

# Q4 2017



# Manhattan Beach Sales Tax *Update*

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

## Manhattan Beach In Brief

Manhattan Beach's receipts from October through December were 9.8% below the fourth sales period in 2016. Excluding reporting aberrations, actual sales were down 2.7%.

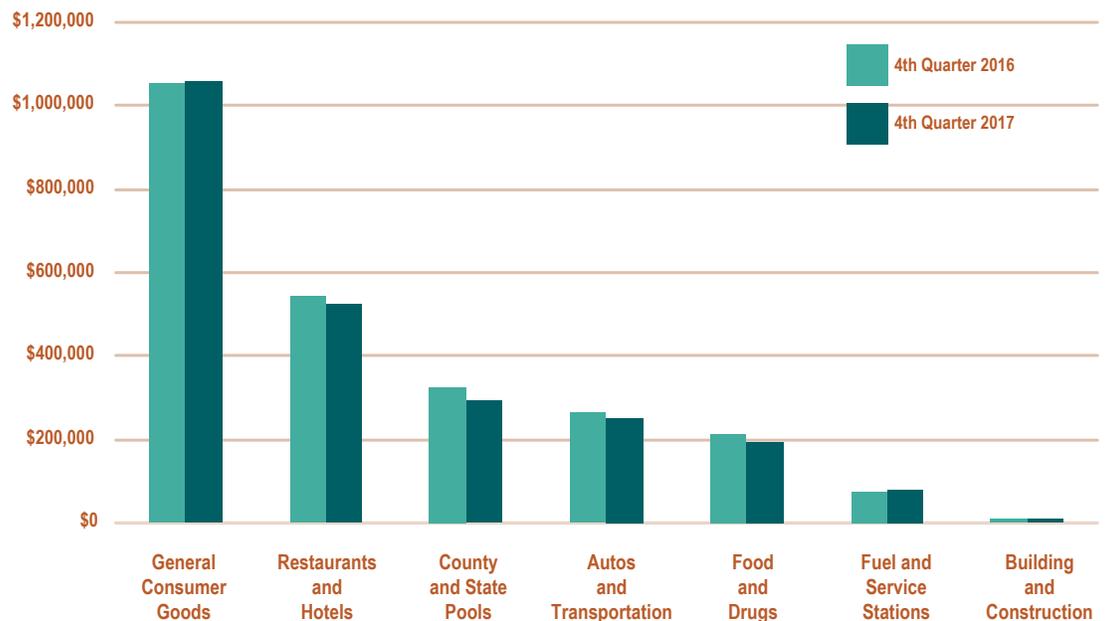
A onetime accounting adjustment that negatively impacted results from the business and industry sector was primarily responsible for the current decrease.

The City experienced a decline in sales from autos-transportation, restaurants-hotels and grocery stores. A drop in the City's allocation from the county use tax pool also decreased overall results.

The losses were partially offset by receipts that were incorrectly allocated and temporarily inflated returns from family apparel. The City experienced a strong sales quarter for home furnishings.

Net of aberrations, taxable sales for all of Los Angeles County grew 3.0% over the comparable time period; the Southern California region was up 3.5%.

## SALES TAX BY MAJOR BUSINESS GROUP



### TOP 25 PRODUCERS

IN ALPHABETICAL ORDER

Apple	Pottery Barn
AT&T Mobility	Ralphs Fresh Fare
Barnes & Noble	REI
BevMo	Sephora
Chevron	Strand House
Circle K	Standbar
Frys Electronics	Target
Houston's	Tin Roof Bistro
Kettle	Toyota Lease Trust
Macys	Trader Joes
Manhattan Beach	True Religion
Toyota Scion	Vons
Nick's	Wrights
Old Navy	

### REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$6,172,895	\$6,019,181
County Pool	882,617	843,767
State Pool	3,650	1,037
<b>Gross Receipts</b>	<b>\$7,059,163</b>	<b>\$6,863,986</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."

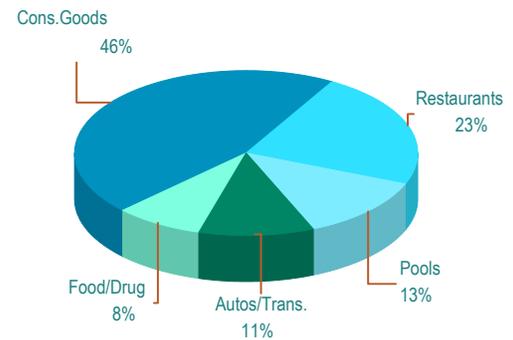
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
Manhattan Beach This Quarter



**MANHATTAN BEACH TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Manhattan Beach Q4 '17*	Change	County Change	HdL State Change
Casual Dining	268.8	-1.7%	3.6%	3.7%
Convenience Stores/Liquor	51.1	-1.0%	8.0%	8.2%
Department Stores	— CONFIDENTIAL —	—	-3.0%	-5.4%
Discount Dept Stores	— CONFIDENTIAL —	—	3.7%	4.1%
Electronics/Appliance Stores	277.9	1.7%	3.3%	5.8%
Family Apparel	120.2	14.7%	3.1%	2.1%
Fine Dining	137.2	6.2%	8.5%	9.5%
Grocery Stores	105.0	-12.5%	-5.8%	-1.5%
Home Furnishings	59.1	21.5%	0.8%	2.6%
New Motor Vehicle Dealers	— CONFIDENTIAL —	—	-0.9%	2.6%
Quick-Service Restaurants	48.8	6.2%	4.5%	4.9%
Service Stations	81.1	6.9%	10.0%	11.4%
Specialty Stores	78.4	-6.6%	5.3%	4.4%
Sporting Goods/Bike Stores	57.2	-7.1%	-10.8%	-8.4%
Women's Apparel	69.1	-1.5%	-4.9%	-5.9%
<b>Total All Accounts</b>	<b>2,001.2</b>	<b>-9.8%</b>	<b>-0.9%</b>	<b>4.0%</b>
<b>County &amp; State Pool Allocation</b>	<b>293.2</b>	<b>-9.5%</b>	<b>-0.5%</b>	<b>0.8%</b>
<b>Gross Receipts</b>	<b>2,294.4</b>	<b>-9.8%</b>	<b>-0.8%</b>	<b>3.6%</b>