

Q4 2017



San Fernando Sales Tax *Update*

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

San Fernando In Brief

San Fernando's allocation of sales and use tax from its October through December sales was 1.6% higher than the holiday quarter of 2016. Actual sales activity was up 2.8% after factoring for accounting anomalies.

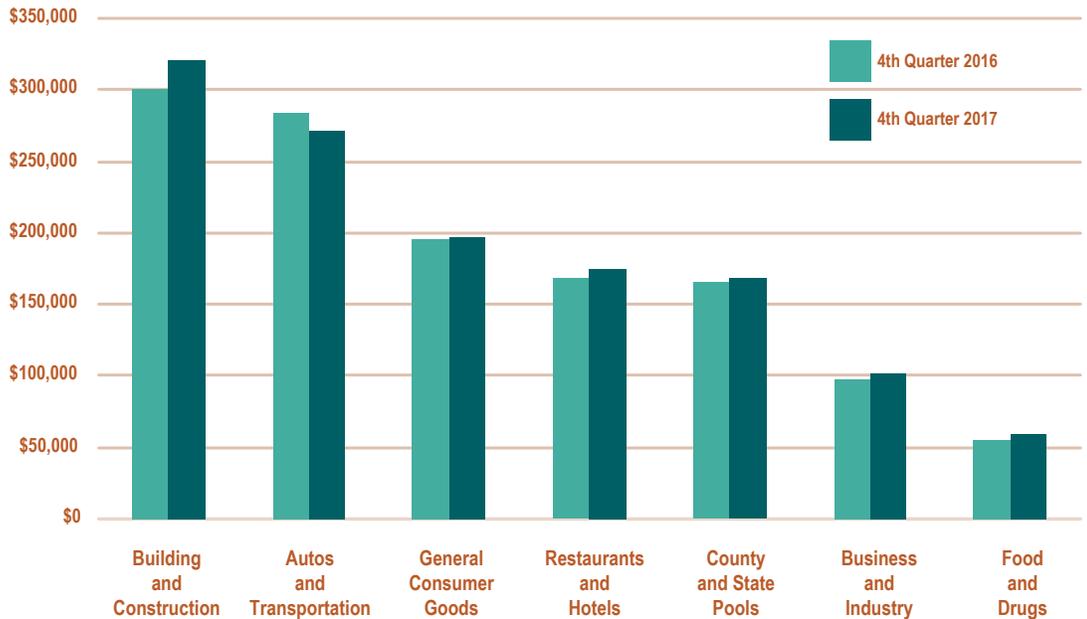
A solid quarter for building-construction supplies, grocers and consumer electronics were the primary contributors to the actual increase. Correction of a previous error in the allocation of auto lease revenues was also a factor.

The gains were partially offset by a decline in revenues from autos-transportation.

Measure A, the voter-approved half cent transaction tax, generated an additional \$714,186 for the quarter.

Net of aberrations, sales and use tax receipts for all of Los Angeles County grew 3.0% over the comparable time period while the Southern California region as a whole, was up 3.5%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Ally Financial	McDonalds
Arco	Nachos Ornamental
Arroyo Building Materials	Pool & Electrical Products
Cal Grove Rentals	PRG
Casco	Rydell Chrysler Dodge Jeep Ram
CCAP Auto Lease	Sams Club
El Pollo Loco	Smart & Final
El Super	T Mobile
Enterprise Rent A Car	TMB Production Supplies & Services
Ferguson Enterprises	Vallarta Supermarket
Ganas Auto	Western Motor Sport
Home Depot	WSS
IHOP	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$3,480,695	\$3,517,897
County Pool	497,156	492,991
State Pool	1,976	648
Gross Receipts	\$3,979,827	\$4,011,537
Measure A	\$1,838,874	\$2,001,321

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	0.2%	0.2%
Building and Construction	8.4%	7.5%
Business and Industry	-25.0%	0.8%
Food and Drugs	-3.8%	2.1%
Fuel and Service Stations	12.0%	10.8%
General Consumer Goods	1.9%	0.8%
Restaurants and Hotels	5.2%	4.9%
County and State Pools	-0.5%	4.6%
Total	-0.8%	3.0%

*Accounting anomalies factored out

REVENUE BY BUSINESS GROUP San Fernando This Quarter

