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THE DEPARTMENT store chain operates about 850 stores nationwide, including this location in Midtown Manhattan. Macy's has been expanding its discount section Backstage, with 100 planned openings this year.

Macy's reverses sales slump

[**Macy's**, from C1] lyst Jaime Katz said in a note to clients after Macy's first-quarter results were announced. "We have Macy's continuing to trail overall apparel-market growth."

For now, though, Macy's is benefiting from external factors and strategic moves by Gennette, who spent most of his career at the chain before getting the CEO post.

Macy's, with fiscal 2017 sales of \$24.8 billion, operates about 850 stores nationwide. Its store brands include Macy's, Bloomingdale's and Bluemercury, an upscale beauty chain. In California alone, Macy's has 148 stores and 24,000 employees.

The strong U.S. economy, consumer confidence, low unemployment and federal tax cuts have combined to give Macy's and the overall retail sector a boost. Macy's said strong foreign tourism shopping also has helped results.

U.S. consumer spending, for instance, rose a solid 0.4% in June following spending in May that was revised upward to 0.5% from its initial estimate of 0.2%, the Commerce Department reported.

Gennette told analysts in May that "we did have the wind at our back as consumer spending remained strong and we saw significant improvement in international tourism spending."

"We anticipate this to continue through the year," he said. "We still have a lot of work ahead of us, but store by store, quarter by quarter we are on the path to return Macy's to consistent comparable-store sales growth."

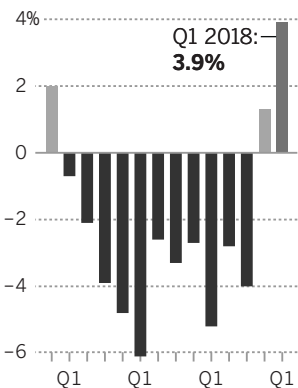
Gennette and other Macy's executives declined to elaborate further ahead of the company's Aug. 15 announcement of its fiscal second-quarter results and its

Macy's comeback

Macy's Inc. is rebounding after years of slumping sales and store closures, but some analysts are skeptical that the department store chain can sustain the renewed growth.

Sales turn back up

Percentage change in quarterly same-store sales



Sources: FactSet, Macy's Inc.

Annual profit on the rise

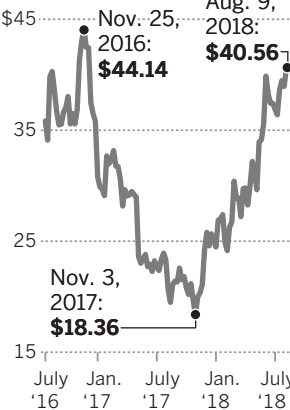
Earnings per share (excluding effect of store closings and other costs)



* Analysts' consensus estimate

Stock rallies

Macy's stock price (weekly close)



JULIAN H. LANGE Los Angeles Times

next conference call with analysts.

Macy's benefited internally from improving its online and mobile-app business, rolling out a new customer-loyalty program and offering more options for store pickup and delivery. The retailer also reduced excess inventory and revamped its shoe and fine-jewelry departments.

In addition, Macy's has been expanding its discount unit called Backstage, with plans to open 100 of the Backstage sections within existing Macy's stores this year. Backstage gives Macy's shoppers the option of buying lower-priced goods at a time when Macy's faces a host of cheaper "fast-fashion" chains such as Zara, owned by Inditex of Spain, and H&M.

The strategy resembles the one used by Nordstrom Inc. with its successful off-price Nordstrom Rack stores.

There is the risk that "putting Backstage in Macy's stores could cannibalize [its] full-price business," Katz said. But Gennette said that has not been the case so far, telling the analysts that "right now it's working quite well with [Macy's] getting more spend with existing customers."

Brian Tunick, an analyst with RBC Capital Markets, said in a report last month that Backstage should add \$228 million to Macy's sales and add one percentage point to its same-store sales in the current fiscal year. He also expects Macy's will keep adding about 100 Backstage centers each year for the next four years.

Macy's rollout of Backstage makes sense as off-price retailing "continues to grow at the expense of traditional department stores," Tunick wrote.

Trouble is, Macy's otherwise is a traditional department store, and that means

its business model needs to change further, said Ronald Friedman, co-head of the retail practice at Marcum, an accounting and advisory firm.

Macy's should find ways to make its stores more compelling, perhaps with in-store restaurants, while also improving customer service and truly differentiating Backstage from the rest of the store by not constantly placing everything in the "full-price" section on sale, he said.

"Everyone knows that when you walk into a Macy's everything is on sale, and I think that hurts them," Friedman said.

In the meantime, "I'm a skeptic" about Macy's long-term growth "because they're mostly doing well because the economy is doing well," Friedman said. "They're riding the wave."

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Bank owners get big tax cut

[**Banks**, from C1] above the income threshold. In most cases, the regulations expand the numbers of high-income taxpayers eligible for the 20% deduction.

"Pass-through businesses play a critical role in our economy," Treasury Secretary Steven T. Mnuchin said in releasing the proposed regulations. "This 20% deduction will lead to more investment in U.S. companies and higher wages for hard-working Americans."

But that statement doesn't comport with an analysis by Congress' non-partisan Joint Committee on Taxation, which estimated that the break would provide the most benefit to wealthy taxpayers. About 44% of the benefit this year would go to taxpayers with annual incomes of at least \$1 million. That figure rises to 52% in 2024.

The new regulations probably expand the benefit of the deduction to those high-income business owners.

"These new rules confirm that the fortunate few win and mom-and-pop shops lose under Trump's tax law," said Sen. Ron Wyden (D-Ore.). "Tax planners are already scouring through the nearly 200 pages of regulations in search of new ways to keep wealthy clients from paying their fair share."

Bankers were among the big winners.

When Congress passed the tax cut legislation, it referred to a provision in the Internal Revenue Code that listed types of business income that would be excluded from the new tax break for high-income owners. Among those were businesses involved in health, law, engineering, performing arts, athletics and financial services, as well as "any trade or business where the principal asset... is the reputation or skill of one or more of its employees or owners."

The banking industry balked.

As of the end of last year, about 2,000 of the nation's roughly 5,700 banks were pass-throughs. Known as subchapter S corporations, those banks are set up like partnerships and the banks' shareholders pay taxes on their income through the individual tax code.

Most are small, with nearly two-thirds having assets of less than \$200 million.

In April, three industry trade groups — the American Bankers Assn., the Independent Community Bankers of America and the Subchapter S Bank Assn. — wrote to the Treasury Department urging that banks not be included in the financial services category.

They argued that banks already are highly regulated

and that Congress opted not to reference another provision of the Internal Revenue Code that specifically refers to banking. The groups said that after extensive discussion with lawmakers and staff last year about the matter, "we were assured repeatedly that S Banks would qualify" for the pass-through tax break.

The regulations released Wednesday, which will be the subject of an Oct. 16 public hearing before becoming final, sided with the banking industry view.

They said Treasury and IRS officials agreed "financial services should be more narrowly interpreted." The regulations define financial services as those performed by financial advisors and investment bankers, not traditional banking services such as "taking deposits or making loans."

"This does a little bit of violence to the English language and it does a little bit of violence to revenue collection," Hemel said of the interpretation of financial services. "It will cost the Treasury probably billions of dollars over the course of a decade."

He couldn't estimate a

'This just highlights the arbitrariness of the whole exercise.'

— STEVEN ROSENTHAL, Tax Policy Center

precise figure, but the Joint Committee on Taxation estimated in December that the pass-through deduction overall would reduce federal tax revenue by \$415 billion through 2027.

Steven Rosenthal, a senior fellow at the nonpartisan Tax Policy Center, said the regulations showed "Mnuchin wanted to be Santa Claus in August."

"This just highlights the arbitrariness of the whole exercise," said Rosenthal, who had expected banks would be excluded from financial services in the regulations. "For Republicans who are supposed to be free-market advocates to arbitrarily create winners and losers depending on whether you like some types of businesses is crazy to me."

The regulations also clarified how some of the other excluded fields would be treated.

In health, people who directly provide medical services, such as physicians, dentists, physical therapists and veterinarians, are not allowed to claim the tax break above the income thresholds. But those who don't directly provide medical services, such as the owners of health clubs or spas, are allowed to claim the break above the thresholds.

Before the tax law, the IRS code categorized some pass-through businesses as having as their principal asset the reputation or skill of one or more of its employees. The tax cut added the owners of those businesses to that provision.

However, Treasury and IRS officials opted to narrowly interpret the provision, limiting it to businesses that receive endorsement income, license an owner's or employee's image, voice or other identifying symbols, or receive appearance fees for those people.

"If a restaurant's big selling point is a celebrity chef, does that mean that its trade and business is the skill and reputation of one or more of its owners or employees?" Hemel said. "The IRS basically took the position that, except in unusual circumstances, we will not consider you to be a skill or reputation business unless you fall into one of a few specific statutory categories."

So a restaurant run by a celebrity chef appears to be eligible for the break, Hemel said. The same would be true for hotels owned or managed by President Trump that bear his name.

"Arguably Trump's D.C. hotel's principal asset is that it's owned by the president of the United States," Hemel said. "The IRS basically said we're not going to make that argument."

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Advance-fee scammers sure are dedicated

[**Lazarus**, from C1] of anyone with the surname, this was very exciting news.

I emailed Cooks, who was using a Gmail account, and told him we were thrilled to hear of our good fortune. What did we need to do?

This began a near-daily correspondence in which Cooks kept us updated on his efforts. I kept waiting for him to spring the trap and ask us to send him money, but the request didn't come.

Instead we received a copy of Matsu Lazarus' purported death certificate, as issued by Bawga Theidhi Hospital in Myanmar. It's a real hospital but, not surprisingly, couldn't be reached to confirm the document.

My favorite part of the certificate is the cause of death: "Injuries from ghastly road traffic accident." The Myanmarese must be a colorfully descriptive people.

This was followed by undoubtedly Photoshopped documents from the London Probate Registry and the High Court of England & Wales declaring my wife the official next of kin of Matsu Lazarus.

Then came some probate materials and a form from the Co-operative Bank confirming that the transaction was being processed.

Throughout, Cooks said he was spending an extraordinary amount of time and

energy on this matter, and I thanked him profusely. He finally said we needed to talk about how my wife and I would take possession of the \$25 million. I gave him my work number.

When he called, I could hear an accent, but not a British one. Many advance-fee scams are known to originate in Nigeria and other West African countries.

After the usual pleasantries and my repeating how grateful we were for Cooks' diligence, he explained that the money couldn't be wired to our bank in the United States because it was, in fact, all in cash — \$25 million, all in bills, like on a Costco pallet.

For tax reasons, he said, it would be best for us to keep things this way and physically move the big pile of currency from England to Los Angeles.

This wasn't Cooks' first rodeo. He said he knew a London-based diplomat from the Caribbean island of Saint Lucia who could bring the money to the United States in a diplomatic pouch. We're talking three or four boxes of \$100 bills, but whatever.

Five minutes after I got off the phone with Cooks, I received a call from the diplomat, who identified himself as Marvin Smith. His accent wasn't West Indian. It sounded like Cooks'.

I asked Smith where Saint Lucia is located and he said it's in British Samoa, which doesn't exist, although there's an American Samoa in the South Pacific.

Smith said the plan was for him to fly with the cash in a private jet to Atlanta, where Saint Lucia has a chancellery, which it does not.

I received an email with an "airway bill" from Diplomatic Courier Services HK, which isn't a real company, showing that the Honorable Marvin Smith was flying from England to Atlanta with unspecified "family treasures."

A day later, good news: Smith called to say he was in Atlanta with the money.

Now all we needed was to get the boxes out of a bonded warehouse. Smith said he was relying on a local contractor employed by his chancellery to make this happen.

I soon received a call from the contractor, Joseph Jackson, who had the same accent as the others. I told him how delighted I was with the way things were proceeding.

"This is what I do for a living," Jackson replied. "I have done this plenty of times."

I had no doubt. And now that the hook had been patiently baited for weeks, it was time to reel me in.

Jackson said he'd need

\$18,950 to pay the duty fee for the boxes. Compared to the \$25 million that was waiting, he stressed, this was a paltry sum.

I said I understood his point, but \$18,950 was a lot of money for me. Would it be possible for me to pay half upfront and the other half after I received the cash?

Jackson thought it over. "You sound like a nice person," he decided. "I don't know you but I like you."

He said he'd accept \$12,000 up front, with the remainder to follow. I said I'd have to think about that.

When Jackson called the next day, I said my funds were a little tight. How about if I paid \$6,000 upfront? Jackson said he'd need to speak with his supervisor.

He called back to say they could make it work for \$6,633. I said I could handle that. Jackson told me I'd hear from Smith about making the payment.

Smith called shortly afterward. He said he was pleased that everything had worked out. He emailed me information about the bank account where I could wire the money.

By this time, I was dazzled by the lengths to which these guys had gone to convince me everything was on the up and up. I'd spoken with three different people. I had a stack of official-looking documents. I'd invested a serious amount of time

into pulling off the deal.

Yeah, I could easily see how millions of dollars might be swindled annually from people, particularly those who may not check on pesky details such as the existence of British Samoa.

When Smith called back a day later to ask why I hadn't wired the money, I told him let's stop playing games. I confessed I'd been yanking his chain for weeks, just as he'd been yanking mine, and I asked how often people fell for this scam.

"I don't know what you're talking about," he replied. "It's no scam."

Of course it's a scam, I said. I just want to know how often it succeeds.

There was a long pause. Finally Smith asked, "Are we doing this or not doing this?"

Not doing this, I answered. The phone went dead.

An email arrived the next day from Brian Cooks, the banker, inquiring about "the status of the consignment." I wrote back to say he was welcome to call me; he had the number.

That was the last I heard from my new friends.

David Lazarus' column runs Tuesdays and Fridays. He also can be seen daily on KTLA-TV Channel 5 and followed on Twitter @Davidlaz. Send your tips or feedback to david.lazarus@latimes.com.