion, of the Ranking Member and everybody on your Committee, if we could sort of organize our efforts here, because you are on ground zero, I think, of the issues facing the economy in the short term. And that is, small businesses. We are going to do many things for folks that need healthcare that are out of jobs. That is going to happen. We are going to spend some money and we are going to cut taxes to corporations. But people that have businesses in the mall, on Main Street, USA, they need some help and they need some help now.

The report that came out yesterday about increase in retail sales for October was the largest increase in, I think, since record-keeping. It was all due to the car sales. And what happened was that the retail car industry said, if you will come in and buy a car, we will give you zero-percent financing. Well, that hook worked. I mean, tremendous boost in car sales that created a boost in retail sales across our economy. This is a similar type hook that goes far deeper than zero-percent financing.

And, as Senator Murray said, if we do not have a good holiday shopping season, we will be paying the price as a country for well over a year. This is the first time we get to evaluate the strength of our economy post-September the 11th. And in a bipartisan fashion, we need to rise to the occasion. There are so many things we disagree with on about how to jump-start this economy, but when you have me and Senator Murray and Neil sitting at the same table, that is a pretty good start.

The comments since——

Mr. ABERCROMBIE. Larry, Curly, and Moe.

Mr. GRAHAM. That is right. And I will let you pick who is Curly. But that is good news. And the fact that you and the Ranking Member are having this hearing, I think, is good news. Because this is a method that works based on pretty good data in the past. I am from South Carolina. We have a sales tax holiday for back-to-school shopping. There is some shift of buying, but there is an overall net increase.

People respond to a good deal. Two hundred and fifty million dollars increase in sales during the weekend we had before school starts. If you go back, clothing supplies—excuse me—clothes and school supplies for your children tax free, sales tax free, there is a tremendous bump in sales. So seven states, including Texas, where our President is from, have engaged in this type of activity in the past. And the results are in and it is very, very positive.

Of all of the ideas that our floating out there, this, to me, makes the most sense because you don't get the benefit unless you buy something. This is not a rebate that we don't know where the

money is going to go. The only way a consumer gets the benefit of this tax break is to go out there and buy something. So it kind of combines spending and tax breaks all in one.

And we have a magic moment here in time to do something constructive that will help the economy in the short term which will turn around, I think, the economy in the long term. And if there was ever time in our Nation's history where the public needs to look at these two bodies to say that they are on the—that their working together for the common good is now. And to me, people can understand this. They would respond to it. That $6.5 billion dollars is very affordable. And it would be a shame not to do this because it has worked in the past, it will work now, and it will help us in many, many ways.

Americans need to have something to look forward to this holiday season and something to get excited about. And I can only imagine the marketing that would go into a bill to this concept. There is nine more days left. There is eight more days left. Come out and shop. Get a one-time good deal. Yeah. I think it would create a lot of excitement and a lot of sales and really help the economy.

And, Mr. Chairman, if we work together and we work quickly, we can do this. If we have to slip the ten days to another ten-day period during the holiday shopping season, so be it. But it would be a shame and, I think, a missed opportunity if we don't pass this legislation. And I want to thank you for having the hearing.

[Mr. Graham's statement may be found in appendix.]

Chairman MANZULLO. Well, thank you. From the great State of Hawaii, Congressman Abercrombie.

STATEMENT OF HON. NEIL ABERCROMBIE

Mr. ABERCROMBIE. Thank you very much, Mr. Chairman. I would like your permission to submit a formal statement.

Chairman MANZULLO. All the statements of all the witnesses and all the members will be admitted to the record without objection.

Mr. ABERCROMBIE. Thank you very much, Mr. Chairman. And I would just like to comment informally, very briefly, and it is just a commentary, because I certainly am in no position to instruct you or the other members on this area. I think we all understand it. I want to echo one thing that Mr. Graham said, which is the appropriateness of this Committee taking the lead here. I think this is an opportunity, Mr. Chairman, for—particularly for the majority now—and I am speaking to you as the Representative of the small business for the majority because you control the agenda.

I mean, fundamentally, when we all try to work together on all kinds of things, and that is the only way we can succeed in the House of Representatives, is by acting in concert as much as possible. Nonetheless, the plain fact of the matter is—a political fact of the matter is, is that the majority controls the agenda, and that is why I am hoping that you will be able to prevail with the leadership in the majority to get this scheduled as quickly as possible. I am going to assume that this is going to pass with some appropriate variations or alterations as need to be made to accommodate the states or the other localities so that they can utilize this if it passes.

And the reason is, is that there is no language to which I am sure you subscribe, as well as every experienced politician in the room, if you are explaining your reason. Now, the stimulus package, whether it is the Democrats or Republicans—and I can speak knowledgeably about it because I voted against both of them—and for me it is a good and sufficient reason. And it is because it is too damned difficult for people to understand.

Anybody try to explain lately to a group of folks who are going to try and pay their bill in the next 60 days or keep their employee health insurance over the next 60 days or try to keep from laying off four or five people in their small business, what the hell the alternative minimum tax has to do with their prosperity, with their ability to pay those bills? You can't explain to the public.

As Mr. Graham indicated, and I am sure the Senator did, you don't have to explain this to the public. You have to market it. That is all. Let them know that it is available. Nine days, ten days. It is a smart thing. This is time-sensitive and time-crucial.

And I am hoping that this can be—that you folks can pass this today, hopefully, and get this scheduled and get it on the Floor and put the pressure on the Senate. Even to pass it as a stand-alone bill, separate and apart, if necessary, from the question of the overall stimulus and all the high rhetoric that is floating around here about long-term economic trends and all the rest of it. What we are interested in here is the short-term capacity of the people of the United States to understand that they are going to be immediately addressed by this legislation.

And I think you have a rare opportunity, Mr. Chairman, to be a keystone in what could very well be the difference between not just profit and loss, but survival of the retail businesses and everyone associated with those retail businesses in terms of their employment and their capacity to sustain their families. And that is what this bill provides.

And I am very, very grateful for the opportunity to be working not just with you and other members of the Committee, but Mr. Graham and others. This is not a partisan endeavor. This is an American endeavor. This is something for us, as the people's representatives, to take the lead on. And I am confident that if we can pass this, this will literally make the difference for survival for literally tens of thousands of small businesses throughout this country. And, by extension, hundreds of thousands, or even millions, of people as to whether they are able to sustain not just their capacity to deal with their everyday economic and fiscal responsibilities as families, but whether or not they are going to have the confidence and the hope, realize that we are going to get through this immediate situation.

We are not dealing with abstract world issues. We are not engaged in a philosophical discussion. We are not dealing with mega politics here. We are dealing with the capacity of the average American family to be able to sustain itself and have the confidence that this Congress is going to be immediately responsive to their immediate needs.

And I think that this Committee, through the passage of this bill, can be a fundamental element in seeing that that kind of confidence is restored and that kind of literal economic advancement

is made in this holiday season. Thank you very much, Mr. Chairman.

[Mr. Abercrombie's statement may be found in appendix.]

Chairman MANZULLO. Thank you. I got a couple of questions. The—perhaps Congressman Graham, you would know the answer to this. Do people withhold shopping until the tax holiday begins? What have the studies shown in the seven states?

Mr. GRAHAM. In South Carolina, this is, I think, the second year. People's behavior is definitely altered by the good-deal nature of this. But the issue, does this just displace consumer purchases, is a question, I think, there is a mixed answer somewhat, but overall there is a net increase. In South Carolina there was a net increase beyond just displaced shopping of $250 million.

And let us just say that people would buy something—they were going to buy in January, but they buy it during the holiday season. That is a good thing now. Because 40 percent of our retail small business income comes during this period. And, as Neil said, people are deciding whether to hire holiday help. And they are deciding, some of them, if they don't have a good holiday season, they are not going to up in January. So our data is pretty strong that people respond above and beyond their normal buying capacity and they will make an extra purchase because it is a better deal than they would have otherwise and they will buy up the latter.

Car sales in Washington have sort of leveled off in the State of Washington because people are waiting to see if we will do this. And if you are buying a car in some states, it could be up to 14 or $1,500 off the purchase price because of the sales tax.

Chairman MANZULLO. The Texas comptroller reported that consumers purchased $400 million worth of tax-exempt clothing during last year's tax-free holiday, double the typical sales of an equivalent week in August. And in August this year, when both Maryland and Washington had holidays, one national retailer saw sales increase 35 percent over the same week last year. So overall, net sales would be up.

Mr. GRAHAM. Well——

Chairman MANZULLO. And that is the bottom line.

Mr. GRAHAM. Yes, sir, Mr. Chairman. One computer company had 1,000 percent increase in sales during the sales tax holiday period.

Chairman MANZULLO. That is why the computer people are going to testify right after you.

Mr. GRAHAM. Right. And it—and just put yourself in the average person's shoes. You are talking about buying a big item and you are waiting and seeing. And if you can save 40, 50, 100 bucks on a big item, you are going to do it. And people wonder, can legislators respond to this? Can they get their act together to opt in? I would hate to be in a legislative body that couldn't meet to decide to cut taxes for the benefit of the consumer. So none of the hurdles that I have heard are real. People respond. States will respond. We just need to respond. And with your leadership, I think we can get there.

Chairman MANZULLO. There is a——

Mr. ABERCROMBIE. Mr. Chairman——

Chairman MANZULLO. Yes.

Mr. ABERCROMBIE [continuing]. May I just——

Chairman MANZULLO. Of course.

Mr. ABERCROMBIE [continuing]. Follow on that very quickly. I want to re-emphasize or reiterate my point. Much of this is going to be psychological. I don't know that any of us can predict in any given constituency—and by constituency, I mean, like category of purchase—you know, of dishwashers or another television set or what—that or clothes or shoes for the kids—that in any given instance, you will be able to predict exactly what is going to happen.

But I know one thing for sure that will happen—is if we act on this and publicize this, that everybody will understand it immediately and they will take from it that the Congress is doing something. And not only doing something in the abstract, but doing something for them right now that addresses their immediate family needs. And that is probably as important as anything else because then you can do the marketing or the explaining on top of that.

Chairman MANZULLO. It is easy to understand and it is self-executing. Let me ask this question. If—I know CBO scored this as $6.5 billion and they used static scoring.

Mr. GRAHAM. Right.

Chairman MANZULLO. But if overall sales increase, how much more in federal income taxes will come in from the retailers? Does anybody know? Or from the manufacturers of these items?

Mr. GRAHAM. The good news is, Mr. Chairman, that——

Chairman MANZULLO. A lot of people are I don't know—they said, yeah, CBO—you got it right in Congress, but it is static—static.

Mr. GRAHAM. Yeah. But that is a great question because we are assuming—and I guess we are all being conservative—we are assuming there is not going to be any economic benefit to the Treasury. It is all going to be a $6.5 billion dollar loss. The truth is, there will be an economic benefit. No matter what CBO says, you and I know that when sales go up, people get employed in greater numbers. There are more people paying taxes. There will be some offsetting of that.

But let us just say $6.5 billion and everything is static. It is about ten percent of the number we are throwing around here to help the economy. And there is a world of difference on different ways to help the economy, but it seems to be a world of agreement here. The White House is getting very warm to this idea. I talked to Alan Greenspan, who is very intrigued by it.

But the main thing is, as Neil said, people can understand it. And we have a very limited opportunity here to do something constructive that people can understand, and it is about ten percent of the number we are throwing around. And, gosh, I just hope we can do it. And if—I think you all guys are the key.

Chairman MANZULLO. I appreciate it. Ms. Velazquez, do you have any question?

Ms. VELAZQUEZ. No. I don't have any questions.

Chairman MANZULLO. Anybody else have any questions? Oh. I am sorry. Democrat side—Bill, do you have any questions? Congresswoman Tubbs, do you have any questions?

Mrs. TUBBS-JONES. No questions——

Chairman MANZULLO. Okay.

Mrs. TUBBS-JONES [continuing]. Mr. Chairman. Thank you.

Chairman MANZULLO. Go ahead.

Mr. SHUSTER. I just have a statement. First of all, I would like to commend Mr. Graham and Mr. Abercrombie. I think this piece of legislation is what the economy needs. And I can speak to it as a small business owner or as a retailer. I own an automobile dealership. And what is happening right now because of this legislation are people are putting off their purchases because they want to see if they can save the 1,400 or $1,500.

So I think it is going to have a huge impact. And I just urge the Chairman to let us move on this quickly so that we can see it get out there and generate more sales. Right now, in my business, about five to seven percent of the sales are being put on hold, we believe, and I am getting calls from all over the State of Pennsylvania, saying the same thing. Is this thing going to come? So I think we need to, again, act on it and act on it quickly. I think it is just what the economy needs.

Chairman MANZULLO. Will the gentleman yield for a second?

Mr. SHUSTER. Sure.

Chairman MANZULLO. The—what is intriguing about the zero-percent financing on the automobiles and trucks—and I don't know how long that can go—but that has created a whole new market for people who were not looking for——

Mr. SHUSTER. Yes.

Chairman MANZULLO [continuing]. For automobiles. I was down at an automobile dealer——

Mr. SHUSTER [continuing]. Yes.

Chairman MANZULLO [continuing]. Sat in a silver pickup truck, 4x4, I can see myself out on the farm. I could envision driving a truck whose color is the same as my hair. And I dreamed about being able to trade in my 1994 Buick Roadmaster station wagon with 98,000 miles and buy a brand new pickup truck for 300 bucks a month for the next five years. I have to convince my wife. That is a hurdle that this Committee cannot cover. But when you look at, in Illinois, about six-and-a-half to seven percent in sales tax, on a $20,000 vehicle, that is $1,400. But people also have to weigh, of course, how long the zero-percent financing is going to—I mean, I would—if I were going to buy, I would buy now. Then I would keep on buying once the sales tax holiday goes into effect.

Listen, we really appreciate——

Mr. ABERCROMBIE Mr. Chairman, can I add——

Chairman MANZULLO. Yes. Of course.

Mr. ABERCROMBIE [continuing]. Just a quota to that. Academic——

Chairman MANZULLO. Oh. I am sorry. Oh. I am sorry. I thought you were finished, Mr. Shuster.

Mr. ABERCROMBIE. Oh. It is your time.

Chairman MANZULLO. I beg your pardon.

Mr. ABERCROMBIE. I yield back. But again, I just want to stress that I think this is a——

Chairman MANZULLO. You might want to recognize him because it is your time.

Mr. ABERCROMBIE. Yes.

Mr. SHUSTER. Okay. Go ahead.

Mr. ABERCROMBIE. Thank you, Mr. Shuster. A follow on that, and as a democrat, because I want to emphasize that this is I don't want to say bipartisan—it is nonpartisan. In the sense that I believe—and I want to state for the record—this is a revenue generator. I know that the CBO, whoever it is—I mean, but, you know, economists are people who have a job telling you why you can't have one or don't have one or likely will not have one. And why, overall, statistically that is a good thing. You know, so I don't worry about that.

What we have got to do here—we are the people's representatives. We are the ones that are elected. And I think that common political sense tells you this is a revenue generator, because people are going to do things they would not otherwise do. That is why I think things like the spousal travel deduction or business meal entertainment deduction—people who have never worked before, except as economists, don't understand how the economy operates. They deal in abstractness.

I live within an economy that is based on service and we understand that. And the automobile dealers in Hawaii get their business from people who work in the service economy, who wait on tables, who provide the food for the tables in restaurants, who understand what it is to keep a hotel opened, transportation back and forth from the airport, and so on, and so forth. And that generates taxes. That generates revenue for government at all levels.

And that is my last point. This is not just going to go to the state. This is going to generate revenue all the way up and down the line and enable cities and towns and villages to be able to keep their property taxes going in the way that we will be able to sustain them as well. If we don't do this, you are going to see the collapse of all kinds of people being able to meet their mortgage payments and all the rest of it. This is going to be a revenue generator, Mr. Chairman, not something that diminishes revenue.

Chairman MANZULLO. Do you yield back your time?

Mr. SHUSTER. Just amen.

Chairman MANZULLO. Thank you.

Mr. ABERCROMBIE. We all said amen.

Mr. SHUSTER. And this is a—I have been here six months and this is, I think, the most common sense piece of legislation I have seen. My big concern in six months is I have also seen, as we move pretty slow, we need to move very, very quickly on this to get it in play.

Chairman MANZULLO. Thank you.

Mr. SHUSTER. So thank you.

Chairman MANZULLO. Mr. Davis, do you have any questions?

Mr. DAVIS. Thank you, Mr. Chairman. I don't really have a question. I just want to thank the gentlemen for coming to testify. As a matter of fact, I am a cosponsor of this legislation. I, too, believe that it is a common sense. It stimulates the economy. It helps to move things around. It causes people to put resources into action. I am not an economist, but I am one who believes that if you really want to stimulate the economy, that you don't just take—my mother was a good soup maker. And I never saw her stir the top of the

soup. She generally went deep down and took the spoon and stirred it up, which meant that you shook up everything in it.

And if you can get people to moving and spending and transferring and interacting, then I believe that we are going to get some stimulus and we are going to get the stimulus that we need. And it is a good piece of legislation, and I thank the gentlemen for coming to testify.

Chairman MANZULLO. Thank you. Anybody else wish to be recognized? Okay. Well, thank you two very much.

Mr. ABERCROMBIE. Thank you, Mr. Chairman.

Chairman MANZULLO. Congressman Baird, who is a member of this Committee, is coming shortly. He is at another markup. So we appreciate your coming to testify.

Mr. GRAHAM. Thank you very much.

Chairman MANZULLO. And if the next Panel would please take their seats, we can get started then. Mr. DeMint, do you have a witness here that you would like to introduce from your home district?

Mr. DEMINT. I would love to. Thank you, Mr. Chairman. I would like to introduce a friend of mine from Greenville, South Carolina, Rush Wilson. Rush, thanks for being here today and thank you for letting me go out of order here. Again, he is Vice President and Manager of Rush Wilson Limited. He helps to dress the best-dressed people in Greenville, but he has been very involved with the community in a lot of different ways, as well as the Independent Stores Board of Directors, National Retail Federation. And we are in the Greenville Rotary Club together, and so we have been involved with a number of projects. He is past President of both the Greenville Downtown Merchants Association and the Carolinas-Virginia Clothiers Association. So, Rush, I know you—you know what it is about on the ground floor out doing business at retail. So I look forward to hearing from you today and, thank you very much for coming.

Mr. WILSON. Thank you.

Mr. DEMINT. I yield back, Mr. Chairman.

Chairman MANZULLO. Well, thank you. And then I think Mr. Thune has a witness—that as soon as he comes, we will have him introduce that witness. Okay. Let us—the—I am going to put my opening statement in the record and I think, Ms. Velazquez, you want to do the same thing.

Ms. VELAZQUEZ. Correct.

Chairman MANZULLO. Thank you.

The—let us start here with Ms.—is it Lav? How do you pronounce it?

Ms. LAV. Lav.

Chairman MANZULLO. That is pretty simple, isn't it, to pronounce. Ms. Lav, could you—Grover, could you move the microphone over, and if you could place that sort of close to you, we would appreciate your talking into it. Is it Ms. Lav? That would be correct.

Ms. Lav is the Deputy Director of the Center on Budget and Policy Priorities. And we have got a little clock here that shows about five minutes. And if you could stick as close to it as possible, we would appreciate it. And we look forward to your testimony.

STATEMENT OF IRIS J. LAV

Ms. LAV. Thank you, Mr. Chairman. Mr. Chairman, and members of the Committee, I thank you for the opportunity to testify today on the proposals to create a federally designed state sales tax holiday.

Now, I would begin by saying the impulse behind sales tax holiday proposals does make sense. One of the best ways to boost our flagging economy now would be to stimulate consumer demand. There is no question. But a national sales tax holiday has such significant problems that it would sharply limit its effectiveness.

The first problem is timing. I think no one should support a sales tax holiday on the assumption that we can boost sales in the Christmas season of 2001. It just can't happen.

You know, if Congress were to enact a holiday even today, which it is not about to do, each legislature would need to meet to enact the plan for the state. Governors can't do this. Most state legislatures are not in session until January or February. Of course, you can call a special session, but there are time requirements and they carry substantial costs.

Once a legislature acted, state revenue departments would need to act—write regulations to adapt the holiday to their own sales tax systems. It doesn't happen automatically. And this is far from a trivial task. Phrases such as sales tax or tangible personal property or even food, that sounds simple in federal legislation, are quite difficult to apply in each of the different state sales tax systems.

And once the implementation details are settled, then the state needs to go out to the retailers and educate them and the general public about the holiday. Retailers need to reprogram their machines, train their employees. It is a whole series of steps, each one of which takes time. That it is not reasonable to expect could be accomplished in many places before March or April of 2002.

And given the delay, enacting of a sales tax holiday could make consumer demand during the Christmas buying season worse than it otherwise would be if you have something that is enacted for January or February or March, and then consumers delay purchases and—to wait for the holiday.

And, as someone already mentioned, this already seems to be happening in Washington state, where, because of Senator Murray's sponsorship, the sales tax holiday has been widely publicized. The Seattle Times reported on November 8 that some car dealers are saying they have already seen a drop-off in sales because of the buzz surrounding the sales tax holiday.

A related issue is whether sales tax holidays hold much net benefit for the economy. It is likely that increased sales during the sales tax holiday are borrowed from periods before and after the week or so after the holiday is in effect. It is not enough to look at what happens during the holiday. And a study by the New York State Department of Taxation and Finance found that New York shoppers bought no more clothing in the winter of 1997 due to their holiday than they would have bought anyway. They just crammed their purchases into the seven-day holiday window. And that is one of the few studies that really, you know, looks at that carefully.

A fourth set of issues of particular interest to this Committee is the potential difficulty and cost of implementation of a sales tax holiday for states and for small businesses. For example, the bills exclude sales payable with respect to food, tobacco products, and alcoholic beverages. A lot of states that tax some or all of those, they are not distinguished on remittances retailers make to the state necessarily. So separate reporting would be a new burden on retailers. So would be reporting on sales during a week rather than a full month. There is just a lot of examples of things that would be new reporting burdens.

And we do know that the cost of compliance will be greater for small businesses than for larger ones. Data from Washington state shows the cost of complying with state sales tax rules and procedures, collecting and remitting tax, is about six-and-a-half percent of sales tax for small retailers, but less than one percent for large retailers. And Washington state also found that the cost of reprogramming point-of-service equipment for rate changes was four to nine times higher for small- and medium-sized retailers than for large retailers.

Finally, the federal reimbursement to states for lost revenues raises a troubling set of questions. The Federation of Tax Administrators, the people that really know what goes on with revenue, has major concerns about the methodologies that are being considered for reimbursement. And it actually calculates that the revenue loss would be more like 9.5 billion to 13.3 billion than the 6.5 billion, which is the figure I believe the National Retail Federation is using.

If states and localities are not made whole for lost revenues, which I view as a high probability, the sales tax holiday would add to the deficits with which states are already coping. We know already that there will be cutbacks in services and increases in taxes because of the deficits, and that certainly will affect small businesses.

It is also important to remember that in the recession of the early 1990s, about half the states raised their sales and excise taxes to close their budget gaps, to the tune of about $12 billion. And certainly, if states are not adequately reimbursed, but in any case, they will be looking at raising their consumption taxes, something that can weaken retail sales. And we have to look at that and figure what the best way to spend dollars to counteract that.

There are better ways to boost the economy.

Chairman MANZULLO. How are you on time? We are about a minute over.

Ms. LAV. Oh. Okay. I am sorry. I am a little bit over. So let me say I think there are better ways to boost the economy and we can talk about that in questions. And I would just urge you to consider some of these better ways, rather than this, which is extremely difficult to implement and would potentially be harmful. Thank you.

[Ms. Lav's statement may be found in appendix.]

Chairman MANZULLO. I look forward to asking you the question. Thank you very much for your excellent testimony. Our next witness is Grover Norquist. And Grover is the President of the Americans for Tax Reform. I look forward to your testimony.

STATEMENT OF GROVER NORQUIST

Mr. NORQUIST. Thank you. Yes. I serve as President of Americans for Tax Reform. We ask candidates for office to take the pledge against tax increases—213 members of the House, 37 senators, 1,200 state legislators, nine governors and one president have done so. So we oppose tax increases, but also are generally a supporter of reducing the tax burden at the federal, state and local levels.

I think the national sales tax holiday is an extremely good idea. I would say that what Mae West said about sex was true also about tax cuts. All tax cuts are good tax cuts; even bad tax cuts are good tax cuts. That said, this is a good tax cut.

I think it is an extremely good way to go. I am glad it is being brought up now. I hope it is passed now for this season. But if it is not able to be done in time, for reasons that have been discussed, I hope the next time we talk about a significant tax cut that we include this as well.

It is a big improvement. It is a way to make any tax cut more "progressive" to make sure that we reach out to people who don't, perhaps, pay an income tax or a capital gains tax, but make sure that we get tax reductions for them. I think in this situation, it is particularly important in building consumer confidence, which is why I think we should do it now for this year, for this Christmas season. It is a good idea now. It ought to be considered as part of future tax reductions.

There are five states without sales taxes—Alaska, Delaware, Montana, New Hampshire and Oregon. I would hope that we could come up with some mechanism to allow them, perhaps, to do the same thing against their gasoline tax or against property tax cuts, and make some provision for those.

And lastly, I would hope that the U.S. Congress would look down the road to abolishing federal excise taxes and getting the federal government out of the excise tax business, leaving that revenue stream for the states and getting rid of the present excise taxes that we have on telecommunications and other areas. Thank you.

[Mr. Norquist's statement may be found in appendix.]

Chairman MANZULLO. Thank you. Congressman Thune, would you like to introduce the next witness?

Mr. THUNE. Thank you, Mr. Chairman, I would. It is my pleasure and privilege today to have with us Mr. Elmer Karl from Gregory, South Dakota. He is the owner of Karl's TV and Appliance, Incorporated, and is a past President of the South Dakota Retailers' Association. Mr. Karl opened his first store in Gregory with $2,000 and a lot of hard work, and has grown his company into a successful chain of retail stores. Today, Karl's TV and Appliance employs 220 people in South Dakota in ten different stores across our state. So it is a great pleasure for me to introduce and to welcome to our Panel today Mr. Elmer Karl.

STATEMENT OF ELMER KARL

Mr. KARL. Good morning, Mr. Chairman, and members of the Committee. I would like to take this opportunity to thank Congressman John Thune——

Chairman MANZULLO. Excuse me. Could you——

Mr. KARL. How about that?

Chairman MANZULLO. Yeah. And bring it up just a little bit closer. There. That is fine. Thank you.

Mr. KARL. I don't want you to miss this. Anyway, I do want to thank you for inviting me to testify at this morning's hearing on the proposed National Sales Tax Holiday.

As John mentioned, my name is Elmer Karl and I am President of our company, Karl's TV and Appliance. Since I started back in '56, I have implemented a ESOP so we are now an employee-owned company.

I have served on the Board of the South Dakota Retailers and have been President for one term. We currently—as John mentioned, we operate ten locations in South Dakota, two in Minnesota, one in Nebraska, and two in Iowa. Many of our stores are located in cities of less than 15,000 population, so I am well aware of the difficulties and challenges that the small retailer faces. Our company advertises extensively, runs monthly retail promotions, to generate business in a highly competitive situation. So I feel qualified I can express an opinion on how to generate more sales.

I come here today to encourage the members of this Committee, to work toward the enactment of the Nationwide Sales Tax Holiday. I have read the legislation that is being proposed and, in my opinion, this holiday would definitely encourage the average consumer to make a purchase during that time. This savings to the taxpayer would affect virtually everyone and could not help but jump-start the economy.

Retailers would have to replenish their inventory, which, in turn, would mean that manufacturers would have to increase production. Unlike zero-percent interest promotions on durable goods, which benefit only those consumers with excellent financial strength, this sales tax holiday would benefit every consumer making purchases during that time. I do not feel, based on my past experience of running special one-day promotions, that this would slow sales prior to, or after, the dates of this no-tax period.

In these times of a slow economy, consumers instinctively cut back purchases to conserve money in case of economic hardship, such as the loss of a job by a family member. And those of us in the retail business were already experiencing softening of sales prior to the horrific attacks of September 11. There is no question that the events of that day further hurt retail sales and the confidence of the consumer.

While these economic downturns are difficult for the business community and, in fact, for the Nation as a whole, they are exceptionally difficult for small business communities. Because of inventory overstocks due to slower sales, many are experiencing a slowing of cash flow. Now, this is not easy for any business, but can be disastrous for even the most fiscally sound business.

I believe that American small businesses are resilient and will serve and survive the economic downturns as we have in the past. However, the cutbacks that have been necessary at the retail level have been felt throughout the supply chain as well. The lower demand for manufactured goods to be delivered to our stores results in more unemployment and continued recession.

Congressional action that spurs consumer spending would be the quickest, most targeted way to stimulate the economy. You will be helping to increase the disposable income of consumers through the savings that people receive on goods that need to be purchased for the holiday season. This, combined with the reduction in the cost of merchandise that customers would like to purchase, will encourage additional spending, further stimulating the economy.

I am sure that you have a number of proposals presented to you to stimulate the economy. However, it appears to me that a Nationwide Sales Tax Holiday would be an excellent use of the stimulus money. Under this plan, only those that spend money would receive the benefits. This ensures that every dollar that Congress appropriates for this Congress will immediately go directly back into the economy.

I appreciate the plan to limit this National Sales Tax Holiday to only ten days so that it will provide a focused, potent infusion of money without creating a new program that will require more funding in the future. There may be extra administrative duties for both the government and especially for the retailer, however, my feeling is that the retailer is up to the challenge and willing to create an environment to grow the economy.

Thank you for the opportunity to address this Committee today on this critical issue. I hope that this Committee will take the action necessary to ensure that the Congress will provide consumers and the economy with this National Sales Tax Holiday. Thank you very much.

[Mr. Karl's statement may be found in appendix.]

Chairman MANZULLO. Well, thank you. We appreciate your testimony. You came all the way out from South Dakota. Huh?

Mr. KARL. Yeah.

Chairman MANZULLO. How is the weather out there?

Mr. KARL. Pardon?

Chairman MANZULLO. You got snow?

Mr. KARL. No. We have been 70 degrees.

Chairman MANZULLO. Is that right?

Mr. KARL. Yeah. Last year we had snow.

Chairman MANZULLO. Oh. Okay.

Mr. KARL. We don't need another year like that.

Chairman MANZULLO. Well, all right. Well, we can't promise that here. Okay. The—thank you very much for your testimony.

Mr. KARL. You are welcome.

Chairman MANZULLO. Our next witness is Elizabeth Holland. She is with—is it called Abbell?

Ms. HOLLAND. Abbell.

Chairman MANZULLO. Abbell. Thank you. Abbell Credit Corporation, which owns some shopping centers. And speaking for—speaking on behalf of the International Council of Shopping Centers. And we look forward to your testimony.

STATEMENT OF ELIZABETH I. HOLLAND

Ms. HOLLAND. Good morning, Mr. Chairman, members of the Committee, and fellow citizens. My name is Elizabeth Holland and I am the Chief Executive of Abbell Corporation, a 50-year-old, third generation family business focused on real estate investment, de-

velopment, and management based in Chicago, Illinois. Abbell Credit manages a 1.6 million square foot portfolio comprised of shopping center, enclosed mall, and office properties, including Merle Hay Mall in Des Moines, Iowa, and Westgate Village Shopping Center in Toledo, Ohio.

I am here on behalf of the International Council of Shopping Centers, or ICSC, the global trade association of the shopping center industry. Its 40,000 members in the United States, Canada, and more than 75 other countries around the world, include shopping center owners, developers, managers, investors, lenders, retailers, and other professionals. The shopping center industry contributes significantly to the U.S. economy. In 2000, shopping centers in the U.S. accounted for $1.14 trillion in retail sales, collected $46.6 billion in state sales taxes, and employed 10.7 million people.

Thank you for giving me the opportunity to address your Committee today in support of the Sales Tax Holiday Act of 2001.

The U.S. economy is in the midst of a serious downturn that requires additional economic stimulus measures in order to hasten a full recovery. Consumer spending, which accounts for more than two-thirds of our Nation's Gross Domestic Product, plunged 1.8 percent in September, following a small three-tenths of one percent gain in August. Personal consumption of durable goods fell by 3.2 percent in September, while that of non-durable goods fell by 1.3 percent. Retail sales fell in lock step with the decline in consumer spending. Total retail sales in September were off by 2.4 percent from August.

Yesterday, the Commerce Department released data showing that October retail sales increased by a record 7.1 percent. Most of that increase, however, was due to a 26.4 percent jump in automobile sales. Sales driven largely by zero-percent financing and other incentives offered by manufacturers and dealers. Excluding auto sales, overall retail sales in October rose by a mere one percent. While this increase is certainly an improvement over September's 2.4 percent decline, it is still relatively anemic compared to sales growth in prior years.

Furthermore, much of last month's sales increase may have been the result of pent-up demand from September spilling into October and is by no means a guarantee that retail sales will continue to grow.

This time of year retailers typically hire additional workers to accommodate increased holiday traffic. The retail industry, however, is one of the sectors of the economy that has been hit hardest by the dramatic increases in unemployment. The latest figures from the Labor Department show that retail employment has dropped during the last three months. In fact, retail employment fell 81,000 jobs on a seasonally adjusted basis in October. This is especially troubling during a time of year when the number of retail jobs usually increases.

One predictor of future retail sales is the consumer confidence level. The Conference Board, a New York-based private business research group, reported that its confidence index fell for a fourth straight month to 85.5 in October, from 97 in September, its lowest level. Falling consumer confidence often leads to weaker retail spending as consumers' purchasing behavior becomes guided by

negative perceptions about the economy and the possibility of impending income reductions or job losses.

It is for this reason that the International Council of Shopping Centers supports the Sales Tax Holiday Act of 2001. Introduced by Representatives Lindsey Graham and Rob Blagojevich, H.R. 3172 would establish a nationwide state sales tax holiday from November 23 to December 2 of this year that would exempt from sales tax all tangible personal property, except food, alcohol, and tobacco, with no monetary cap.

Our sales tax holiday experience in Iowa is consistent with the conclusion that sales tax holidays assist consumers at the consumer level. Merle Hay Mall is the oldest, and still the largest, mall in the State of Iowa. Early in 2000, the Iowa State Legislature enacted a two-day sales tax holiday to take place at the beginning of August on clothing and shoe purchases up to $100 in order to help parents shop for their children before the start of the school year. The sales tax holiday in 2000 was so successful that Iowa enacted another one for August of 2001.

I know that my time is short, Mr. Chairman, but I would just like to provide you with our specific sales numbers. We had tremendous sales growth year over year during our sales tax holiday. In August 2000, mall-wide sales were up 45 percent over the same month in 1999. Department store sales were up seven percent. Surprisingly, the increases were not isolated to those merchants who sold goods covered by the tax holiday. Food court sales were up 63 percent; jewelry store sales were up 24 percent; music and electronic sales were up 27 percent over the same period in 1999.

Needless to say, with this tremendous sales performance, we were hoping just to maintain those levels during the sales tax holiday of 2001. Once again, we were pleasantly surprised. Mall-wide sales were up 19 percent from August 2000, with department store sales up six percent. Retailers, such as Old Navy, The Gap, and American Eagle Outfitters, were up 39 percent. Children's stores that include The Children's Place, Limited Too, Kid's Footlocker, and Gymboree, were up an astonishing 92 percent.

Chairman MANZULLO. How are you doing on time? You are a minute over.

Ms. HOLLAND. Oh. I apologize.

Chairman MANZULLO. That is okay. They are good figures.

Ms. HOLLAND. We strongly support a national sales tax holiday for this holiday season and urge that one be enacted as soon as possible. Thank you for the opportunity to present my views. I would be happy to answer any questions.

[Ms. Holland's statement may be found in appendix.]

Chairman MANZULLO. Thank you for your testimony. The next witness is Mr. Wilson who has already been introduced. Mr. Wilson, I look forward to your testimony.

STATEMENT OF RUSH WILSON, III

Mr. WILSON. Good morning, and thank you very much, Mr. Chairman, and thank you to all the Committee members today for the opportunity for me to come here and testify.

Chairman MANZULLO. Excuse me. You are testifying on behalf of the National Retail Association.

Mr. WILSON. Yes. I am.

Chairman MANZULLO. Okay. Thank you.

Mr. WILSON. I would also like to thank Congressman DeMint for inviting me, and also Congressman Lindsey Graham for extending this invitation. My name is Rush Wilson, III. I am Vice President and Manager of Rush Wilson Limited, in Greenville, South Carolina. It is a retail clothing store specializing in men's and women's clothing. It was founded by my father 50 years ago.

I am testifying today on behalf of the National Retail Federation, where I serve on the Independent Stores Board. NRF is the world's largest trade association for retail, representing 1.4 million retail establishments that employ more than 22 million Americans.

I am here today to discuss the concept that has been proposed to help address the current status of our economy. The ten-day Nationwide Sales Tax Holiday that this Committee is considering is designed to stimulate our Nation's economy by providing consumers another opportunity to come and return to our stores.

Simply put, consumer spending accounts for two-thirds of our Nation's Gross Domestic Product. Many economists have credited consumption with sustaining the economy through July and August, even though business investment and construction were declining. In light of this, many experts agree that the fastest and strongest means to economic recovery is to boost consumer spending.

Second, this proposal will stimulate increased spending by not only saving people money, but also boosting the morale of the American consumer. This is a popular proposal and easy that—because it is easy for the consumer to understand, and it provides immediate benefits.

In a recent poll, more than 83 percent of the respondents stated that they would take advantage of the holiday, and nearly 70 percent said that if the holiday were in effect, they would make purchases they would not otherwise make.

The impact of this holiday would also be experienced outside the retail community. Reduction in store inventory would lead to an increased demand for manufactured goods. Increased traffic in the stores and malls would have a dramatic effect on the service and restaurant industry as well.

In conclusion, I urge you to consider the opportunity you have before you. With this proposal, you can take a strong, positive step toward revitalizing the American economy. This one-time expenditure will help lift consumer confidence and spur additional spending. This additional spending will stimulate retail, manufacturing, transportation, and other sectors reliant upon consumer spending.

As President Bush has stated, there is a role for government in aiding America's return to normalcy. By enacting a nationwide sales tax holiday, Congress can assist in the effort to return our economy to its previous vibrant state. Thank you very much for your time.

[Mr. Wilson's statement may be found in appendix.]

Chairman MANZULLO. And thank you for your testimony. Our next witness is Kathy Gornik, who is Vice Chair of the Consumer Electronics Association and the President of THIEL Audio Products. I look forward to your testimony.

STATEMENT OF KATHERINE GORNIK

Ms. GORNIK. Thank you.

Chairman MANZULLO. Could you put the microphone there in front of you?

Ms. GORNIK. I sure can. Is that good? Thank you, Chairman Manzullo, and members of this Committee. I am Kathy Gornik, Vice Chair of the Consumer Electronics Association. I volunteer in this position as the President of THIEL Audio Products Company, which I co-founded in 1977. Based in Lexington, Kentucky, THIEL employs 35 people and is one of America's premier loudspeaker manufacturers.

THIEL is a member of the Consumer Electronics Association, CEA, which represents more than 600 companies in the consumer technology industry. CEA is strongly in favor of H.R. 3172 and its Senate companion, S.1643, which would provide a necessary, direct and immediate stimulus to the American economy by creating a nationwide sales tax holiday.

I am gratified that President Bush and the members of the Committee are considering ways to invigorate the economy. But let me say it clearly and emphatically, action is needed now. It is essential that the government move to address America's uncertainties and fears about spending money. Of all the ideas for economic stimulus being considered in Congress, the nationwide sales tax holiday stands out as the one proposal that would guarantee consumer spending.

First, a nationwide sales tax holiday will boost consumer spending right when it is needed—immediately, when consumer confidence and spending are down. Consumer confidence is at a seven-year low, and the GDP has seen its biggest decline in a decade. A sales tax holiday will help arrest these trends and pump money into the economy around this critical holiday season.

Secondly, a sales tax holiday is targeted tax relief. It puts money where it is most urgently needed, directly into the pockets of ordinary taxpaying Americans. Through no fault of their own, American workers are bearing the brunt of this economic downturn. A sales tax holiday will benefit every American. It is egalitarian, simple, and straightforward. Most importantly, consumers know that in order to take advantage of a sales tax holiday, they must go to the store and spend.

Finally, a nationwide sales tax holiday will be effective. As a small businesswoman, I know all about the price sensitivity of consumers. It is no wonder that statewide sales tax holidays have a proven record of success.

During statewide tax holidays in Pennsylvania and South Carolina, sales of computers jumped between 60 and 80 percent. Our survey shows that about half of the consumers in those states regarded the holiday as a major consideration in their purchase. In addition, roughly a quarter of those surveyed reported that their purchases during the sales tax holiday were not planned. In other words, a significant portion of these sales would not have occurred at all in the absence of a tax holiday.

A tax holiday especially helps low-income consumers, for whom sales taxes are a proportionately bigger burden. For many low-in-

come families, a tax holiday makes the critical difference in enabling purchases that they would not otherwise be able to afford.

The benefit of a sales tax holiday will extend far beyond my business and the consumer technology industry. Under the proposed legislation, almost any tangible consumer product could be purchased tax free, except for alcohol and tobacco. Americans would take advantage of a one-time opportunity to purchase computers, clothing, furniture, and holiday gifts. A tax holiday would cause a beneficial domino effect across the American economy, lifting retailers, manufacturers, distributors, and every sector that relies on consumer spending.

An added bonus is that consumer purchases often lead to additional spending even after the tax holiday period has concluded. In the consumer technology industry, purchases of speakers, audio systems, DVD players, and computers tend to generate subsequent sales of music, movies, accessories, and software.

The bipartisan and broad-based support that the nationwide sales tax holiday has received is testament to the strength of the proposal. A diverse range of groups from the Small Business Survival Committee to the Gray Panthers have voiced their support for the nationwide sales tax holiday as a smart measure that will boost consumer confidence and business activity.

Members on both sides of the aisle recognize that this proposal will not only have a beneficial economic impact, it will also send a signal of confidence to Americans coping with the post-September 11 world, and help lift spirits as we enter the holiday season. Finally, it will send a strong message of resolve to the enemies of America who are hoping that economic aftershocks of September 11 will tear our country apart.

In closing, I would like to thank and commend this Committee for highlighting the importance of a nationwide sales tax holiday to America's 25 million small businesses. As a small businesswoman, I look forward to getting over this current economic downturn so I can begin rehiring workers and resume growing my company. A nationwide sales tax holiday would provide the temporary, targeted, and effective relief that America's small businesses so badly need. I urge members of the House and Senate to pass nationwide sales tax holiday legislation as quickly as possible. And many thanks to you again.

[Ms. Gornik's statement may be found in appendix.]

Chairman MANZULLO. Thank you for your testimony. I would like now to represent our brother here on the Committee, Brian Baird, who was scheduled to be on the first Panel. And, Congressman Baird, I am going to hold you to five minutes also on your testimony and look forward to it.

STATEMENT OF HON. BRIAN BAIRD

Mr. BAIRD. Thank you very much, Mr. Chairman.

Chairman MANZULLO. And all of your testimony will obviously be made part of the record.

Mr. BAIRD. Thank you very much, Mr. Chairman. I appreciate the chance to testify. I apologize for not being here on the first Panel. We had a markup on a piece of legislation I drafted in the Science Committee.

Very briefly, I want to commend the witnesses and the sponsors of this legislation for their initiative and for supporting what I perceive to be a very important opportunity to stimulate our economy at a time of significant downturn.

I support this bill for two reasons. First of all, the obvious one that people have mentioned—the immediate potential stimulus effect, particularly at this key holiday season.

However, secondly, I support it for a reason that may not have been mentioned, and that is one of fundamental fairness. States in our Nation that fund their state government activities through sales taxes are disadvantaged currently relative to states who fund their activities through income taxes. Income taxes paid to states can be deducted from federal income tax reform, but state sales taxes cannot. This effectively leaves a double taxation circumstance on those who fund with state sales taxes. We have been unsuccessful thus far, though myself and Congressman Clement have endeavored to do so, and Barbara Cubin, on the other side of the aisle, has introduced similar legislation.

But I believe we should look not only at this sales tax holiday, but following that—which I hope we will pass this successfully. Following that, I would urge this Committee and the Congress at large to look at a more broader issue of sales tax deductibility, either deducting sales tax across the board again, as it was prior to 1986, as a stimulus to economic growth, or possibly allowing states who have no income tax, but only sales taxes, to deduct their sales tax in an analogous fashion that those who have income taxes do.

The net cost to this is relatively small compared to many other initiatives that have been put forward. But it is all about fundamental fairness in addition to the economic stimulus element that has been mentioned so well thus far.

I thank the Chair for convening this hearing. And I hope we can bring this to the Floor. And, again, I hope we will move on beyond this to consider broader sales tax deductibility in the future. Thanks for the opportunity to testify.

Chairman MANZULLO. I appreciate your testimony. I have got several questions I wanted to ask of Ms. Lav. And I am glad that I decided to put you first, because my big concern with the bill, although I am a proponent of it, is the implementation of it. I—and maybe this is more of a statement or a suggestion.

I think, first of all, it would be a mistake for a Congressional bill to start covering not exceptions. If there is going to a national sales tax holiday, the state—each state should be allowed to determine what it is going to tax and what it is not going to tax. Because I have been involved in retail long enough to know the tremendous cost of reprogramming those cash registers. It is an incredible amount. I mean, in Illinois, I think there is a one-percent tax on processed food. And, on some food, there is no tax, and on some—I mean, everything that goes through is set up with the—is set up with that special scanner.

The other—I mean, the other thing that I want to talk about your testimony is the fact that the states are legitimately concerned that they are paying their bill and then someone is going to bellyache. Then you got to go through a reconciliation process.

So I think if there is going to be a bill, number one, this thing has to be able to be implemented quickly and easily. And I will be hanged if we are going to spend any more money on bureaucrats that get in fights with the governors or how much they are going to back in the sales tax. If there is going to be a fight, then I will be the first one to oppose it.

So I am in favor of it. You said you had some suggestions, Ms. Lav. And, please, go ahead.

Ms. LAV. Well, I mean, I actually—and my suggestions would be, you know, sort of better ways to go. Because I agree with——

Chairman MANZULLO. Would you agree with me on the——

Ms. LAV [continuing]. If it is going to be——

Chairman MANZULLO [continuing]. Implementation if it is going to be a bill?

Ms. LAV. I think you could solve—I think you would have to, if you were to do it, just do it on anything, you know, that—it is very difficult to distinguish really tangible goods from non-tangible goods. States tax services. They tax some services that are incidental. To the sale of goods, they tax other kinds of services. Some tax leases as tangible goods. Some of them don't. Some of them tax cars under their sales tax. Some of them have a separate recordation tax. And, you know, if you were to do it, it would not be fair for the states that have chosen to have the separate recordation tax to not get——

Chairman MANZULLO. Illinois has both.

Ms. LAV [continuing]. To get, you know——

Chairman MANZULLO. High recordation tax and high sales tax.

Ms. LAV. Right. But some states, you know——

Chairman MANZULLO. Sure.

Ms. LAV [continuing]. Instead of a sales tax, do something else. They don't call the—what they—the way they tax cars—their sales tax. But it is the same rate as their sales tax and it is in lieu of it. So I mean, I think that one—you—these kind—you don't—you wouldn't want to get these—are very difficult to get around these complications.

It is very difficult—one of the reasons I am very—I am a little skeptical of this, despite its good intent, is that for one level of government to tell another level sort of what to exempt and then to try and reimburse them on some kind of a fair basis, when you have something that is dynamic where you—everybody agrees you are going to be shifting sales from before and after into the holiday window. I mean, there is no one that disagrees that that is what happens.

And so you don't know how much to reimburse. You don't know—you have to figure out all these complications about layaways and so forth.

Chairman MANZULLO. Before my time runs out, you had some suggestions—an alternative stimulus that would be related to sales or what did you——

Ms. LAV. No. Well, I think—yeah, well, I think what the most—the best—most effective stimulus is to put money in the hands of low and moderate-income people who have what is called the largest propensity to spend. I am not an economist, but I will use the economic term. Which is that people who spend the greatest share

of every dollar they get. And you can do that by the rebate that is in virtually all of the bills. You can do that by improving on employment insurance, because you are going to have a huge drop-off in consumption of people who are losing their jobs. And almost every dollar that people get in unemployment compensation is spent.

There is a new idea that is beginning to percolate in the Senate, which, you know, it is unclear yet whether there are problems with it, but it might be good, for giving payroll tax. The trick is to not get so complicated and just put money in the hands of people who can spend it and do it fast, which is what I would suggest.

Chairman MANZULLO. Okay. Another method to stimulate the economy by letting people have more control over their money.

Ms. LAV. Yes.

Chairman MANZULLO. Okay. Appreciate that thought. My time has expired. Or did anybody want to have a comment on my question? Okay. Ms. Velazquez.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. And basically, I am concerned about this proposal in terms of three areas—its practicality, timelessness, and the benefit of this proposal. And I guess that, Ms. Lav, you answered the first one—practicality. I just would like to ask the other members of the Panel, if Congress acts on this legislation and we pass it next week, we are dreaming. But if we pass this legislation next week, do you think that every state in the Nation will be able to put in place the infrastructure that we need? Yes.

Ms. HOLLAND. I would just briefly like to say that while a number of state legislatures are still in special session, I do know that last week when Iowa State Legislature was in special session, just on the off chance that Congress did enact this legislation, they passed enabling provisions that would permit Governor Vilsack to immediately opt in and direct the Department of Revenue to take all measures to participate.

Mr. NORQUIST. I think you would be surprised how quickly state legislators could act if you gave them the incentive to do so.

Ms. LAV. I would just—most legislatures are not in session right now. Very few of them are, you know—a little more than a handful. And I think there are impediments to their coming into session, particularly at this time of the year. But just the practicalities of what it takes to do a special session in a state and the notice requirements and so forth.

Ms. VELAZQUEZ. So what do you say to those people who are right now concerned about the fact that consumers are holding off in purchasing and spending their money because they are just waiting for this national tax sale? The National Automobile—they express concern about this and they are saying that the numbers are showing that people are not spending because they are waiting for this to happen.

Mr. NORQUIST. You could solve that——

Ms. VELAZQUEZ. Wouldn't that have an opposite effect?

Mr. NORQUIST. You could solve that problem by passing the legislation very quickly.

Ms. VELAZQUEZ. I understand that. But what I am saying is that this is—we need to get all the states——

Mr. NORQUIST. Yeah. Well, with CNN and——

Ms. VELAZQUEZ [continuing]. To pass the regulation in order for people to take advantage of this. And it is just not that easy.

Mr. NORQUIST. With CNN and e-mail, I think most of the state legislators could figure out very quickly that you guys had done this and could get to their state capitals, which are not that far from where they live, within a day.

Ms. VELAZQUEZ. Ms. Lav, do you know of any study that shows how much this will cost the Federal Government? How much they are saying this is going to cost.

Ms. LAV. Well, the Federation of Tax Administrators, which represents the people who, you know, administer taxes and revenue issues in the states, has made an estimate—it is difficult to tell because of, you know, the shifting and so forth, but it looks like it is in the range, you know, of $9 to $13 billion, something like that.

Ms. VELAZQUEZ. Ms. Holland, you stated in your testimony that the shopping center industry contributes significantly to the U.S. economy. In 2000, shopping centers in the U.S. accounted for $1.14 trillion in retail sales, collected $46.6 billion in state sales taxes. What you are telling me is that you are—that—do you agree with me that this $6 or $9 billion is grossly understated?

Ms. HOLLAND. I don't know that I agree. I have no question that the people who estimated that it would cost $6.5 billion have much more information about total retail sales in a ten-day period during the holiday season than I do. I do know that, in my experience, consumers who get to stores, even though they think they are only saving money on children's clothing and shoes, spend money on other things. So there is no question that just getting people out and back to living their lives and spending money like they did previously would be a good thing.

Ms. VELAZQUEZ. But when you give me a number like $46.6 billion in state sales taxes, don't you think that this $9 billion is understated? Just too low a cost for the Federal Government.

Ms. HOLLAND. Well, it would depend on what percentage of that state sales tax was collected between Thanksgiving and Christmas.

Ms. VELAZQUEZ. Okay. Ms. Lav, what will be the cost of compliance? You—in your testimony you said that it will be greater for small businesses compared to larger corporations. Would you please explain that?

Ms. LAV. Sure. I mean, I think larger corporations just tend to have more sophisticated equipment. They have a larger—they can spread the overhead of compliance over a larger number of sales. It is also the case that, you know—they just make more sales and they—and then they can more easily comply. It is always the case that it costs a small business more to comply with the same set of rules than if you are spreading that compliance over a larger base of sales. And so whether it is programming cash registers or filing forms with the government, as a percent of their sales, it costs small businesses more.

Ms. VELAZQUEZ. Ms. Gornik, yes.

Ms. GORNIK. Thank you for letting me jump in here. I own a small company and, admittedly I am not a retailer. But I will tell you that any retailer—and I don't care how big they are or how small they are—would leap at this opportunity to provide their cus-

tomers with a discount. And they do this all day long. Sometimes they can do it several times a day. Believe me, these people are very well—you know, they are competent, they are able to create adjustments in prices. It is—they—this is part and parcel of running a business, and it doesn't matter if you are large or small.

The other point I want to say, Ms. Velazquez—and I am sorry if I am mispronouncing your name—is that consumers aren't buying right now. Whether they are waiting for us to give them a national sales tax holiday or they are just afraid to buy, they worried about the economy, the truth is, and the bottom line is, is that they are not buying. I don't think that this particular legislation is holding them back.

Ms. VELAZQUEZ. I don't know you read this article that came out in the Washington Post, but it is making reference to the fact that there has been a jump in retail sales, 7.1.

Ms. GORNIK. Right. And the further information on that particular point is that is driven almost entirely by new sales of automobiles. And it is not spreading across the economy to me or many of the companies represented here.

Ms. VELAZQUEZ. Ms. Lav, what evidence is available which proves that increases in sales during a sales tax holiday have translated into the state overall economic improvement?

Ms. LAV. There is very little evidence. And, in fact, the evidence that exists suggests that it doesn't. It really—the evidence that—of careful studies suggests that you have shifting of sales into a sales tax holiday window, but very little overall increase in sales if you look at a full quarter or a full period, a larger period of time. So—and so—and if there is not—and even consumers don't necessarily get the full benefit of it. There is some evidence from research on the floor of the sales holiday that, in fact, retailers, by giving less markdowns they otherwise would during the period of a sales tax holiday, capture about one out of every $5. That of the cost of what, in this case, would be the cost of the sales tax holiday that the Federal Government——

Ms. VELAZQUEZ. Would you like to comment?

Mr. KARL. Yeah. I don't—I just can't agree with that because it will stimulate sales. And, yes, the merchants are still going to be competing against one another, and that will not—that money will go directly back to the consumer, that savings. It will spur sales and there will not be—we have run promotions that are just one-day promotions and advertise it four or five days in advance. It doesn't seem to affect those days prior. It may soften them a little, but that one-day spike will just wipe out any little anything that would happen that they wouldn't buy.

It would be—you know, if I would have to—and having income tax and we are putting it by sales tax—and right now our sales tax is down. And we need a shot in the arm.

Chairman MANZULLO. Okay. Thank you. Mr. Shuster.

Mr. SHUSTER. Thank you very much, Mr. Chairman. One comment I want to make about auto—I am an auto dealer, still am an auto dealer and in contact with the store, and I get updates on what is happening. And this legislation is causing people to hesitate, but it is also bringing people into the store that said their—that think if it is going to happen, they are going to buy a car. And

the key to this right now is that we need to act and act quickly. And those people will either buy or won't buy if we enact this legislation. But I think, on balance, it is going to be a big boon to the economy. It is a one-time deal, and the cost of implementing it, I think, is minor compared to what it is going to do to the economy. So just statement, no question. Thank you.

Chairman MANZULLO. Okay.

Ms. GORNIK. I would like to also add a comment that——

Chairman MANZULLO. Go ahead.

Ms. GORNIK [continuing]. That this will not—I would like to take a longer view of the ripple effect of a national sales tax holiday. We keep talking about the cost, but we are not talking about the added benefit that can occur. For example, if a person were to buy a DVD player, through this incentive, over the ensuing weeks and months, that person is far more likely to buy DVDs to go with that. But in our consumer research at the Consumer Electronics Association, very much supports that. We will see additional revenues generated across the economy. And, hi, Darrell.

Chairman MANZULLO. Hi, Darrell.

Mr. ISSA. Mr. Chairman, I apologize. But the witness knows me far too well, I am afraid, after about eight years on the same board. Hello, Katherine.

Chairman MANZULLO. Well, Katherine, thank you for coming in spite of that. I appreciate—Mr. Pascrell, do you have any questions?

Mr. PASCRELL. I certainly do. Mr. Chairman, I want to commend those folks who put this in front of us and you allowing us to discuss this today. The more I look into this particular issue—and I must say, Mr. Karl, you make a lot of sense. I may not agree that we can get this done in time, or we should. But I think that the plight that you expressed is something we must address. There is no two ways about it. Whether this is the stimulant that we want—because all states have the ability, and most states, have the ability to do this, to have done this. Some have already done this in past years and in this year.

What is very different, very different, about 3172 is that we talk in 3172 of reimbursement. Now, Mr. Norquist said some very interesting things today and I would like to ask you some questions with your permission.

Mr. NORQUIST. Sure. Is this about Mae West?

Mr. PASCRELL. No. I will ask the questions, Mr. Norquist.

Mr. NORQUIST. Sure.

Mr. PASCRELL. Where do you suggest we get the $6.5 billion of reimbursement to the states, 80 percent of which must be provided at a certain time, and the other 20 percent later on? Where do you suggest we get that money? And have you located that money in the federal budget?

Mr. NORQUIST. No. You are talking about general revenues. And this is coming in the context of overall tax cuts that the House and the Senate are looking to pass.

Mr. PASCRELL. So there is no money in the budget right now which addresses this particular issue.

Mr. NORQUIST. No. You would be appropriating that. Correct.

Mr. PASCRELL. Now, if I had to make a decision, and you tell me whether you agree or disagree with me—if I had to make a decision as to whether or not I was going to spend $6.5 billion of federal tax dollars to either provide for homeland security, specifically prevention of bioterrorism, and do this, I know what I would provide, and I think I know—let me ask you the question. What would you suggest? What is the greater priority at this particular time? Because there is legislation to do that, by the way.

Mr. NORQUIST. Uh-huh.

Mr. PASCRELL. So I am not dreaming it up. Which is the more stimulant to the economy, and which is more necessary, in your mind?

Mr. NORQUIST. Well, the effort for homeland security is being taken care of through the Defense Department budget and the CPA budget, and there is a regular appropriations process for all of those things. This is a separate issue of how best to stimulate the economy. I think we should do both of those things, and I hope the folks over at the Senate will actually do the homeland security stuff in the regular appropriations budget, rather than what they have been doing with putting in all sorts of pork barrel spending programs and the chicken poop stuff over there, rather than doing it in homeland security. You are quite correct to criticize the Senate for not getting the homeland security stuff done.

Mr. PASCRELL. Well, the $6.5 billion is going to have—we have to find it somewhere——

Mr. NORQUIST. Correct.

Mr. PASCRELL [continuing]. Which is my point.

Mr. NORQUIST. Uh-huh.

Mr. PASCRELL. You said that every tax cut is a good tax cut, even bad tax cuts are good. And I wonder if you would agree with me—and let us talk about a specific example. In the recent stimulus—stimulant package, the—dealing with the corporate taxes, dealing with the corporate income tax and its relationship to each of the states of the union—federal corporate income taxes—the states would lose $5 billion if that part of the stimulant package went into—was implemented.

Now, to me, particularly with so many states facing budget deficits right now because of a lot of reasons——

Mr. NORQUIST. Uh-huh.

Mr. PASCRELL [continuing]. That would be an example to me of a bad tax cut. Would it be an example of a bad tax cut to you, even though, in your mind, it would be good?

Mr. NORQUIST. Uh-huh. The challenge is that since 1994 federal government spending has gone from 22 percent of Gross Domestic Product, GDP, to 18 percent. So there has been a reduction in the cost of the federal government as a percentage of the economy. Sadly, at the state level, they have not had the competence and the hard work that you have put into maintaining some budget discipline and spending has increased——

Mr. PASCRELL. But you know——

Mr. NORQUIST [continuing]. At the state level as a percentage of GDP. And so we unfortunately have not seen the fiscal discipline from governors and state legislatures that Congress has shown. So I do think we need to look at the governors and ask why they

haven't become more productive and had greater productivity as the federal government has.

Mr. PASCRELL. Well, I think——

Chairman MANZULLO. I would like to move onto——

Mr. PASCRELL. Well——

Chairman MANZULLO. We have ten other people and your five minutes just expired.

Mr. PASCRELL. We will let other people to go on, Mr. Chairman. You are the boss.

Chairman MANZULLO. Mr. DeMint.

Mr. DEMINT. Thank you, Mr. Chairman. This idea has pulled me both ways. I would really like to see us looking at permanent tax policy rather than something that is just a quick fix like we are talking about here. At the same time, after years of consumer marketing, I understand consumer behavior is not necessarily rational and logical. And the downturn in retail sales has very little to do with a lack of money in consumer's pocket, but more of an attitude. And this idea may be just what the doctor ordered as far as changing the attitude, giving people one more reason to shop, particularly going into our biggest retail season of the year.

So I think it is something we really need to look at. And I agree with Mr. Norquist, if we did something here, those state representatives would be in their capitals very quickly changing their laws to get free federal money. So—and this is also something, from our perspective politically, that I think consumers, voters, are likely to understand. Whatever we do on the other—the rest of the economic stimulus, whether it be on the tax cut side or the spending side, very few people are going to see or feel or understand that directly. And this is something people can understand.

So I am very interested in it. The question has come up is that—it has been mentioned today that, well this might give a little jolt for a short period, but actually it creates a cliff on the other side where you get sales for a couple of weeks and then it is going to drop off more than it normally does, and it will wait for the, I guess, the next stimulus to get people to shop again.

I don't necessarily think that is true, but I would like some of you retailers—and, Mr. Wilson, maybe we would start with you. Do you think, if we had this holiday, that as soon as it was over, that you would have a drop-off in sales that continued into a difficult month of January and maybe beyond? What is your perspective of what would happen after it was over?

Mr. WILSON. Well, our perspective is—or our outlook on this holiday season is not as good as it has been in the past. This type of incentive for—to get consumers out and spend money, it will create more of a positive atmosphere in the economy. Right now, I think people are somewhat depressed. I think they are scared. I think they are going to hold onto their money. They are not going to spend as much. And with this tax holiday, it will help people come out and spend money.

Mr. DEMINT. Uh-huh.

Mr. WILSON. I am not so worried about a drop-off in sales. I think this attitude, positive attitude, will move forward through Christmas and then into January.

Mr. DEMINT. Yeah.

Mr. WILSON. What I am scared of is the attitude now of holding back spending because that is what we are faced with right now if we don't do something about it.

Mr. DEMINT. Yeah. I tend to—any other comments? Good. I tend to agree. I yield back, Mr. Chairman.

Chairman MANZULLO. Congresswoman Tubbs Jones.

Ms. TUBBS JONES. Thank you, Mr. Chairman. And thank you for hosting this hearing this afternoon or this morning. I was confused on the time. But let me thank each of you for coming to testify today. I have a couple just kind of general questions. I think I am going to look to Mr. Norquist first. Mr. Norquist, is it your opinion—or what is your opinion in terms of consumer spending when an economic stimulus package that is being presented to the Congress currently, or is before the Congress currently, puts no dollars in the hands of workers to spend dollars?

Mr. NORQUIST. Well, if you are not taking sales tax dollars from them, then you are leaving in their hands money that they earned. I mean, I——

Ms. TUBBS JONES. No. I am—let me ask the question again. Currently, the economic stimulus package before the U.S. Congress provides dollars to companies and puts no dollars in the hands of the workers. How is that an economic stimulus that would then help the sales tax holiday work? How would that work?

Mr. NORQUIST. The importance of reducing marginal tax rates is it changes the incentives that people face and the decisions that they make. What we are talking about is letting people keep the money that they earned and reducing the disincentives to save and invest and consume.

Ms. TUBBS JONES. But the current economic stimulus package doesn't give any money to workers or allow them to keep money that they earned. Is that a fair statement or have you analyzed it? Maybe that should be the question I ask you.

Mr. NORQUIST. No. If you are looking at—are you talking about the bill that the House passed?

Ms. TUBBS JONES. Yes.

Mr. NORQUIST. Okay. The bill that the House passed reduces a number of taxes across the board, both on individuals and on companies. Of course, half the people in the country own shares of stock. So when you cut taxes on businesses, you are cutting taxes on the assets of half the people in the country.

Ms. TUBBS JONES. But it would be true, most of the people who own stocks aren't going—are not going to spend any more money based on a sales tax than they would normally spend anyway, because it is not an issue of balancing dollars like it would be for a low-income person who has to determine whether I am going to spend dollars on food and clothing or something for my children. Is that a fair statement?

Mr. NORQUIST. Well, the stimulus package, as passed by the House, as I understand it, does include sending some checks out to people who pay Social Security taxes, but not income taxes, under Thomas's bill.

Ms. TUBBS JONES. Under Mr. Thomas's bill. But the question—my question back to you is that an economic stimulus package that puts no dollars in the hand—most—let me start over. Most con-

sumers or the bulk of those consumers are everyday working people who really don't have savings accounts or investments accounts. Fair statement. Right?

Mr. NORQUIST. No. Actually more than half the people in the country own shares of stock directly. The whole idea——

Ms. TUBBS JONES. So the other half——

Mr. NORQUIST. The whole—well, we are going to get to that.

Ms. TUBBS JONES. So let me put it a different way. Most low-income people are more consumer-oriented than they are investment-oriented. Is that a fair statement?

Mr. NORQUIST. Correct. And that is why this——

Ms. TUBBS JONES. And so most of the current consumption that goes on at these times of year really is focused more on the people who do more of the purchasing; more consumers than people at the upper half who always spend the—than they are going to spend for Christmas or whatever. Are they——

Mr. NORQUIST. I would argue—well, to the extent that low-income people face prices—higher prices because of sales taxes, if you exempt those sales taxes, state sales taxes, for 10 days, you would be particularly helpful to lower-income Americans. The proposal before you today would be more helpful to lower-income Americans——

Ms. TUBBS JONES. And we will put more money in their pocket because those at the low end of the income are really going to benefit from the tax benefits that are in the economic stimulus bill.

Mr. NORQUIST. Okay. Well, I would argue that the tax benefits in this bill of reducing the sales taxes are very important to them. There is a difference——

Ms. TUBBS JONES. I am just trying to combine—and I understand what you're arguing about this particular bill.

Mr. NORQUIST. Yes.

Ms. TUBBS JONES. But what I am suggesting to you is we are talking about an economic stimulus. Currently, the economic stimulus that is before the House does not facilitate lower-income people being able to benefit from this particular package——

Mr. ISSA. Would the——

Ms. TUBBS JONES [continuing]. Because it doesn't stimulate income.

Mr. ISSA. Would the gentlelady yield?

Ms. TUBBS JONES. No. I will not.

Mr. ISSA. Okay. Thank you.

Mr. NORQUIST. Actually, Thomas's bill does send out some rebate checks to people who pay Social Security taxes, but not income taxes. So that is aimed at lower-income people. If you are asking, do I believe that taking tax dollars from one individual and giving them to another individual and letting that other individual spend the money to stimulate this economy, no. I don't.

Ms. TUBBS JONES. Thank you. I yield the balance of my time to my colleague.

Chairman MANZULLO. Thank you. I have got six seconds here.

Ms. TUBBS JONES. That is all I have left. Well, I don't—I didn't realize I had used up so much time. I thank each and every one of you for coming. I am sorry I didn't have a chance to engage in a conversation with each of you. But if you get a chance or some

free time, I would like to know what all of you think would stimulate the economy other than sales tax legislation? Thank you.

Chairman MANZULLO. Okay. Mr. Pence.

Mr. PENCE. Thank you, Mr. Chairman. I very much appreciate the Chairman holding this hearing and for my colleague's very stimulating comments about the stimulus package. We must have read a different bill than she read. There was a great deal in my way of thinking, maybe too much emphasis on rebates and give-aways, when, in fact, what the economy truly needs, in this member's judgment, is those things that will stimulate capital formation and not just be targeted at consumers.

And with that being said, I would like to address my comments, not to pick on Mr. Norquist, but he is just such a big and easy target. I am—well, not that big.

Mr. NORQUIST. I am not that big. Wait a minute.

Mr. PENCE. I will not yield.

Mr. NORQUIST. I have dropped some pounds in the last few years.

Mr. PENCE. Oh. Okay. The—my colleague who just spoke said that people who own stocks don't worry about sales tax. I would love to get you to amplify a little bit on what I thought I heard you suggest that with more than half of the American public owning stocks in some way, shape, manner, or form——

Mr. NORQUIST. Right.

Mr. PENCE [continuing]. That the Balkanization rhetoric about the country, the rich, the poor, or this half, that half, actually—is it not accurate to say that millions of what are commonly proudly referred to as blue collar working Americans today, own stocks through pension funds and 401K's. And I would just like you to—I would like you to reflect on who you think would benefit with particular emphasis on people that may own capital assets.

Mr. NORQUIST. Okay. There used to be a sense in this country, and it used to be perhaps somewhat true, that only a few people own shares of stock directly. Back when Reagan was elected in 1980, only 20 percent of Americans owned shares of stock directly. Now, many others benefited from share ownership in insurance companies or in their pensions, defined benefit pension plans for state and local workers, for people in other companies, but only 20 percent owned shares directly. Now, it is over 50 percent who own shares directly—401Ks, IRAs, and it's growing every year.

In addition to that, there are 15 million state and local workers for whom real—have been put aside by state and local taxpayers. And there really aren't fair values behind the commitments to get them defined benefit plans. And a lot of states, Florida just being one of them, are allowing people to move from the defined benefit plan to defined contribution. So we are going to get to, very shortly, 60, 70 and more percent of the Americans owning shares of stock directly.

So the ideal in the—or rhetoric sometimes that we have had, the envy of the political agenda and the political principle that has been used in this country in the past no longer reflects the reality of the United States and hasn't for some time.

Mr. PENCE. So to paraphrase, millions of blue collar Americans, many union, many millions of union officials, including state and local public employees who enjoy participation in public employee

unions, own stock and presumably would be in what we like to refer to as working Americans. Would these people benefit or, you think, be encouraged to participate more aggressively during the holiday season with this tax rebate?

Mr. NORQUIST. Well, I think tax reductions——

Mr. PENCE. Tax holiday. Excuse me.

Mr. NORQUIST [continuing]. On all factors of production will make people better off, both as consumers, as investors, as owners of shared accounts—owners of real property, homes. Over 60 percent of Americans own their own homes. One—the problem of envy of class division, you know, belongs in East Germany a long time ago. It does not belong in the United States and does not reflect the realities of the American economy anymore. And that is why I think we have seen a much more pleasant discussion about this tax cut and others and why the tax cut that you passed in the spring was bipartisan and having bipartisan support, because of the recognition of that.

I think that this effort to make it easier for people to consume without having discriminatory sales taxes is a great step in the right direction, but, you know, borrowing from the capital gains tax would help every single American.

Mr. PENCE. I thank you. I yield back the balance of my time with a great appreciation for this entire Panel. I look forward to enthusiastically supporting this proposal, believing, as many of you have said already, that it is a tested principle and it is one that, as my colleague, Mr. DeMint, said, would be well understood and appreciated by Americans. And if my wife is to be any judge, any break at the cash register will bring her more hastily into the stores. And I think it would have great simulative effect at a needful time in this country.

Chairman MANZULLO. Thank you very much.

Mr. PENCE. I yield back.

Chairman MANZULLO. Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman. And let me commend you for putting together this very thoughtful Panel and holding this hearing. And especially I want to thank Representative Thune for inviting Mr. Karl because I just found his testimony to be fascinating. And I am a great fan of ESOPs. And I think that is one of the best approaches to helping all people in this country have a part of the ownership that I have ever seen. And so I just commend you for that.

I don't view this proposal as being any panacea for our economy. I view it as a short-term stimulus. It is kind of surprising to me because very seldom do I find myself favoring tax breaks. I happen to come from the school of Justice Holmes, who suggested that taxation is the price that we pay for a civilized society. I also come from a school where Frederick Douglas made a comment once that one of the things that we recognize in the world in which we live is that we may not get everything that we pay for, but we most certainly must pay for everything that we get.

And so I am always amazed when I see people or hear people suggesting that somehow our government can function in all of the things that we expect government to do, that we can do it without putting into the till the resources that are necessary. That is to

say, I don't believe that you can get rain without thunder and the lightning. I don't believe that you get the Army and the Navy and the CIA and all of the other programs and services that we expect to have, without paying for them.

I do believe that if we wanted to seriously stimulate the economy, that we start by raising the minimum wage. That we would really start by putting some additional money in the pockets of people who need it the most who are going to go out and spend it. And they are not going to spend it willy-nilly because they are going to spend it because they need to spend it in order to live.

I think if we rose to the point of a livable wage for people, then we would talk about lifting the economy. I come from a vantage point to suggest that a rise in tide will lift all boats. And that is to say that if you start at the bottom, and lift people up, everybody else is going to go along as well.

I ended up arriving at the point of supporting this measure because I felt that we didn't have any other answers that were going to come as rapidly as this might come. I don't believe that we are getting ready to raise the minimum wage before Christmas. I would love for us to do it, but I just don't believe that we have the wheel to do it at this moment.

I keep hearing about tax breaks that are trickled down that have nothing at all to do with helping the people, a majority of whom I represent in my Congressional district. I have the most fascinating district in all of America, some of the wealthiest people, but I also got a lot of the poorest people. And many of the proposals I know, and they know, are not going to help those at the bottom.

And so my only question really is, in terms of the possibility—and you raised—and I agree with you—I mean, all of the practical points of implementation. If the implementation could occur, my question is, do you believe that for a short term, this proposal could, in fact, be helpful and help move the economy along while we try to figure out what we really need to do, like change our trade policies, like change some of the corporate give-a-ways, and some of—and find a way to keep some manufacturing in the country, because it is tough to live in a high-tech service economy. It is tough, especially for the people at the bottom who oftentimes don't qualify for either.

Ms. LAV. Well, I would say that unfortunately there is a lot of ifs. And when you have a long chain of ifs, you know, if you can do it quickly and, you know, if you can solve the administrative problems, and if states get reimbursed adequately, and—because I am more worried about states raising their sales tax right now. Half the states raised their sales tax in the last recession. I don't think we really want to see that happen again. And so I think I—and so, you know, if you could get through all that chain of ifs, maybe this would be a good idea.

But, you know, I think it would be better to do things to prevent states from having to raise their sales taxes now. I think it would be better to actually put—directly—have the Federal Government directly put money in people's pockets, rather than try and go through this kind of Rube Goldberg of having one level of government reimbursing another level of government. And, you know, I think that you can't just put this in place. There would be a mess.

You know, it is like all other things—you have to write the regulations and you have to get it right.

Chairman MANZULLO. I appreciate the answer. The gentleman's time has expired. Thank you. Thank you. Mr. Thune.

Mr. THUNE. Thank you, Mr. Chairman.

Chairman MANZULLO. Rube Goldberg. I haven't heard that in a long time.

Mr. ISSA. I went to high school with him.

Mr. THUNE. Thank you, Mr. Chairman. I have a statement I would like to have included in the record, a written statement. And, again, appreciate the opportunity to have a hearing on this subject today. I think it is an important one. I do appreciate having Elmer Karl from my home state here. Elmer Karl is a legendary figure in South Dakota for a lot of reasons. Not only a successful small business entrepreneur, but someone who probably has a higher name identification and is more recognized across our state than any politician. When he advertises on television, it travels—it is projected all across the state and it has obviously been very effective.

I appreciated your testimony, the testimony of the entire Panel. I apologize for not being able to be here for all of it. We are having a hearing today over in the Ag Committee on bioterrorism and so I have tried to jump back and forth between those hearings. But I did want to talk a little bit on the record on this subject, because figuring out what we do to get the economy jump-started and doing it as quickly as possible is incredibly important to the future of our country right now in light of everything that is going on.

Just a couple of observations about this legislation. I am co-sponsoring the legislation for a number of reasons. One is, I think there is empirical data that show that it works. And that, to me, is significant. I think it is immediate. It is consequential. And it directly benefits all consumers. People who, day in and day out, shop for their daily needs would realize a benefit from this.

And I guess one question I would have, because I have a letter from the Governor of my state, who has expressed concerns about implementation, some of the administrative costs and so forth, associated with this. A question I would ask is, if we were not able to do this, this year, coming up with the holiday season, which is what everybody had sort of hoped we would be able to do, is there still value in doing it, say, early next year, in February or around President's Day? And by that time, a lot of our legislatures will be back in session. And one of the concerns that was raised by my governor is you would have to call a special session and there would be costs associated with that. From a retailer's standpoint, a small business standpoint, does it still make sense to do this even if we aren't able to do it before this year is out?

Mr. WILSON. Yes. And definitely. I think we should do it whether it is this holiday season or in February, January, March. I think Congress needs to do this.

Ms. HOLLAND. I agree. I just think that we get the most bang for our buck prior to the holiday shopping events because that is pretty much when 40 percent of the stores have their sales.

Mr. THUNE. Okay.

Mr. NORQUIST. I would suggest you do it both times—now, and in the—and if your governor spent less time trying to tax the Internet, he would have more time working on this project.

Mr. GORNIK. And also to the degree that certain businesses are sort of rinky right now, help now is better than help in the future.

Mr. KARL. Yeah. I agree that if we can't do it now, in February would be a great time also. It is a slow month and it would be an excellent stimulus. And I certainly hope that our governor continues to attack the Internet.

Mr. THUNE. We figured we would have a spirited debate on that subject. That is a hearing for another day, Mr. Chairman. Are there problems—associated with—as long as, again, the states are made whole as a result of this, in terms of any revenue impact? And, of course, in our state, we have not only state sales taxes, but our municipalities, local governments benefit from that as well. Does that concern any of the Panel in terms of the positives that are generated, and as you weigh that in the balance?

Again, the concerns were expressed by the Governor of South Dakota had to do not only with having to call a special session, but that this is you sort of the Federal Government telling us how to do our work, our business, conduct our state affairs, basically taking revenue away from us, even though it would be made up. But has anybody, in your experience, as you discuss this issue, had any kind of blow-back or resistance as a result of some of the implementation issues that might arise?

Mr. KARL. I don't know that Governor Janklow understands that whole situation. If we are going to get—I think his concern was the fact that the cash flow and not getting the money back from the Federal Government immediately. And if we can address that so that we don't get hurt as far as paying our state employees and taking care of our government, I can't see where the downside is to this. Because certainly we need increased sales. And this certainly will do that.

Mr. THUNE. Yes.

Ms. LAV. Well, it is—you know, your assumption is easier said that done, that states be made whole, because it is going to be a question of what whole is. If—because if you use historical data then there is the question of what about the sales that were accelerated in. And, you know, if you ask states to do a detailed accounting, that is tremendously burdensome. And if you ask them to wait, they are going to have to borrow money and pay interest. So I mean, it is not as simple. And I think that is why a number of governors have expressed some concern about this.

Chairman MANZULLO. Okay.

Mr. THUNE. I see my time has expired, Mr. Chairman. So I yield back. Thank you. Thank the Panel.

Chairman MANZULLO. Mr. Issa.

Mr. ISSA. Thank you, Mr. Chairman. Since Mr. Davis is still here, if I can just reiterate my support that we will work on a minimum wage reform package that really does see the light of day. And I stand very ready to work on that. I think the absence of a living wage is partially because we haven't been willing to make real reforms in how we calculate it, how we do it, to the benefit

of the worker. And I hope we can work together on that sooner and not later.

You know, the one thing that perplexes me is why republicans are for this and democrats often are against this. And, you know, I have entered only recently this partisan divide. But let me just ask a question and maybe you can answer why I don't understand this.

If I understand correctly, if you make $10,000 a year and you are absolutely—I mean, you get it all from government aid, and you are really at the bottom of the economic ladder, like some of our members have said their constituents are, you spend everything that you get. And, therefore, if you are spending 100 percent of what you get, if we lower your taxes because you pay taxes on this, and it is one of the most regressive taxes because it is six percent in a given state, even if you only make $10,000, you are going to get a benefit that is six percent of everything you made.

And then if you are middle class and you spend much, but not all, you are going to get a percentage—let us say half to three-quarters, because you are only going to spend that much. But you are probably the group that does have the discretion to maybe shift a little more spending. So you are going to tend to spend a little more, thus, creating more revenue.

And if you are in the multi-millionaire club, you probably buy what you want when you want it and, therefore, this isn't going to move you very much. So if I see this correctly, this is a tax relief or a reverse flat tax that benefits, in percentage terms, the most-deserving, or the least-earning, or the most needy of our society, creates among the middle class, blue and white collar alike, a shift that will probably result in greater revenue in other areas, income taxes, both for workers and for companies in their taxes—and probably does the least for the top level.

Why is it that this isn't a reverse equivalent of what my colleagues on the other side of the aisle are always asking for?

Ms. LAV. Well, you are correct, sir, in that sales taxes are very regressive and they take a larger share of income from lower-income people than higher-income people for——

Mr. ISSA. So if we undo regressive tax——

Ms. LAV [continuing]. The reasons you—well——

Mr. ISSA [continuing]. This is the best thing. Is that correct?

Ms. LAV. In part, it is. But, in part, this particular one, the base that you are buying out—certainly high-income people are going to get the most dollar amount. So if you look at the share of dollars, high-income people are going to get more dollar amounts because who is going to be able to afford to buy the new DVD. You know, in the increment that is not——

Mr. ISSA. Wait. Wait. This is the $169 or even $99 DVD.

Ms. LAV. Well, the——

Mr. ISSA. Is the millionaire—I just——

Ms. LAV. But——

Mr. ISSA [continuing]. Want to understand. The millionaires—and understand, I am for this; you are against this. So this is how the system, I believe, works here. I get to ask the questions a lot. What——

Ms. LAV. Well——

Mr. ISSA [continuing]. Is it about a $99 DVD—and you can buy them today at Best Buy and Circuit City—that you have to be a millionaire to buy?

Ms. LAV. No. I am just saying that for a low-income person who can't, I was going to say, afford $100, they probably also can't afford $95. That is, you know, to respond to a sales tax holiday. That was the only point I was going to make. So, you know, it is certainly not—you know, I am not arguing particularly it is not necessarily that the increment helps low-income consumers the most the additional——

Mr. ISSA. But that wasn't my question.

Ms. LAV. But the—it is——

Mr. ISSA. That wasn't my question.

Ms. LAV [continuing]. The—you know, there are other problems——

Mr. ISSA. Ma'am, ma'am, please. It wasn't my question. And maybe Grover can answer the question. If the lowest-earning people in our society, those at $7,000, $8,000, the very bottom, spend 100 percent, don't they get 100 percent relief by this?

Mr. NORQUIST. Yes. And this is a tax cut that is skewed in its distribution towards the lower-income Americans. It has more benefit to them as a percentage of their income than it would for Bill Gates or whatever. You are quite correct that you are smoking out an answer from people. When some tax cuts have been put forward, some of the politicians said, oh, we are against this tax cut—it is too weighted to the rich. They say, okay. You have just offered them a tax cut that is weighted to poor people. They don't like it either. Okay.

Some politicians don't like tax cuts because they don't like the American people keeping their own money. They don't like rich people keeping their own money. They don't like middle-class people keeping their own money. They don't like poor people keeping their own money. They want to take the money and they like to spend it.

Mr. ISSA. Anyone else see slightly different or some other comment? Kathy? Come on. I have known you for ten years. You have had an opinion on everything.

Ms. GORNIK. I agree with the comments just spoken.

Mr. ISSA. Thank you, Mr. Chairman.

Chairman MANZULLO. Well, thank you. You know, I have got a solution to this thing. Let me tell you how simple this thing is. If the government is going to spend $6.5 billion each year—or on this program, here is the bill. If a state passes a bill that has a sales tax holiday for ten days based upon the state's own rules and regulations, then you take the proportionate number of people in each state and the Treasury of the United States sends them a check. The State of Illinois gets a check for $260 million, period. That is it.

All the state has to do is certify—is put into effect a sales tax holiday. And whatever the state is, based upon their own laws and regulations—they may tax hotel stays, they may tax food at one percent. You don't have to change your computer and you don't have to do anything. The Federal Government does not mandate what you can charge sales tax on or not.

You know, Illinois has—will have 19 representatives. Divide that by 4 into 35. That is about four percent. Four percent of $6.5 billion—Congressmen can't divide, but we can multiply. It comes out to about $260 million. And I think we need to do something. That would—that answers every single question that you have, Ms. Lav——

Ms. LAV. Not quite.

Chairman MANZULLO [continuing]. Because what it does is that it creates very little paperwork and the money goes back. And the states that want to participate in it can; those may and those that don't want to, don't have to do it.

Ms. LAV. I mean, the——

Mr. ISSA. Mr. Chairman, I might echo that not only is that a positive proposal, but it would tend to reward equal states based on population, thus having our poorer states get maybe more than they earn, but, or course, not more than they need. If a state happened to have——

Chairman MANZULLO. However it is.

Mr. ISSA [continuing]. A poorer population, which is probably very good.

Chairman MANZULLO. Ms. Lav.

Ms. LAV. I was just going to say, some states would come out ahead and some behind on that, because a state, for example, like Hawaii or South Dakota that has a very broad-based, you know, sales tax, would probably not—you know, per person——

Chairman MANZULLO. I didn't say this was perfect, you know, but——

Ms. LAV. Yeah. No.

Chairman MANZULLO [continuing]. I am trying to——

Ms. LAV. You said it did every objection—so some states would come out behind.

Chairman MANZULLO. I appreciate that. Did you have any closing comments, Ms. Velazquez?

Ms. VELAZQUEZ. No. I just would like to ask unanimous consent to include this study that was conducted by the University of Florida regarding the price effects around a sales tax holiday into the record.

Chairman MANZULLO. I appreciate that very much. Mr. Thune.

Mr. THUNE. Mr. Chairman, could I just make a suggestion to your proposal that we do it like——

Chairman MANZULLO. Just a second. Obviously that will be included in the record without objection.

Chairman MANZULLO. As would anybody—any other statements—if there are any other groups or individuals that want to have their study, as long as it is not real thick, made a part of the record, you are welcome to do so. And you have ten days within which to get that either to Ms. Velazquez or to me. Mr. Thune.

Mr. THUNE. I was just going to simply suggest, Mr. Chairman, that your proposal on population, since South Dakota only has one member in the House, and we get 1/435 of that $6.5 billion, that maybe we do it like the electoral college and make it, you know, count the Senators too. So we would distribute it a little bit more fairly. I yield back.

Chairman MANZULLO. All right. We—the Subcommittee Chairman on Taxation is not here today, so I have got an assignment for him. That would be for Mr. Toomey. The problem with this legislation obviously cannot get through to be in effect on the day after Thanksgiving. And I am going to assign him, as the Chairman of that Subcommittee, to try to work with the various groups, especially the governor's group, to try to come up with a plan so that in the event that Congress decides to do it, we would be ready to go.

And it would have to address most of the objections raised by Ms. Lav. She raises very practical objections as to the administration of this particular proposal. Everybody here is in agreement that you need a stimulus. Her objections, although maybe some are based upon theory, but 80 percent of it is based upon the practicality of implementing this in any—and the fact that there may be additional costs to it.

So I am going to have Mr. Toomey—assign him to work with the different groups to come up with a plan that maybe, if in the spring Congress decides it is necessary, we can get a consensus that will address at least most of the issues that were raised today, especially the very delicate issue of implementation.

Again, I want to thank you all for coming. It has been an excellent hearing. And this Committee is adjourned.

[Whereupon, at 12:07 p.m., the Committee was adjourned.]

DONALD A. MANZULLO, ILLINOIS
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Congress of the United States
House of Representatives
107th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

Remarks of Chairman Donald A. Manzullo

National Sales Tax Holiday: How will this proposal impact America's small businesses

November 15, 2001

This morning the Small Business Committee conducts a hearing on an issue of some interest to America's retailers and consumers – a national sales tax holiday. This hearing comes as the Senate this week considers their version of an economic stimulus package to assist America's consumers and small businesses.

At today's hearing, we will hear testimony on two identical pieces of legislation, H.R. 3172 and S.1643. Both pieces of legislation would provide Federal reimbursement to State and local

governments for a limited sales, use, and retailers' occupation tax holiday.

Consumer spending accounts for more than two-thirds of our nation's Gross Domestic Product (GDP). Over the last six months, consumer spending has sustained an under-performing economy. Despite declines in business investment and construction, most economists agree that July and August increases in consumption were responsible for keeping the economy growing during the third quarter.

Unfortunately, our nation's economy faces increased pressure due to a sharp fall in consumer confidence in September, resulting from fears of recession and rising unemployment, and compounded by the recent tragedies and a volatile stock market. Recently, the Commerce Department released figures showing retail sales dropped 2.4 percent in September, the sharpest drop in more than ten years.

Experts, ranging from former Clinton Administration economist Alan Blinder to Americans for Tax Reform President, Grover Norquist, agree that the fastest and strongest means to economic recovery is to boost consumer spending.

In order to prevent a further decline in consumer spending, which fell 1.8 percent in September 2001, and consumer confidence, which is at its lowest level since 1994, the Federal Government needs to provide an immediate tax incentive to encourage consumer spending. The most immediate incentive for consumption would be to reduce the price of goods to consumers, which can be done most effectively by removing sales taxes, imposed on those goods.

This has been done before. Currently eight states provide consumers with temporary sales tax holiday periods. Consumer reaction to these sales tax holidays has been remarkable, generating crowds seen only during the busiest holiday season.

Not only would this tax holiday immediately boost consumer spending, its temporary nature would keep revenue costs down. Moreover, only those persons that consume and spend – stimulating the economy, would actually benefit from this tax relief.

I look forward to the testimony of the witnesses before us today. I want to particularly thank those who have traveled a long distance to be with us. I now yield for an opening statement from my good friend, the ranking minority Member from New York, Ms. Velazquez, for her opening statement.

STATEMENT
of the
Honorable Nydia M. Velázquez
Hearing on federal sales tax holiday
House Small Business Committee
November 15, 2001

We know now that the events of September 11th have seriously harmed our economy. We have slipped into a period of negative growth, and our unemployment rate has spiked alarmingly high. Now we are looking for ways not only to recover from the terrorist attacks, but also for ways to stimulate our economy into a new period of growth.

Like a mantra, we hear it repeated: the economy will move again when people start spending again. That certainly appears to be true, and the American people have responded to this patriotic imperative. Yesterday, the Commerce Department reported consumer spending shot up 7.1 percent last month. We certainly hope this will help turn the economy around.

One way to encourage Americans to spend is to lower prices. Many retailers --- and the airlines --- have done this. And what better way to lower prices than to lower the sales tax? To encourage more consumer spending, we are proposing to compensate states who hold a sales tax holiday and lose revenue as a result.

It is a good idea worth looking at in greater detail. Nevertheless, I am concerned about some of the practical difficulties states would face in taking advantage of this proposal.

We should look at some way to limit what kind of sales the federal government will compensate states for. Currently, the definition is almost any kind of tangible personal property. Most states restrict what kinds of goods will benefit from a sales tax moratorium --- usually to give families a break on back-to-school clothing and supplies.

Needless to say, we don't want to give carte blanche to the state of New York, for example, if Donald Trump decides he wants to pick out his own color on a new wide-body jetliner.

Secondly, we must take care that by trying to help small businesses we end up burdening them. If more people rush to stores, companies must be retooled and ready so that they can process these sales without taxes --- and report that to their state boards of revenue. We need to be clear what small businesses will be expected to do to reap the windfall they hope they would based on a tax holiday.

Finally, I am concerned if we rush this, most small businesses won't even benefit at all. This because at last count, only ten states have enacted sales tax holidays. They are the only ones with the laws on the books and the administration in place to even take advantage of this proposal. It may take months, or possibly years, for state legislatures to pass tax holidays and put in place a system to benefit from this proposal. Without new laws and new administration, small businesses in 40 states will see no benefit from our action.

Mr. Chairman, this is a good idea worth exploring in greater depth. Clearly, as we look for ways to stimulate our economy and help small businesses make through a difficult time, we should explore any option. I look forward to hearing from the witnesses about the practicality, the timeliness and --- most important --- the benefit of this proposal.

Statement

Congresswoman Stephanie Tubbs Jones
Hearing
National Sales Tax Holiday
November 15, 2001

Mr. Chairman, Ranking Member Velazquez and Colleagues:

As Congress debates an economic stimulus package, many theories have been proposed to help small businesses. These discussions focus on whether it will be more useful to focus our efforts on spending, or on tax cuts. Some of our colleagues have proposed massive tax cuts that do little to help small businesses and individuals. In the sixty days since the events of September 11th, Congress is still debating an economic stimulus package for America's business owners.

The "tax rebate" Americans received earlier this year, has not proven to be the solution to stimulating consumer spending and starting the economy back on the growth track. Most people saved their tax rebate because they foresaw hard times ahead.

Economists have predicted that there are already sufficient degrees of stimulus in the pipeline: the Federal Reserve has cut interest rates on three separate occasions since the beginning of the year. The phase-in period for the President's tax cut is also coming closer.

We know that the events of September 11th have had a psychological effect on our country that has slowed an already weak economy to a standstill. Discretionary travel has been curtailed and trucks have been delayed delivering goods. Travel and tourism have been bleak and hotels and restaurants have been empty. People are spending their money in the domestic economy - but in effect, they are "hunkering down" and buying only necessities.

Many Members of Congress have suggested a National Sales Tax Holiday to spur consumer spending at one of the busiest commercial times of the year -- the Christmas season.

While this bill seems like a unique idea to enhance consumer spending, the fact is a national tax holiday will have only a limited benefit on small businesses and individuals. In order to restore consumer confidence, we should focus instead on helping individuals with assistance such as unemployment benefits, and on improving security measures that will help airline vendors and other small businesses directly and indirectly affected by the events of September 11th.

Rushing this measure through Congress is a mistake unless we properly review the effects.

Congressman Lindsey O. Graham

Testimony before the House Committee on Small Business

Hearing on "National Sales Tax Holiday: How Will this Proposal Impact America's Small Businesses?"

November 15, 2001

Chairman Manzullo, Congresswoman Velazquez, Members of the Committee, I appreciate the opportunity to speak to you today on the *Sales Tax Holiday Act of 2001*.

This legislation is straightforward and simple. States have the option of waiving state and local sales tax for a ten-day period during the peak of holiday shopping season. In return, the federal government reimburses states that participate for their lost sales tax revenue.

The Holiday sales period represents up to 40% of all annual sales for some retailers. To some small businesses, the holiday season is the difference between a good year or a bad year, steady employment or layoffs, and in some cases, solvency or insolvency. This bill would provide direct benefit to our economy. Shoppers benefit from lower overall costs for their retail purchases during the holiday shopping season. Merchants, workers and manufacturers benefit from increased demand during the critical shopping month of December. But ultimately it is our economy that benefits most from the increase in consumer spending.

The specifics of the *Sales Tax Holiday Act of 2001* are as follows. The state executive would notify the Secretary of the Treasury of their participation in the sales tax holiday. They would provide the Secretary with information on the total revenues collected from covered sales taxes between December 7 and December 16, 2000. By January 4, 2002, the Secretary would reimburse participating states for that amount. Additionally, this measure would account for shifted sales and cover the state's administrative costs to implement. At a later date participating States would then be able to true up their reimbursed rate with their actual losses for the period between December 7 and December 16, 2001. The total projected cost to the federal government would be $6.5 billion if all eligible states chose to participate.

Already seven states and the District of Columbia have implemented limited sales tax holidays to stimulate consumer spending with great success. In fact, the District of Columbia plans to hold a sales tax holiday during the end of November and beginning of December while the Iowa legislature has affirmatively approved the concept already. I have little doubt that states will eagerly participate in this opportunity.

The *Sales Tax Holiday Act of 2001* already has a Senate companion. Senators Murray, Snowe and Santorum advocate the same tax holiday concept in the United States Senate and may offer this concept to an economic stimulus bill when considered on the Senate floor.

Given the recent attacks on our country, and declining consumer confidence it is more important than ever that we stimulate the consumer spending which has been key in sustaining our slowing U.S. economy. Giving consumers incentive to spend during the critical holiday retail season can help pave the way toward economic recovery. The *Sales Tax Holiday Act of 2001* alone will not save our sagging economy in the long term, but it is an important short term stimulus. I see this bill as a significant component of a long term stimulus package and as a way to get our retail industry back on steady footing for 2002.

NEIL ABERCROMBIE
1ST DISTRICT, HAWAII
WHIP-AT-LARGE

COMMITTEE ON
ARMED SERVICES
COMMITTEE ON
RESOURCES

Congress of the United States
House of Representatives
Washington, D.C. 20515

STATEMENT OF
U.S. REPRESENTATIVE NEIL ABERCROMBIE
FIRST DISTRICT, HAWAII

HOUSE SMALL BUSINESS COMMITTEE
NOVEMBER 15, 2001

NATIONAL SALES TAX HOLIDAY: HOW WILL THIS PROPOSAL IMPACT AMERICA'S SMALL BUSINESSES

Chairman Manzullo, Ranking Member Velazquez and members of the House Small Business Committee:

Thank you very much for affording me an opportunity to discuss the condition of the retail industry subsequent to September 11, 2001 terrorist attacks and the need for legislation to establish a mechanism for states and localities to implement a sales tax-free period to stimulate retail sales and the national economy.

First, I would like to commend the Committee for calling this hearing this morning. It will help generate support for directing more of the economic stimulus toward sectors most adversely affected by the September 11 terrorist attacks. Thousands of jobs in Hawaii and across the nation are in jeopardy unless we act more quickly than we have in the last two months to provide genuine airline security to encourage the public to fly and travel, and to provide incentives to stimulate the retail sector of the economy.

As you know, Congressman Lindsay Graham and I last week introduced H.R. 3172 which would provide federal government reimbursement to state and local governments for revenue that otherwise would have been collected from sales taxes during a sales tax holiday from November 22 through December 3, 2001. That period is the heaviest shopping period of the holiday shopping season during which many retailers will generate up to 40% of their annual sales. Although the economy was slowing prior to the September 11 attacks, it is contracting even further, resulting in the lowest retail sales in 10 years.

There is significant evidence, based on the experiences of eight states and District of Columbia,

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that purchases during sales tax holidays are purchases that would not have occurred otherwise, and the Committee will be receiving those statistics from industry spokesmen today. Consumers did not merely shift already anticipated expenditures to the tax holiday period. A recent poll showed 70% of Americans would make purchases they would not otherwise have made during a tax holiday.

Our bill would through the appropriations process establish a one-time reimbursement to states and localities for revenue that would have otherwise been collected through sales taxes on virtually all consumer purchases between November 23 and December 2. It would kick start the holiday shopping season and help re-instill consumer spending as the catalyst that has sustained our economic growth of the last 18 months. Truly, retailers have been adversely affected by the results of the September 11 terrorist attack. Areas with large numbers of retailers have seen sales drop significantly, and in some cases drastically. Hawaii has already been deeply harmed by the steep drop in travel and tourism resulting from the attacks.

In Hawaii, we're taking initiatives to help stimulate the economy on our own. There is an effort to have everyone eat out once a week and have restaurants provide special menu items more affordable for families that participate. We encourage everyone to travel to another island in the state once every 4 or 6 weeks. We have started the Buy Hawaii program which emphasizes to consumers the importance of buying goods and services produced within the state in order to stimulate economic activity through all sectors. We cannot force people to get back on airplanes. Only the public perception of safety on aircraft will solve that element of the problem, and I have been urging speedy compromise between the House and Senate airline security bills in order accelerate that recovery.

It will be necessary, however, to provide economic stimulus on several levels and the sales tax holiday should be enacted either as a part of the economic stimulus package or separately. A number of my colleagues have endorsed legislation Congressman Shadegg and I introduced, the Travel America Now Act, which provides tax credits for individual and family recreational travel. Although a case can be made for the stimulus effects of a broad, general tax cut or spending programs, this Congress has failed to direct help to the industries most severely affected by the terrorist attacks: travel, tourism and retailing. The ripple effect of direct aid to these industries would profoundly and beneficially affect the entire economy as hotels, restaurants, airlines, travel agencies, manufacturers, wholesalers, distributors and retailers get people back on the job.

Many of the principal tourism centers in the nation have a disproportionate share of smaller businesses. Although there are, of course, hotel and restaurant chains, the major airlines and car rental companies, many associated businesses and services are provided by entrepreneurs. In Hawaii, that includes lei makers, helicopter operators, aloha fashion retailers and many, many other diverse businesses. If tourism does not start a recovery quickly, smaller businesses, which typically do not have large cash reserves to fall back on, will start going our of business. The only cruise line company in Hawaii, American Classic Voyages, has already declared bankruptcy, throwing hundreds out of work permanently.

Mr. Chairman, I encourage the Committee to take actions necessary with our colleagues on the Ways and Means Committee and in the leadership to help move the bill forward as quickly as possible.

Testimony of Iris J. Lav
Deputy Director, Center on Budget and Policy Priorities
Before the House Small Business Committee
November 15, 2001

Mr. Chairman and members of the committee, I am Iris Lav, deputy director of the Center on Budget and Policy Priorities here in Washington, D.C. The Center is a nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and program at the federal and state level, with an emphasis on those affecting low- and moderate-income people. Our work is supported by foundation grants, donations, and publications sales. I thank you for the opportunity to testify today on proposals to create a federally designed state sales tax holiday.

The National Retail Federation, Economist Alan Blinder, and others have proposed that the federal government stimulate the economy by financing a temporary reduction or elimination of state sales taxes. Representative Lindsey Graham and Senators Patty Murray and Olympia Snowe have introduced bills for sales tax holidays. The impulse behind these proposals makes sense. I would agree that an important way to boost our flagging economy now would be to stimulate consumer demand. And sales tax holidays seem, on the surface, like an appealing way to do that. The reality, however, is a lot more complicated; a national sales tax holiday has a number of significant problems that would prevent it from being implemented in a timely manner and would sharply limit its effectiveness.

The first problem is timing. Proponents of a sales tax holiday have touted the idea as a way to boost holiday season sales this year. No one, however, should support a sales tax holiday on the assumption that it will boost sales in the Christmas season of 2001. That is impossible; it cannot happen. It is instructive to note that both the Graham bill and the Murray-Snowe bill require states to notify the federal government by November 15, 2001 of their intention to participate in the holiday. As you know, we have reached that date today — and there is no federal legislation.

If Congress were to enact such legislation, it would take a number of months to enact, organize, and implement at the state level. Each state legislature would need to meet to enact the plan for its state. Most states, however, are not in session until January or February; some are not scheduled to meet until 2003. Special legislative sessions are possible but generally require some time to put together and carry substantial cost in many states for part-time legislators to be called to the capitol. (For example, it costs $2 million to hold a special session in Texas.)

Once a state legislature acted, state revenue departments would need to write regulations to adapt the holiday to their own sales tax systems. This would be far from a trivial task in some states, since phrases such as "sales tax" or "tangible personal property" that sound simple in federal legislation can be difficult to apply in the real world of idiosyncratic state tax systems. Once the implementation details are settled, the state would need to educate hundreds of thousands of retailers as well as the general public about the holiday. Retailers would need to reprogram their machines and train their employees. It is not reasonable to expect that all of these steps — from federal enactment to full state implementation — could be accomplished in many places before March or April of 2002.

The second, important issue is the potential negative effect of these delays on today's fragile economy. There is reason to be concerned that enactment of a sales tax holiday could make consumer demand during the Christmas buying season *worse* than it otherwise would be. This could occur if, for example, a federal holiday were enacted now for implementation as soon as states could manage to do so, or for, say, a fixed time in March 2002. In that case, consumers may well decide to delay making major purchases until next year, to take advantage of the anticipated holiday. This appears to be happening already in Washington state, where the sales tax holiday proposal has been widely publicized because Senator Murray is the sponsor of the legislation in the Senate. The *Seattle Times* reported on November 8 that "some car dealers are saying they've already seen a drop-off in sales because of the buzz surrounding the tax holiday."

A third, related issue is whether sales tax holidays hold much net benefit for the economy. While the evidence is somewhat scarce, it suggests that the increased sales during sales tax holidays are "borrowed" from periods before and after the week or so the holiday is in effect. For example, the New York State Department of Taxation and Finance reported that the state's 7-day 1997 sales tax holiday on clothing did not increase quarterly clothing sales beyond what would have been expected even without the holiday. In other words, New York shoppers bought no more clothing in the winter of 1997 due to the holiday than they would have bought anyway; they just bought a larger share of what they otherwise would buy during the course of the season during 7-day tax holiday window.

Similarly, many state sales tax holidays have been designed to attract out-of-state shoppers and capture cross-border dollars for the holiday state's economy. With a uniform national sales tax holiday, however, this type of shifting of sales from one locality to another would not occur — and if it did it would have no benefit for the national economy.

Another issue is the extent to which *consumers* are the beneficiaries of a sales tax holiday. With retailers constantly holding sales, markdowns, and special offers such as zero percent financing for car purchases, the value to consumers of a five to 10 percent sales tax reduction can be difficult to distinguish. A recent study of the 2001 Florida sales tax holiday on clothing by a group of professors at the University of West Florida found that markdowns were less generous during the holiday, allowing retailers to capture 20 percent of the tax relief for themselves. It also found that shoppers were more likely to find an item on sale *after* the sales tax holiday. (The study looked only at large retailers, primarily national and regional chains. It is unclear whether similar results would be found among small retailers.)

A fourth set of issues, and one that I know is of particular interest to this committee, relates to the potential difficulty and cost of implementation of a sales tax holiday for states and for small businesses. As noted, a federal sales tax holiday may require some states to distinguish types of sales and to maintain records for the purposes of federal reimbursement in ways that currently are not done for state purposes. For example, the Graham bill excludes sales tax payable with respect to food, tobacco products, and alcoholic beverages. In some states, there never has been a reason to distinguish these items on remittances retailers make to the state. Moreover, there is a difference among states in how they define food. For example, there is a continuum from food to nutritional supplements to medicines. Different states choose different points on the continuum for their definition of food; it is unclear what choices will be acceptable to the federal government under these bills. Similar — and perhaps more severe — problems would apply to distinguishing the "tangible goods" that would qualify for the federal holiday from the leases and services many states tax under their sales taxes. It is unclear whether a federal holiday would define such terms, or how states would require retailers to comply.

What is clearer, however, is that the cost of compliance will be greater for small businesses than for larger ones. Data from Washington state is instructive in this regard. In general, a study by the state found that the cost of complying with sales tax rules and procedures — collecting and remitting tax — is 6.47 percent of state and local sales tax for small retailers, but only .97 percent for large retailers. Presumably these types of differences would carry over to the cost of complying with the changes required for a sales tax holiday. Specifically to the point, Washington state found that the cost of reprogramming point of service equipment for rate changes was four to nine times higher for small- and medium-sized retailers as for large retailers. The cost of reprogramming point of service equipment for base changes was nine to 15 times higher for small- and medium sized retailers as for large retailers.

Finally, the federal reimbursement to states (and localities if they are included, as in the Murray bill) for lost revenues raises a troubling set of questions. It would be extremely difficult to measure actual sales tax revenue lost during a holiday period without imposing burdensome reporting requirements on retailers. For example, it is likely to be difficult for businesses to provide data on foregone sales tax revenue for a specific week. Yet any formula for reimbursement would not necessarily account fully for sales that are shifted into the holiday week from prior or subsequent weeks. The Federation of Tax Administrators has major concerns about methodologies that are being suggested for reimbursement, and suggests that the actual revenue loss would be between $9.5 billion and $13.3 billion, rather than the $6.5 billion the National Retail Federation has estimated.

If states and localities are not made whole for lost revenue, a sales tax holiday would add to the deficits with which most states already are tying to cope. Smaller businesses may in any case be affected by cutbacks in services or increases in taxes that state and local governments will be making this year and next to comply with their balanced budget laws. It is worth noting that in the recession of the early 1990s, about half the states *raised* their sales and excise taxes to close their budget gaps, with total sales and excise tax increase totaling about $12 billion at that time. Additional state revenue losses that could occur if states are not adequately reimbursed for a sales tax holiday could increase the probability that similar actions — which could weaken retail sales — would have to be taken.

There are better ways to boost the economy. The federal government could encourage consumer spending through a rebate to low- and moderate income workers — who are more likely to spend the rebate than high-income individuals. It could expand unemployment insurance benefits, which research suggests are promptly spent. And it could provide states with fiscal relief, such as the temporary increase in the federal contribution to Medicaid included in the Senate Finance Committee bill. Without some federal assistance states increasingly will be forced by their balanced budget laws to increase taxes or cut state spending, either of which would weaken the economy.

In closing, Mr. Chairman, let me say that while the intentions behind the sales tax holiday may be good, the reality of how it would work makes it more burdensome than beneficial for small businesses and state governments, particularly when there are many more effective ways for Congress to accomplish the goal of stimulating consumer demand.

AMERICANS FOR TAX REFORM

Grover G. Norquist President

Prepared Statement of Grover Norquist before the House of Representatives' Committee on Small Business, November 15, 2001

The national sales tax holiday is a broadly bipartisan proposal. Support for the idea comes from all parties, all regions, all conceivable interests. And with excellent reason: a national sales tax holiday would give the US economy the sort of jumpstart it needs, and at the best possible time.

Let's not forget that we are closing in on the start of the all-important holiday shopping season. People will be cracking their wallets open anyway to buy gifts, but we need to encourage shoppers to crack them open just a little bit wider. Most agree that current economic conditions are not exactly conducive to retail spending of the sort we usually expect after Thanksgiving, and upon which retailers and manufacturers depend.

Indeed, for many businesses, the holiday shopping season can provide a profit margin for the entire year if shoppers continue to hit the stores and malls in steadily increasing numbers, and conversely, a loss on balance for the entire year if too many shoppers decide to stay at home.

But experience has shown that when given the proper incentives, consumers will spend more than they are generally inclined to do. Sales tax holidays provide that incentive. They have been tried before at the state and local level, at minimal "cost" to the government, and to the maximum benefit of shoppers and businesses alike. They aren't a gaggle of wild theories that exist solely in an Economics 101 textbook, they are real world practices which have been put to the test repeatedly and in several different permutations, all with impressive results.

Simply put, they work. And there's no reason whatsoever that a sales tax holiday wouldn't yield similar results at the national level. Consider these examples of how this exciting new idea has been tried all across America:

- This year in Washington, DC, a sales tax holiday from August 3 through August 12 provided for an exemption from the 5.75% sales tax for footwear,

clothing and school supplies, each item less than $101.00, purchased during the holiday period. DC has a higher sales tax than neighboring Virginia (4.5%) and Maryland (5%), and parents in DC didn't have to leave the city to save a few dollars before the start of the school year.

- Texas' third three-day sales tax holiday, from August 3-5, lifted sales taxes (a hefty 6.25% at the state level in addition to those applying at the local level) on most clothes and shoes— including boots, of course— that sell for less than $100. According to the Texas Retailers Association, the first sales tax holiday attracted more shoppers than most department stores' 20 percent-off sale (in 1999, consumers in Texas purchased $400 million worth of tax-exempt clothing, double the typical sales of an equivalent week in August). J.C. Penney has reported that sales doubled in its 82 Texas stores during one of the holidays.
- In South Carolina from August 3-5, shoppers got a break for a second time from the state's 5% sales tax along with any local taxes levied by some counties. Items exempted from the sales tax included clothing, footwear, school supplies, computers, and computer accessories. As a direct result, sales of computer products increased an astounding 80%.
- Pennsylvania, which doesn't impose its sales tax on clothing, waived the state's 6% sales tax on all home computers purchased from August 6-13. As a direct result, sales of computer products increased 60%. (Could there be a better way to bridge the supposed "digital divide" than what South Carolina and Pennsylvania did before the start of the school year?)
- Connecticut's second sales tax holiday week occurred from August 19-25 of this year. (And the people of Connecticut certainly needed it: they have the highest per capita tax burden of any state.) Shoppers got a reprieve from the state's 6% sales tax on items of clothing and footwear priced under $300 by increasing the sales tax exemption that usually applies to clothing and footwear priced under $75.

The sales tax holiday concept has also been tried, to rave reviews, in Maryland, New York, Florida, North Carolina, Ohio, and Iowa. I expect that many other states will have sales tax holidays of their own very soon— and will certainly urge them to do so.

But with the clock ticking and the US economy recovering yet wobbling, concerted action must be taken NOW. That action must be taken at the federal level, and taken immediately, by passing the legislative framework that would make a nationwide (and

simultaneous) sales tax holiday possible. After all, many (if not most) shoppers in every state do have a pronounced tendency to start buying presents for the holidays on the exact same day. Therefore, coordination is of the essence.

I cannot stress enough the fact that under the national sales tax holiday arrangement, **no participating state will lose tax revenue.** Not one. Indeed, it is highly probable that they will gain more revenue from the federal government than they would receive if they abstain from participation. In all likelihood, this year's holiday season will not rack up the sales like last year's, and sales tax revenues will be lower as well.
By offering participating states, say, the equivalent of their respective average sales tax take over the three previous years, this arrangement will definitely not blow holes in their budgets. Indeed, it's a very, very good deal.

Let's also be aware that a national sales tax holiday would be a significant tax cut for lower income Americans more than anyone else.

The wealthy obviously aren't affected by, and therefore don't worry about, the impact of sales taxes nearly as much. Instead of handing out "refund" checks for income taxes that were never paid in the first place, it would be administratively easier for the government, more equitable for taxpayers, and more beneficial to the economy as a whole if we took the national sales tax holiday route.

I cannot end without mentioning the recent report issued by the Commerce Department. It was heartening, but somewhat misleading. While we did have a 7.1% leap in retail sales last month, that figure is inflated by car sales. With 0% financing deals now widely available, who in their right mind wouldn't seize the opportunity to buy a car or two?

If you remove car sales from the equation, overall retail sales in October climbed a meager 1% above the dismal sales totals of September. That is unacceptable. We can— and should— do better. And there's a surefire way to get retail sales back to where they need to be: a national sales tax holiday.

In *Field of Dreams*, Kevin Costner heard a voice that told him: "Build it and they will come." When it comes to the sales tax, all I can say in summation is: "Lift it and they will shop."

NATIONWIDE SALES TAX HOLIDAY

Immediate, Temporary, Targeted Tax Relief for Consumers

Statement of Elmer Karl
President of Karl's TV & Appliance, Gregory, South Dakota

before the

Small Business Committee
U.S. House of Representatives
Thursday, November 15, 2001

Good Morning Mr. Chairman and members of the Committee. I would like to take this opportunity to thank Congressman John Thune and the members of the Committee for inviting me to testify at this morning's hearing on a proposed Nationwide Sales Tax Holiday.

My name is Elmer Karl. I'm the President of Karl's TV & Appliance. I started my business in 1956 in Gregory, South Dakota and since then have implemented an ESOP plan so that we are now an employee owned company.

I have served on the board of the South Dakota Retailers Association and served one term as President. We currently operate 10 locations in South Dakota, one in Nebraska, two in Minnesota and two in Iowa. Many of our stores are located in cities of less than 15,000 people, so I am well aware of the difficulties and challenge that small retailers face. Our company advertises extensively and runs monthly retail promotions to generate business in a highly competitive environment, so I feel qualified to express an opinion on how to generate more sales.

Nationwide Sales Tax Holiday

I come here today to encourage the members of this committee to work toward the enactment of a Nationwide Sales Tax Holiday. I have read the legislation that is being proposed and in my opinion this holiday would definitely encourage the average consumer to make a purchase during that time. This savings to the taxpayer would affect virtually everyone and could not help but jumpstart the economy.

Retailers would have to replenish their inventory, which in turn would mean that manufacturers would have to increase production. Unlike 0% interest promotions on durable goods, which benefit only those consumers with excellent financial strength, this sales tax holiday would benefit every consumer making purchases during that period. I do not feel, based on my past experience of running special "one day" promotions, that this would slow sales prior to, or after, the dates of this no tax period.

Economic Slowdown Effects on Small Business

In these times of a slow economy, consumers instinctively cut back purchases to conserve money in case of economic hardship such as the loss of a job by a family member. Those of us in the retail business were already experiencing softening of sales prior to the horrific attacks of September 11th. There is no question that the events of that day further hurt retail sales and the confidence of the consumer.

While these economic downturns are difficult for the business community, and in fact the nation as a whole, they are exceptionally difficult for small business communities. Because of inventory overstocks due to slower sales, many are experiencing a slowing of cash flow. This is not easy for any business, but can be disastrous for even most fiscally sound small business.

I believe that American small businesses are resilient and will survive these economic downturns as we have in the past. However the cutbacks that have become necessary at the retail level have been felt throughout the supply chain as well. The lower demand for manufactured goods to be delivered to our stores results in more unemployment and continued economic recession.

Most Efficient Use of Money

Congressional action that spurs consumer spending would be the quickest, most targeted way to stimulate the economy. You will be helping to increase the disposable income of consumers through the savings that people receive on goods that need to be purchased for the holiday season. This combined with the reduction in the cost of merchandise that customers would like to purchase, will encourage additional spending, further stimulating the economy.

I am sure that you have a number of proposals presented to you to stimulate the economy, however it appears to me that a Nationwide Sales Tax Holiday would be an excellent use of the stimulus money. Under this plan only those that spend money, would receive the benefits. This ensures that every dollar that Congress appropriates for this program will immediately go directly back into the economy.

I appreciate the plan to limit this National Sales Tax Holiday to only 10 days so that it will provide a focused, potent infusion of money without creating a new program that will require more funding in the future. There may be extra administrative duties both for the government and the retailer, however my feeling is that the retailer is up for the challenge and willing to create an environment to grow the economy.

Thank you for the opportunity to address this committee today on this critical issue. I hope that this committee will take the action necessary to ensure that the Congress will act to provide consumers, and the economy, with this 10 day National Sales Tax Holiday.

Thank you very much.

STATEMENT
OF
ELIZABETH I. HOLLAND
OF
ABBELL CREDIT CORPORATION
ON BEHALF OF
THE INTERNATIONAL COUNCIL OF
SHOPPING CENTERS

ON
***THE SALES TAX HOLIDAY ACT OF 2001* (H.R. 3172)**

TO THE
HOUSE COMMITTEE ON SMALL BUSINESS

NOVEMBER 15, 2001

SUBMITTED BY:
INTERNATIONAL COUNCIL OF SHOPPING CENTERS
1033 N. FAIRFAX STREET, SUITE 404
ALEXANDRIA, VA 22314
(703) 549-7404

STATEMENT OF THE

INTERNATIONAL COUNCIL OF SHOPPING CENTERS

Good morning Mr. Chairman, members of the Committee and fellow citizens. My name is Elizabeth Holland and I am the chief executive of Abbell Credit Corporation – a 50-year old family business focused on real estate investment, development and management based in Chicago, Illinois. Abbell Credit manages a 1.6 million square foot portfolio comprised of shopping center, enclosed mall and office properties, including Merle Hay Mall in Des Moines, Iowa and Westgate Village Shopping Center in Toledo, Ohio.

I am here on behalf of the International Council of Shopping Centers (ICSC) - the global trade association of the shopping center industry. Its 40,000 members in the United States, Canada and more than 75 other countries around the world include shopping center owners, developers, managers, investors, lenders, retailers and other professionals. The shopping center industry contributes significantly to the U.S. economy. In 2000, shopping centers in the U.S. accounted for $1.14 trillion in retail sales, collected $46.6 billion in state sales taxes and employed 10.7 million people.

Thank you for giving me the opportunity to address your Committee today in support of the *Sales Tax Holiday Act of 2001*.

The U.S. economy is in the midst of a serious downturn that requires additional economic stimulus measures in order to help hasten a full recovery. Consumer spending – which accounts for more than two-thirds of our nation's Gross Domestic Product (GDP) – plunged 1.8 percent in September following a small 0.3 percent gain in August. Personal consumption of durable goods fell by 3.2 percent in September while that of non-durable goods fell by 1.3 percent. Retail sales have fallen in lock step with the decline in consumer spending. Total retail sales in September were off by 2.4 percent from August.

Retailers typically hire additional workers this time of the year to accommodate increased holiday traffic. However, the retail industry is one of the sectors of the

economy that has been hit hard by our nation's dramatic increase in unemployment. The latest figures from the Labor Department show that retail employment has dropped during the last three months. In fact, retail employment fell 81,000 on a seasonally adjusted basis in October. As a result, some retailers have been forced to close certain stores or even file for bankruptcy protection.

One predictor of future retail sales is the consumer confidence level. The Conference Board, a New York-based private business research group, said its consumer confidence index fell for a fourth straight month to 85.5 in October from 97.0 in September, its lowest level since February 1994 (1985=100). Falling consumer confidence often leads to weaker retail spending as consumer purchasing behavior becomes guided by negative perceptions about the economy and the possibility of impending job losses.

In order to help propel the economy out of this down side of the economic cycle and towards economic growth once again, our federal government needs to take decisive action. In addition to the prudent monetary policy of the Federal Reserve Bank, targeted tax-cut legislation and appropriate government spending, Congress should enact legislation that would jump start consumer demand for retail goods and services, which in turn would spur additional business investment, higher employment, increased household income and more consumer spending.

It is for this reason that the International Council of Shopping Centers supports the *Sales Tax Holiday Act of 2001* (H.R. 3172). Introduced by Representatives Lindsay Graham (R-SC) and Rod Blagojevich (D-IL), H.R. 3172 would establish a nationwide state sales tax holiday from November 23 to December 2 of this year that would exempt from sales tax all tangible personal property, except food, alcohol and tobacco, with no monetary cap.

States participation in this program is not mandatory – each individual state legislature and governor can determine whether or not they want to participate. The federal government would then reimburse those participating states and municipalities for lost sales tax revenue during the ten-day period – currently estimated at $6.5 billion.

This bi-partisan legislation would provide a boost in consumer spending on retail, high tech and other goods, and would help the shopping center industry and the economy as a whole during this rocky economic time. It would truly serve as a quick economic stimulus – a goal supported by the President, the leadership of both political parties and state and local governments.

The concept of a sales tax holiday is not unknown to many state legislatures. Currently, eight of the forty-five states (and the District of Columbia) that currently impose a sales tax, including Iowa where my property, Merle Hay Mall, is located, have instituted temporary sales tax holidays that vary in duration and the types of goods covered. Consumer reaction to these sales tax holidays has been overwhelmingly positive and has led to increased mall traffic and higher retail sales.

Our sales tax holiday experience in Iowa is consistent with that conclusion. Merle Hay Mall is the oldest (dating back to 1959) and still the largest (1.2 million square feet) mall in the State of Iowa. Early in 2000, the Iowa State Legislature enacted a two-day sales tax holiday to take place in the beginning of August on clothing and shoe purchases up to $100 to help parents shop for their children before the start of the school year. The sales tax holiday in 2000 was so successful that Iowa enacted another one for August 2001. The positive experience in 2001 has led to discussion about broadening the items covered by the sales tax holiday in 2002.

To provide you with some figures on sales growth, I want to share Merle Hay Mall's specific sales experience during these two sales tax holidays. In August 2000 (the month of our first sales tax holiday), mall-wide sales were up 45 percent over the same month in 1999, with department store sales up 7 percent. Furthermore, the increases were not isolated to those merchants who sold goods covered by the tax holiday (clothing and shoes): Food court sales were up 63 percent; jewelry store sales were up 24 percent; and music/electronics sales were up 27 percent over the same period in 1999.

Needless to say, with this tremendous sales performance, we were hoping to maintain these sales levels during August 2001 (the month of our next sales tax holiday).

Once again, we were pleasantly surprised: mall-wide sales were up 19 percent from August 2000, with department store sales up 6 percent. Retailers such as Old Navy, The Gap, and American Eagle Outfitter were up 39 percent, while children's stores that include The Children's Place, Limited Too, Kid's Footlocker and Gymboree were up an astonishing 92 percent.

Our successful experience with sales tax holidays in Iowa indicates a strong willingness of shoppers to make their purchases during the tax holiday as a way to capture extra savings. While it is true that some additional retail sales generated during a sales tax holiday is due to the shifting (e.g., delay or acceleration) of already-planned purchases, I believe that a significant portion of these additional sales are purchases that would not have occurred without the sales tax holiday. It is my belief that the nation as a whole would significantly benefit from a national sales tax holiday, just as Iowa has from its own.

Time is running out for Congress and the President to enact a national sales tax holiday for November 23 through December 2, and for the states to enact appropriate enabling legislation before November 23. While many state legislatures are still in special session, others would have to be called back. During Iowa's special legislative session last week, pre-authorization language was enacted to permit Governor Vilsack to take all necessary action to participate in a national sales tax holiday in the event it is enacted by Congress.

We strongly support a national sales tax holiday for this holiday season and urge that one be enacted as soon as possible, even if it is later in the holiday shopping season than currently proposed. For the above reasons, ICSC urges this Congress to pass the *Sales Tax Holiday Act of 2001*.

Thank you for the opportunity to present my views to your Committee today, and I would be happy to answer any questions you may have.

A NATIONWIDE SALES TAX HOLIDAY

Immediate, Temporary, Targeted Tax Relief for Consumers

Statement of Rush Wilson II
Vice President and Manager of Rush Wilson Ltd. in Greenville, South Carolina
On behalf of the National Retail Federation

before the

Small Business Committee
U.S. House of Representatives
Thursday, November 15, 2001

Good morning, and thank you Chairman Manzullo, Ranking Member Velazquez, and all committee members for the opportunity to address the Small Business Committee this morning. My name is Rush Wilson. I am President and Manager of Rush Wilson Ltd., a men's and women's clothing store in Greenville, South Carolina. My father founded our family business in 1950. I would also like to take this opportunity to thank my Congressman, Representative Jim DeMint (SC), and South Carolina Congressman Lindsey Graham for inviting me to participate this morning.

I am testifying today on behalf of the National Retail Federation, where I serve on the Independent Stores Board of Directors. NRF is the world's largest retail trade association, representing 1.4 million retail establishments that employ more than 22 million Americans.

I am here today to discuss an innovative concept that has been proposed to help address the current state of our economy. The 10-day Nationwide Sales Tax Holiday that this committee is considering today is designed to stimulate our nation's economy by providing consumers with the incentive necessary to return to the stores.

The basic tenants of this proposal have been incorporated into H.R. 3172, as introduced by Representative Lindsey Graham (R-SC) and Representative Rod Blagojevich (D-IL). A similar bill has also been introduced in the Senate (S. 1643). Specifics include:

- States and localities that collect sales tax would temporarily stop collecting this tax on all tangible personal property, except alcohol, and tobacco.
- Congress would reimburse states and localities for all lost sales tax revenue during this period. Reimbursement would take place through the Congressional appropriations process.

- Participating states would be provided a 100 percent lump-sum payment for any lost revenue no more than 20 days after a holiday period. States can either accept this lump-sum distribution (which is based on 2000 sales tax revenue numbers + a Census Bureau seasonal factor of 1.17 for the December buying period + an acceleration factor for any shifting of purchases into the holiday period + 1% of 2000 sales tax collections during this period to offset potential administrative costs arising from new reporting/collection requirements) OR states can enter a "reconciliation process" if they believe this formula has resulted in an underpayment of sales tax revenue for the holiday period. If a state decides to enter the "reconciliation process" and it is determined that they were under-reimbursed, they will receive additional reimbursement from the federal government. However, if it is determined during "reconciliation" that a state was overpaid, they will be required to remit any overpayment to the federal government immediately.
- States would not be forced to participate; each individual state legislature and Governor will determine if they wish to participate.

The Economy and Effects on Small Business

Given that consumer spending accounts for two-thirds of GDP, it is obvious that this spending is a vital part of the economy. Many economists credited consumption with sustaining the economy through July and August even as decreases in business investment and construction was declining.

Unfortunately, as noted by the Commerce department, recent retail sales declined more in September than at any point in the previous 10 years. Although headlines in recent days have cited Commerce figures showing that retail sales rose 7.1% in October, this figure is misleading. Due to 0.0% financing and other markdowns, auto sales rose 26.4% in October, accounting for $18 billion of the $20 billion in spending. When auto sales are excluded, retail sales actually only grew 1.0%. Given the previous month's negative growth factor, this number becomes even less optimistic.

Consumer confidence was at a seven year low in September, resulting from a volatile stock market and compounded by recent events in New York City and Washington DC. In light of this, many retailers have projected negative sales growth for the upcoming holiday season. Typically, 40% of all retail sales occur during the holiday season. A dismal holiday shopping period will have repercussions throughout the supply chain.

While economic downturns are difficult for the business community, and in fact the nation as a whole, it is exceptionally difficult for the small business community. The unexpected mark downs that are necessary as a result of inventory overstock, along with slowing of cash flow are not easy for any business, but can be disastrous for even the most fiscally sound small business.

American small businesses are resilient, however. We have survived economic downturns in the past and we will come through this one as well. However, the cutbacks that have become necessary, and will remain necessary, in the future, at the retail level will be felt throughout the supply chain, as well. Excess inventories will cause a decrease in demand for manufactured goods, which will lead to cutbacks in that sector. In addition, fewer goods being delivered to stores will result in fewer distribution positions.

What Congress Can Do

Congress has the opportunity to act now. One of the best ways to stimulate the economy is to put money in the hands of consumers . The results seen by states that have previously implemented these Sales Tax Holidays has been remarkable. Eight states, Florida, Texas, Pennsylvania, South Carolina, Iowa, North Carolina, Connecticut, and

Maryland, along with the District of Columbia, currently have Sales Tax Holidays. My home state of South Carolina has enacted a similar holiday for the past two years. Based on my experience, and that of my peers in the South Carolina retailing industry, these holidays have been a tremendous success, resulting in increased floor traffic as well as additional purchases.

Moreover, Washington DC and Massachusetts have recently passed legislation to have their own sales tax holidays implemented this December. Some states (e.g. Iowa), have already passed legislation allowing them to opt-in to the proposed nationwide sales tax holiday as soon as it becomes law.

How Sales Tax Holidays Stimulate the Economy

The enactment of this on a nationwide level would help to encourage consumption on two fronts:

First, this would provide a real savings to consumers. If a customer is able to save an additional 5-7% on top of the sale prices that we provide in our stores, this will increase the buying power of the customer allowing them to make additional purchases. Through the savings that people receive on goods that need to be purchased for the holiday season, you will be helping to increase the disposable income of consumers. This combined with the reduction in the cost of goods that customers would like to purchase, will encourage additional spending, further stimulating the economy.

However, the second way that this will raise consumer spending may be the most vital. This proposal will stimulate spending, and thus the economy by not only saving people money but also boosting the moral of American consumers. This is a popular

proposal that is easy for the consumer to understand and even easier for them to realize the benefits. In a recent poll over 83% of respondents stated that they would take advantage of the holiday and nearly 70% said that if the holiday were in effect they would make purchase that they would not otherwise make.

Based on experience in states that currently employ sales tax holidays, retailers have seen an increase in incremental sales during these holidays, and not just a shift in spending from non-holiday periods to a holiday period. The Texas Comptroller reported that consumers purchased $400 million worth of tax-exempt clothing during last year's tax-free holiday, double the typical sales of an equivalent week in August. In August this year, when both Maryland and Washington had holidays, one national retailer saw sales increase 35% over the same week last year, while company sales in non-holiday states were up only 7%. That is a five-fold increase in sales over non-holiday states. Monthly sales increased approximately 10% in MD and DC while stores in other states saw less than a 4% increase.

Retailers generally do not like peaks or valleys in sales; rather, they prefer sales to stay "on-plan" throughout the year for a variety of reasons. If one followed the theory that these holidays are merely a shift in sales, rather than new sales, retailers would see a continued drop off in "on-plan" sales going either into or out of these holiday periods, or throughout the rest of the year. This has not been the case for most retailers. If these holidays didn't increase actual incremental sales, I don't think you would see the level of interest and support from the retail industry that you do given various compliance issues retailers must adhere to during these periods.

The impact of this holiday would also have an impact outside of the retail community. The reduction in store inventory would lead to an increase in the demand for manufactured goods. As additional orders are needed to restock the shelves, inventories within the manufacturing sector will be reduced. Because of this, more employees will be needed to fill orders, more materials will be needed to build items, and the stimulus will continue move throughout the supply chain.

Furthermore, additional orders will lead to additional shipping. This additional shipping will serve to stimulate the shipping by land, rail, and air.

Outside of the supply chain, the increased traffic in stores and the malls would have a dramatic effect on the services industry, as well. As the demand for more goods and services increase, more labor will be necessary leading to an increase in employment and thus the flow of more capital into the hands of consumers, further stimulating the economy.

The Most Focused and Efficient Option

This proposal strictly adheres to parameters set out by the Administration and Congressional leaders for an effective stimulus proposal – it's immediate, temporary, and targeted – meaning an individual doesn't benefit from the tax relief unless they spend and consume.

Estimated to cost $6.5 billion dollars over 10 days, this initiative could inject an average of $650 million dollars into the economy each day. During the holiday season, when money is being spent at such a rapid pace, this money would be spent over and over, allowing the government to take full advantage of the multiplier effect. This money

would be spent in the stores, turned into wages, and turned into inventory purchases. The savings would be spent in restaurants, given out in tips, and donated to charities. Obviously the ways these saving would be utilized is endless, but these are a few examples.

There is no doubt that this plan would have an immediate, effective boost to the economy. This proposal is the only one in which people will only experience the savings if the spend money. This is the most efficient use of the stimulus money. This money will go directly to consumers. These consumers are precisely the people that will provide the spending in the stores, the traffic in the malls, and the diners in the restaurants.

This is a one-time appropriation. This will not create a long running program that will not require future financial commitments. Unlike expenditures that create on-going programs, this legislation would require no additional personnel to administer. There would be no additional infrastructure costs and there will be no additional appropriations in the future.

In conclusion, I urge you, the members of this committee, along with all lawmakers, to consider the excellent opportunity that you have before you. With this legislation you can take a strong, positive step towards revitalizing the American economy that will have an immediate impact. This one-time expenditure will help lift consumer confidence and spur additional spending. This additional spending will stimulate retail, manufacturing, transportation, and wholesale-distribution and other sectors reliant on consumer spending.

STATEMENT OF KATHY GORNIK
VICE CHAIR
CONSUMER ELECTRONICS ASSOCIATION
AND
PRESIDENT
THIEL AUDIO PRODUCTS

BEFORE THE COMMITTEE ON
SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

IMPACTS OF A NATIONWIDE SALES TAX HOLIDAY
ON AMERICA'S SMALL BUSINESSES

NOVEMBER 15, 2001

Introduction

Thank you, Chairman Manzullo and members of the committee. I am Kathy Gornik, Vice-Chair of the Consumer Electronics Association. I volunteer in this position as a representative of THIEL Audio Products Company.

I am president of THIEL, which I co-founded in 1977. Based in Lexington, Kentucky, THIEL is one of America's foremost loudspeaker manufacturers. From our small factory, our speakers go into the homes of audio fans throughout the United States. THIEL employs 35 people, every one of whom is devoted to producing award-winning speakers that provide consumers with the most realistic sound reproduction possible.

THIEL is a member of the Consumer Electronics Association (CEA), which represents more than 600 companies in the consumer technology industry. In addition to audio manufacturers, CEA represents manufacturers of products such as computers, VCR's, DVD players, home satellite systems and HDTV's. More than half of CEA's members are small companies with less than $4 million in annual sales.

The Consumer Electronics Association is strongly in favor of H.R. 3172 and its Senate companion, S. 1643, which would provide a necessary, direct and immediate stimulus to the American economy by creating a nationwide sales tax holiday.

Consumer Spending is Weak

As a small business, THIEL has been hit hard by America's slowing economy. Already our business is down 10 percent compared to last year at this time. We have now entered a year-end selling season that we project to be below normal. Economic conditions have recently forced us to lay off valued employees and we have a hiring freeze in effect.

The September 11th attack on America has weakened our economic situation even further. The economic aftershocks following September 11th have given our potential customers new reservations about purchasing our products. For example, one of our dealers recently met with a potential customer in San Francisco who had made plans to build a new home theater incorporating several of our products. However, given the current economic climate, the customer decided to postpone his purchase indefinitely. Whether due to psychological or financial reasons, decreased consumer spending is a significant threat to the health of my business, the consumer technology industry and our nation's economy.

Economic Stimulus is Necessary

I am gratified that President Bush and the members of this Committee are considering ways to invigorate the economy. But let me say it clearly and emphatically: action is needed now. It is essential that the government take action to address Americans' uncertainties and fears about spending money.

Consumer spending, which comprises two-thirds of all U.S. economic activity, is of primary concern to my business. With a continued downturn in spending, I will be forced to make difficult decisions about product manufacturing, sales and marketing, and employment. These decisions will have a negative impact on the income of other businesses nationwide that provide goods, services and jobs, forcing them to make similar decisions.

A Nationwide Sales Tax Holiday Will Boost America's Economy

Of all the ideas for economic stimulus being considered in Congress, the nationwide sales tax holiday stands out in my mind as the one proposal that would guarantee consumer spending.

A Nationwide Sales Tax Holiday is Temporary

First, a nationwide sales tax holiday will boost consumer spending right when it is needed: immediately, when consumer confidence and spending are down. Consumer confidence is at a seven year low, and the GDP has seen its biggest decline in a decade. A sales tax holiday will help arrest these trends and pump money into the economy around the critical holiday season.

A Nationwide Sales Tax Holiday is Targeted

Second, a sales tax holiday is targeted tax relief. It puts money where it is most urgently needed: directly into the pockets of ordinary, tax-paying Americans. Through no fault of their own, American workers are bearing the brunt of this economic downturn. A sales tax holiday will benefit every American: it is egalitarian, simple and straightforward. Most important, consumers know that in order to take advantage of a sales tax holiday, they must go to the store and spend.

A Nationwide Sales Tax Holiday is Effective

Finally, a nationwide sales tax holiday will be effective. As a small businesswoman, I know all about the price sensitivity of consumers. Consumer behavior is not hard to understand: when people believe they are getting a good deal, they rush to the stores and take advantage. It is no wonder that statewide sales tax holidays have a proven record of success.

During statewide tax holidays in Pennsylvania and South Carolina, sales of electronics jumped between 60 and 80 percent. Our survey shows that about half of the consumers who took advantage of the tax holiday in those states regarded the holiday as a "major" consideration in their purchase. In addition, roughly a quarter of those surveyed reported that their purchases during the sales tax holiday were "unplanned" purchases. In other words, a significant portion of these sales may not have occurred at all in the absence of a tax holiday.

A tax holiday especially helps low-income consumers, for whom sales taxes are a proportionally bigger burden. For many low-income families, a tax holiday makes the critical difference in enabling purchases that they would not otherwise have been able to afford.

A Nationwide Sales Tax Holiday Will Benefit Wide Sectors of the American Economy

I believe the nationwide sales tax holiday is the incentive that will encourage my customers to go ahead and buy my audio speakers, create their home theaters, and upgrade their audio systems. But the benefits of a sales tax holiday will extend far beyond my business and the consumer technology industry.

Under the proposed legislation, almost any tangible consumer product could be purchased tax free except for alcohol and tobacco. Americans would take advantage of a one-time opportunity to purchase clothing, furniture, sporting goods and holiday gifts. A tax holiday would cause a beneficial domino effect across the American economy, lifting retailers, manufacturers, distributors, and every sector that relies on consumer spending.

The relatively small sum used to reimburse the states would pay a very high return in terms of consumer spending. Looking just at computer products, CEA estimates that each dollar of sales tax relief would generate almost $30 in new spending.

An added bonus is that consumer purchases often lead to additional spending, even after the tax holiday period has concluded. In the consumer technology industry, purchases of speakers, audio systems, DVD players and computers tend to generate subsequent sales of music, movies, accessories and software. In fact, in the case of a DVD player, CEA's research shows that consumers typically spend an average of $250 on DVDs after buying players costing an average of $175.

A Nationwide Sales Tax Holiday Has Bipartisan Support

The bipartisan and broad-based support that the nationwide sales tax holiday has received is testament to the strength of the proposal. A diverse range of groups, from the Small Business Survival Committee to the Gray Panthers, have voiced their support for the nationwide sales tax holiday as a smart measure that will boost consumer confidence and business activity.

Members on both sides of the aisle recognize that this proposal will not only have a beneficial economic impact, it also will send a signal of confidence to American consumers coping with the post September 11th world and help lift spirits as we enter the holiday season. Finally, it will send a strong message of resolve to the enemies of America who are hoping that the economic aftershocks of September 11th will tear our country apart.

Conclusion

In closing, I would like to thank and commend this committee for highlighting the importance of the nationwide sales tax holiday to America's 25 million small businesses. As a small businesswoman, I look forward to getting over this current economic downturn so I can begin re-hiring workers and resume growing my company. A nationwide sales tax holiday would provide the temporary, targeted and effective relief that America's small businesses badly need. I urge members of the House and Senate to quickly pass H.R. 3172 and S. 1643 as quickly as possible.

Filed Comments

William T. Wright
President, Chief Executive Officer
Access Integrated Networks, Inc.
NOVEMBER 15, 2001

Subcommittee on Regulatory Reform and Oversight
Committee on Small Business
United States House of Representatives

Access Integrated Networks, Inc.
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Access INTEGRATED NETWORKS
Focused on you.

First let me express our appreciation for the leadership exhibited by the Subcommittee on Regulatory Reform Oversight of the House Small Business Committee in holding these hearings on November 1. Access Integrated Networks ("Access") welcomes the opportunity to provide these written comments for the record, and we look forward to working with you and other members of the Subcommittee as this issue moves forward.

Access views the Subcommittee's involvement as particularly welcome since we identified small businesses as our primary market from day one. We recognized that nationally, firms with less than 500 employees represent a large potential market for telecommunications services with 81% of them having fewer than 9 employees. These companies:

- Employ 53% of the private non-farm work force,
- Contribute 47% of all the sales made in this country, and;
- Produce 51% of the gross domestic product.

Based on the needs of small businesses in large and small cities alike, Access elected to become exclusively a UNE-P provider. We plan to increase our portfolio of value-added products as well as the market segments we serve. To this point, we are one of the few CLEC's in the marketplace operating at a profit. We have accomplished this through providing a level of personal service and attention to our customers that was new and welcomed by them.

Chairman Powell of the FCC views UNE-P solely as a "transitional" product to be employed by CLECs until they can establish their own switching capability. Frankly, due to the recent, dramatic reduction in the value of the stock of publicly traded CLEC companies, and the accompanying difficulty these companies are having in attracting capital, we view this developing bias toward them on the part of Chairman Powell as puzzling.

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We particularly appreciate the efforts of your subcommittee to lift this debate from the arcane and often bewildering world of telecommunications policy and focusing it on the small businesses which stand to benefit by new competitive options mandated by the 1996 telecommunications legislation.

For example, the FCC decided not to require switching in the top 50 markets to customers with four or more lines by applying the so-called "impair" standard set forth in the 1996 legislation. Simply stated, the decision is grounded on whether or not the failure to provide access to switching capability would impair the ability of companies like ours to provide the service we seek to offer. As you so accurately point out, existing legislation requires the FCC to consider the impact of this determination on the small businesses we seek to serve, as well as the impact on those of us seeking to provide the service.

Furthermore, the selection of a four-line cut-off is completely arbitrary, and bears absolutely no relationship to the marketplace as it presently exists. We have petitioned the FCC for reconsideration of this decision via the UNE Remand Docket. Surely the record developed in this hearing should receive strong consideration by the FCC as it pursues those deliberations.

Finally, Mr. Chairman, we submit that Access and other CLECs took the United States Government at its word and poured all our resources and energy into developing and implementing a business plan to provide the competitive options the 1996 legislation sought to create. The FCC is not scheduled to review these matters again until 2003. We are confident that any review conducted with logic and perspective at that time will largely follow the principles set forth above. However, at a minimum it is surely both unfair and untimely to accelerate this process. In so doing, the FCC will not only do harm to companies such as ourselves, but, more importantly, also deprive the many small businesses we serve the advantages of choice, cost savings and superior customer service.

Thank you again for this opportunity to provide comment. We would like to continue this dialog in the future.

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