Representative Levin, in answer to your question of June 7, 2011 regarding the “US effective tax rate” that differed from the effective tax rate you are required to report in your financial statements, let me first say that we did not give specific rates for members of the National Retail Federation (NRF) but that since most of the NRF members operate predominately in the US, there would be no difference.

In Sears Holdings Corporation’s (SHC) case, our consolidated financial statement effective rate for the year ending 1/2011 was 19.4%. However, SHC had a loss from domestic operations of $137 million for that year but had income from foreign operations (predominantly Canada) of $323 million for combined income of $186 million. For US purposes SHC would record a tax benefit from that loss of 35% and would have also received a financial statement benefit from certain employment tax credits (WOTC) that would have increased the domestic effective tax rate **benefit** to approximately 45%. This tax benefit will partially offset the US tax cost of the Canadian income which will be repatriated to the US in the future, leaving a combine effective tax rate cost of 19.4%.

The other point I would like to make is that at the hearing there appeared to be considerable confusion around the difference between a company’s effective tax rate and its cash tax paid rate. Over time and sometimes that means a very long time, those rates will be the same. However, in the short term those rates could and do differ dramatically. As an example, if a company’s financial statement pretax income is $100 in each of two years with no permanent tax benefits, its effective tax rate will be 35% each year. However, if that company elects 100% bonus depreciation for tax purposes on an asset costing $100, its cash tax paid rate for that year will be 0. In year two the effective tax rate and the cash tax paid rate will both be 35%. If in year 3 the company earns another $100 from operations but also writes off the $100 asset, its effective tax rate will be 0 but the cash tax paid rate will be 35%. Accounting rules will require the difference between the company's effective tax rate and its cash tax paid rate be keep track of as deferred tax assets and deferred tax liabilities. Therefore, it is almost certain that there will be a difference between the effective tax rate and the cash tax paid rate with the difference being recorded to deferred taxes.

Accounting for income taxes is a confusing area and I would welcome any other questions or clarifications you may have.

JAMES MISPLON
Vice President Tax
Sears Holdings Management Corporation