TAX POLICY & INDEPENDENT GROCERS

January 2021

Independents are the true "entrepreneurs" of the grocery industry and dedicated to their customers, associates, and communities. Independent supermarket retailers and wholesalers have a significant economic impact across nearly every community in America. Our industry is accountable for close to 1% of the nation's overall economy and is responsible for generating $131 billion in sales, 944,000 jobs, $30 billion in wages, and $27 billion in taxes.

Background:
The National Grocers Association's membership is composed of pass-through entities (S-corporations), C-corporations, and Employee Stock Ownership Plans (ESOPs). An independent retailer is a privately owned or controlled food retail company operating in variety of formats. Most independent operators are serviced by wholesale distributors, while others may be partially or fully self-distributing. Some independents are publicly traded, but with controlling shares held by the family and others are employee owned.

Below are the core tax principles that NGA advocates for on behalf of the independent supermarket industry:

Protecting and Making Permanent Business Provisions in TCJA:
Sixty-five percent of NGA members are single-store grocery owners and operators. As part of the backbone of America's economy – small businesses – the Tax Cuts and Jobs Act (P.L. 115-97) provided Main Street businesses with a variety of support that should be made permanent.

- ***Expensing and Bonus Depreciation for Qualified Improvement Property:*** Grocers can immediately expense the costs of improvements to their store's interior as well as the depreciation on those fixed assets.
- ***Qualified Business Income Deduction:*** Allows a deduction of up to 20% of qualified business income for owners of pass-through entities (S-Corporations).
- ***Preservation of Advertising Expense Deduction:*** Allows grocers to expense costs of running local and community print, digital, and television advertisements.
- ***Elimination of the corporate Alternative Minimum Tax (AMT):*** Protects grocery companies from exceeding its regular tax rate through reductions in certain tax incentives and deductions.
- ***Preservation of the Work Opportunity Tax Credit (WOTC):*** Helps grocers hire individuals from certain targeted groups who have consistently faced significant barriers to employment.

Rate Parity:
Independent food retailers and wholesalers have historically paid an average effective tax rate of 33.8 percent. Different income tax rates based on a company's legal structure can hurt competitiveness in the marketplace. Congress should recognize the diversity of company structures and treat pass-throughs (also known as "S-corporations") and C-corporations equally. Federal tax policy should strive to create parity between the two structures.

Deductibility of Business Interest Expenses:
NGA member companies do not generate interest income. However, independent grocers tend to have significant interest expenses, whether it is from renovations, additions, purchasing new equipment, or opening a new store. Altering the interest expense deduction would serve only to increase taxes on the independent supermarket industry.

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Last-In, First-Out Accounting Method (LIFO):

The Last-In, First-Out (LIFO) method of inventory accounting and valuation that is widely used by the independent supermarket industry. Under LIFO, the last good taken into inventory is considered the first sold. In times of rising prices, the LIFO method more accurately matches the costs of goods sold to a company's revenue and helps protect against price shocks. If it were not for LIFO, grocery businesses would be taxed on the inflationary portion of their profits and would lack the needed capital to replace their inventory sold. LIFO accounting better reflects actual existing costs to purchase inventory, and any federal action to repeal LIFO will have direct, negative effects on the independent grocery industry.

Estate Tax:

As a measure that would help family-owned small businesses grow and remain viable, NGA strongly encourages the permanent repeal of the estate tax. A repeal of the estate tax would ensure that independent retail and wholesale grocery businesses do not face financial disruptions following the death of an owner. NGA member companies are typically private- or closely-held companies without access to the public securities markets from which to raise capital. To meet the obligation of a potential estate tax liability, independent grocers would either have to sell the business or borrow capital, both of which would prove costly to the viability of the company.