

# Q4 2017



# City of Redlands Sales Tax *Update*

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

## Redlands In Brief

Redlands's receipts from October through December were 0.6% above the fourth sales period in 2016.

New car sales posted an unexpected decline this period but general consumer good sales, especially sporting goods and home furnishings, were up sharply.

Home centers reported strong sales of construction materials, but contractors reported mixed results with lower overall activity this quarter.

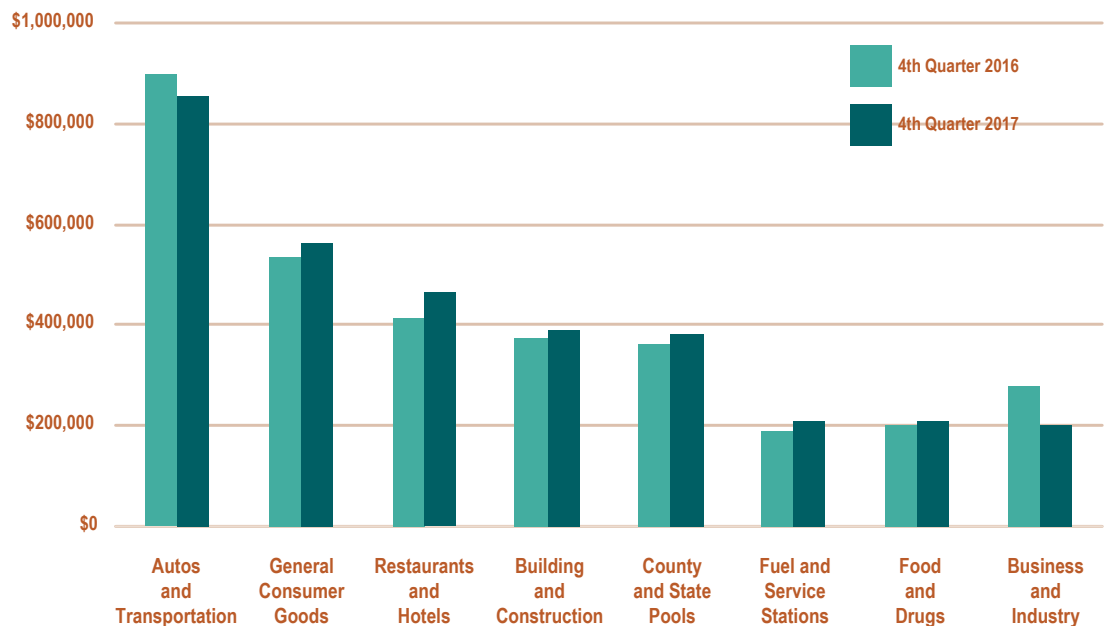
A missing payment from this quarter, a prior year payment adjustment, and the prior relocation of a business sent business-industry receipts lower.

While rising fuel prices pumped up gas station receipts, payment adjustments accounted for most of the gain reported by restaurants.

A sizable jump in the size of the countywide sales and use tax pool caused the City's allocation to increase by nearly \$22,000 despite a slight drop in the City's share of the pool.

Net of adjustments, taxable sales for all of San Bernardino County grew 4.1% over the comparable time period while those of the entire Southern California region were up 3.5%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Albertsons	Marshalls
AT&T	McDonalds
Burlington	Metro Nissan of Redlands
Calply	Redlands Chrysler Jeep Dodge Ram
Circle K	Redlands Ford
Citrus Arco	Shell
Core Health & Fitness	Stater Bros
ESRI Systems	Tom Bell Chevrolet
Hatfield Buick & GMC Truck	Tom Bell Toyota
Home Depot	USA Gasoline
Honda of Redlands	Vector Steel
Kmart	Walmart
Lowes	

### REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$8,584,179	\$8,575,470
County Pool	1,053,271	1,063,534
State Pool	4,856	1,430
<b>Gross Receipts</b>	<b>\$9,642,306</b>	<b>\$9,640,434</b>

**California Overall**

Factored for accounting anomalies, statewide fourth quarter receipts from local government's one cent sales tax were 4.4% 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

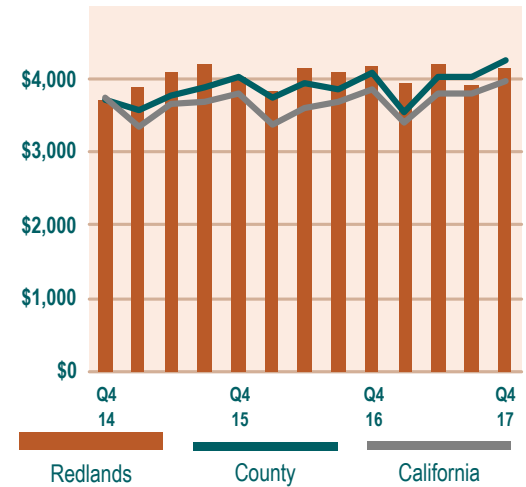
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state 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."

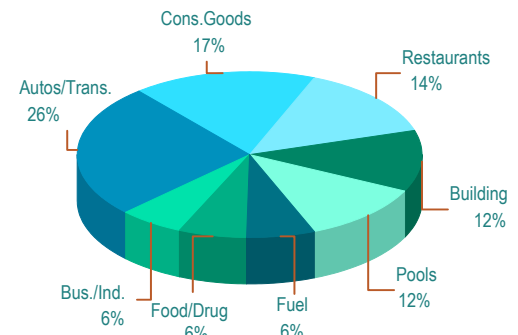
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
Redlands This Quarter



**REDLANDS TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Redlands Q4 '17*	Redlands Change	County Change	HdL State Change
Auto Repair Shops	44.4	19.6%	8.6%	3.6%
Automotive Supply Stores	61.8	-15.9%	3.4%	1.9%
Building Materials	328.6	6.9%	14.8%	11.6%
Casual Dining	185.7	-2.1%	9.5%	3.5%
Contractors	52.2	-6.3%	15.4%	14.0%
Discount Dept Stores	— CONFIDENTIAL —		2.2%	4.1%
Electronics/Appliance Stores	43.8	1.1%	17.4%	5.8%
Family Apparel	94.5	19.9%	0.3%	2.1%
Fast-Casual Restaurants	44.4	169.5%	8.3%	9.0%
Grocery Stores	147.8	4.2%	-0.4%	-1.5%
New Motor Vehicle Dealers	670.7	-5.7%	-2.0%	2.6%
Quick-Service Restaurants	205.1	5.7%	4.3%	5.0%
Service Stations	210.3	10.8%	11.1%	11.4%
Specialty Stores	64.7	6.8%	2.9%	4.4%
Sporting Goods/Bike Stores	53.0	126.0%	-17.7%	-8.5%
<b>Total All Accounts</b>	<b>2,893.2</b>	<b>0.0%</b>	<b>5.1%</b>	<b>4.0%</b>
<b>County &amp; State Pool Allocation</b>	<b>383.6</b>	<b>5.4%</b>	<b>10.8%</b>	<b>0.8%</b>
<b>Gross Receipts</b>	<b>3,276.8</b>	<b>0.6%</b>	<b>5.7%</b>	<b>3.6%</b>