

# Q4 2017



# City of West Covina Sales Tax *Update*

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

## West Covina In Brief

West Covina's receipts from October through December were flat compared to the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 2.2%.

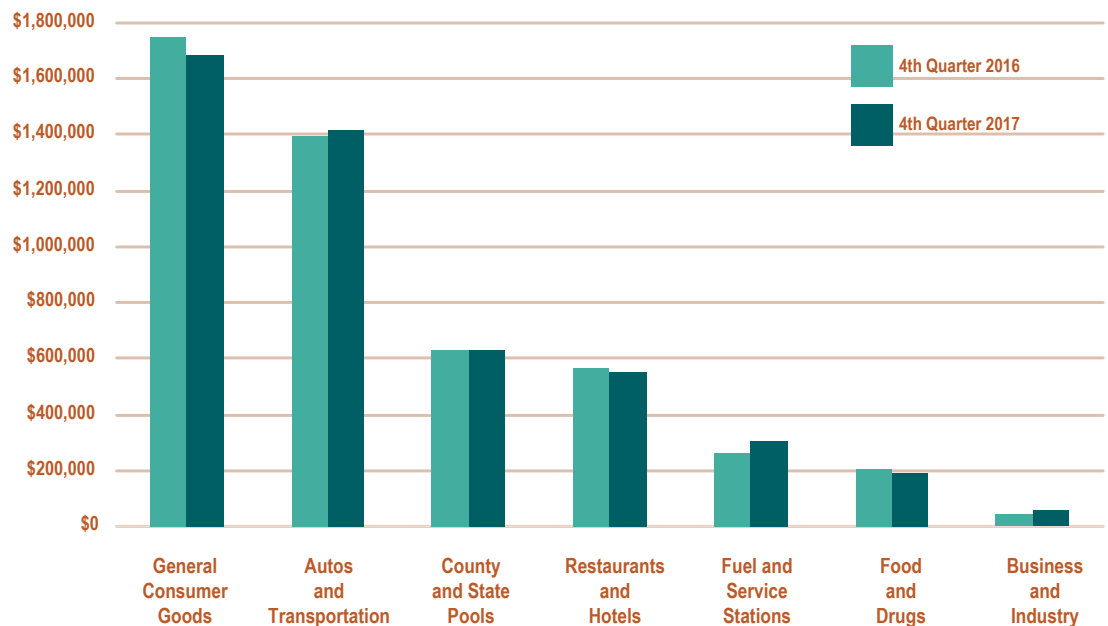
Steady price increases at the pump, mostly due to the global cost of crude oil and the implementation of SB-1 locally, pushed service stations higher. Although returns from new car dealers stagnated this quarter, sales of used autos propelled the group to a slight gain.

Favorable winter weather and the stable housing market helped lift building-construction, while one-time activity temporarily spiked business-industry.

The gains were mostly offset by weak holiday results by multiple general consumer retailers including family apparel, shoe and department stores. Reporting anomalies in the current and year-ago period negatively impacted casual dining and quick-service restaurant returns, pulling them lower than the county and statewide trend.

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

76	Norm Reeves Honda
Ashley Furniture Homestore	Penske Mercedes Benz
Audi West Covina	Penske Toyota of West Covina
Azusa Arco	Reynolds Buick
Best Buy Mobile	Ross
Burlington	Sears
Crestview Cadillac	Target
Daimler Trust	Toys R Us
Ford of West Covina	Walmart Supercenter
Home Depot	West Covina Chrysler Dodge Jeep Ram
JC Penney	West Covina Nissan
LA Auto Exchange	
Macys	
Nordstrom Rack	

### REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$11,944,155	\$11,698,323
County Pool	1,709,669	1,643,594
State Pool	7,083	1,946
<b>Gross Receipts</b>	<b>\$13,660,907</b>	<b>\$13,343,864</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

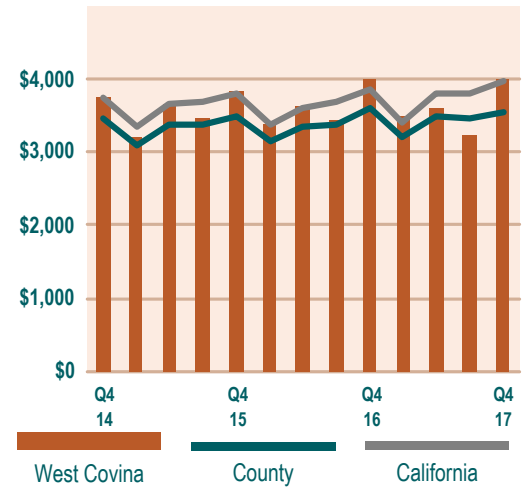
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

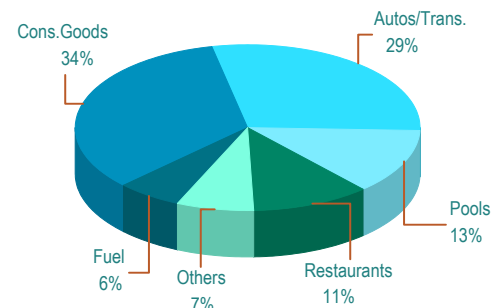
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
West Covina This Quarter



**WEST COVINA TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	West Covina Q4 '17*	West Covina Change	County Change	HdL State Change
Auto Lease	139.2	0.9%	12.9%	16.6%
Building Materials	— CONFIDENTIAL —	—	7.8%	11.6%
Casual Dining	249.3	-3.3%	3.6%	3.7%
Department Stores	319.6	-6.1%	-3.0%	-5.4%
Discount Dept Stores	— CONFIDENTIAL —	—	3.7%	4.1%
Electronics/Appliance Stores	232.7	2.6%	3.3%	5.8%
Family Apparel	221.4	-2.2%	3.1%	2.1%
Grocery Stores	113.7	-4.3%	-5.8%	-1.5%
Home Furnishings	88.4	1.2%	0.8%	2.6%
New Motor Vehicle Dealers	1,148.5	0.0%	-0.9%	2.6%
Quick-Service Restaurants	228.3	-5.4%	4.5%	4.9%
Service Stations	306.2	15.3%	10.0%	11.4%
Shoe Stores	88.5	-1.6%	2.6%	0.3%
Specialty Stores	202.5	2.9%	5.3%	4.4%
Used Automotive Dealers	70.7	22.0%	-0.4%	0.4%
<b>Total All Accounts</b>	<b>4,315.7</b>	<b>-0.2%</b>	<b>-0.9%</b>	<b>4.0%</b>
<b>County &amp; State Pool Allocation</b>	<b>632.3</b>	<b>0.2%</b>	<b>-0.5%</b>	<b>0.8%</b>
<b>Gross Receipts</b>	<b>4,948.0</b>	<b>-0.1%</b>	<b>-0.8%</b>	<b>3.6%</b>