Q4 2017

# City of Carpinteria Sales Tax *Update*

*First Quarter Receipts for Fourth Quarter Sales (October - December 2017)*

## Carpinteria In Brief

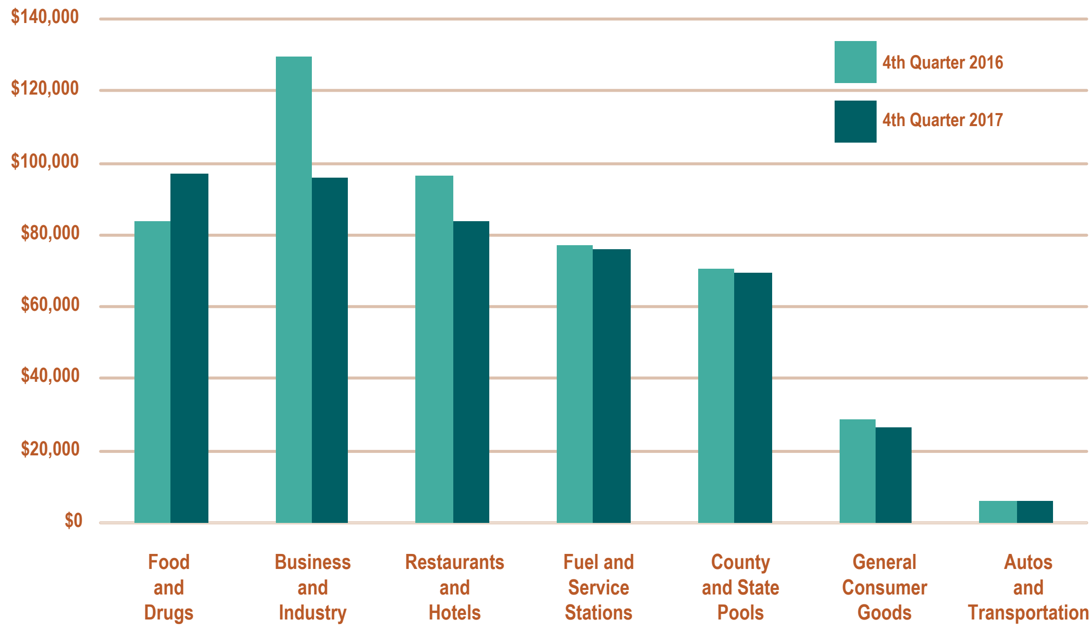
Carpinteria's receipts from October through December sales were 3.5% lower than the same quarter one year ago.

A recent change in operations that cut taxable sales from a business to business retailer was a major factor for the overall decrease in point of sale revenue which also impacted the City's allocation from the county use tax pool. Pool proceeds are distributed each quarter based on a ratio of each agency's point of sale receipts. Sales also declined from the building and construction sector, restaurants and consumer goods, although declines from the latter two groups were exaggerated by payment anomalies.

Receipt of taxes due from prior periods inflated gains from the food and drugs group while year-ago adjustments masked a 5.5% increase in proceeds from service stations.

Adjusted for reporting aberrations, taxable sales for all of Santa Barbara County increased 1.5% over the same period; Central Coast regional totals were up 3.9%.

## SALES TAX BY MAJOR BUSINESS GROUP




## TOP 25 PRODUCERS

In Alphabetical Order

- 7 Eleven
- Agilent Technologies
- Albertsons
- All Around Landscape Supply
- Arco AM PM
- Carpinteria 76
- Carpinteria Valley Lumber
- Chevron
- CVS Pharmacy
- Dako
- Dana Joint Venture
- Factory Appliance
- Food Liaison
- Goddess Delivers
- Ipower Resale Group
- Jacks Bistro
- McDonalds
- Rincon Brewery
- Risdons Union 76
- Rite Aid
- Rustys Pizza Parlor
- S & S Seeds
- Sly's Restaurant
- Smart & Final
- The Palms

## REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

| | 2016-17 | 2017-18 |
|---|---|---|
| Point-of-Sale | $1,311,393 | $1,255,759 |
| County Pool | 203,899 | 194,086 |
| State Pool | 766 | 225 |
| **Gross Receipts** | **$1,516,057** | **$1,450,070** |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NOTES

## California Overall

Factored for accounting anomalies, statewide fourth quarter receipts from local government's one cent sales tax were 4.5% higher than the holiday quarter of 2016.

Rising fuel prices and solid gains from building/construction supplies, restaurants and e-commerce were the primary contributors to the overall increase. A healthy quarter for auto sales and construction equipment were additional factors. Tax revenues from general consumer goods sold through brick and mortar stores rose a modest 1% over last year's comparable quarter while receipts from online sales increased 13.2%.

Performance for the inland areas of the state were generally stronger than the coastal areas which had earlier recovered from the previous downturn.

## Nexus Issue to be Revisited

In 1992, the U.S. Supreme Court ruled in *Quill v. North Dakota* that businesses lacking a physical presence or "nexus" in a state cannot be required to collect or remit that state's taxes. This does not excuse buyers from paying a corresponding use tax but the costs of enforcement, particularly on smaller purchases, is difficult and local brick and mortar retailers are placed at a competitive disadvantage.

California has been more effective at collecting use tax than most states with an aggressive program of auditing major business purchases, requiring CPA's to report unpaid use tax on client's annual returns and requiring businesses with annual gross receipts of $100,000 or more to register for the purposes of reporting use tax.

The State has also increased the number of out-of-state sellers required to collect sales tax through broader definitions of what constitutes physical presence including a requirement that larger internet retailers collect and remit sales tax if paying a commission for customer referrals obtained via a link on a California seller's website.

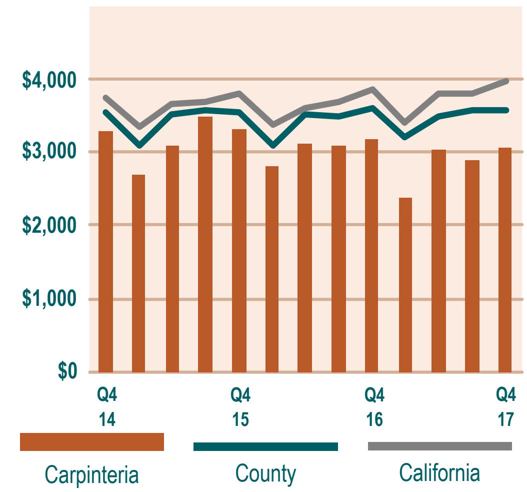
Still, the estimated revenue losses are substantial particularly for agencies with voter-approved transactions tax districts. Because of *Quill*, retailers are not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was $756 Million in uncollected tax revenues and losses to the state of $697 Million:(https://www.boe.ca.gov/legdiv/pdf/e-commerce-2017F.pdf).

Congress has refused to act on numerous attempts to seek legislative relief over the last two decades. However, three justices – Clarence Thomas, Neil Gorsuch and Anthony Kennedy have recently expressed doubts about the *Quill* decision with Kennedy noting in 2015, that the ruling has produced a "startling revenue shortfall" in many states as well as "unfairness to local retailers and customers."

In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

Oral arguments are scheduled for April with a decision expected by the end of June 2018.

## Sales Per Capita




## COUNTY OVERALL 4Q YOY RECEIPTS % CHANGE

| Major Industry Groups | Cash | Adjusted* |
|---|---|---|
| Autos and Transportation | -2.7% | -3.0% |
| Building and Construction | 10.6% | 12.5% |
| Business and Industry | -0.5% | -6.0% |
| Food and Drugs | -4.0% | -0.1% |
| Fuel and Service Stations | 12.8% | 10.7% |
| General Consumer Goods | 0.1% | -0.5% |
| Restaurants and Hotels | 1.6% | -1.5% |
| County and State Pools | 3.5% | 8.9% |
| **Total** | **1.5%** | **1.5%** |

*Accounting anomalies factored out

## Revenue By Business Group

Carpinteria This Quarter