

Q4 2017



City of Hughson Sales Tax *Update*

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

Hughson In Brief

Hughson's receipts from October through December were 21.3% below the fourth sales period in 2016. Excluding reporting aberrations, actual sales were down 22.7%.

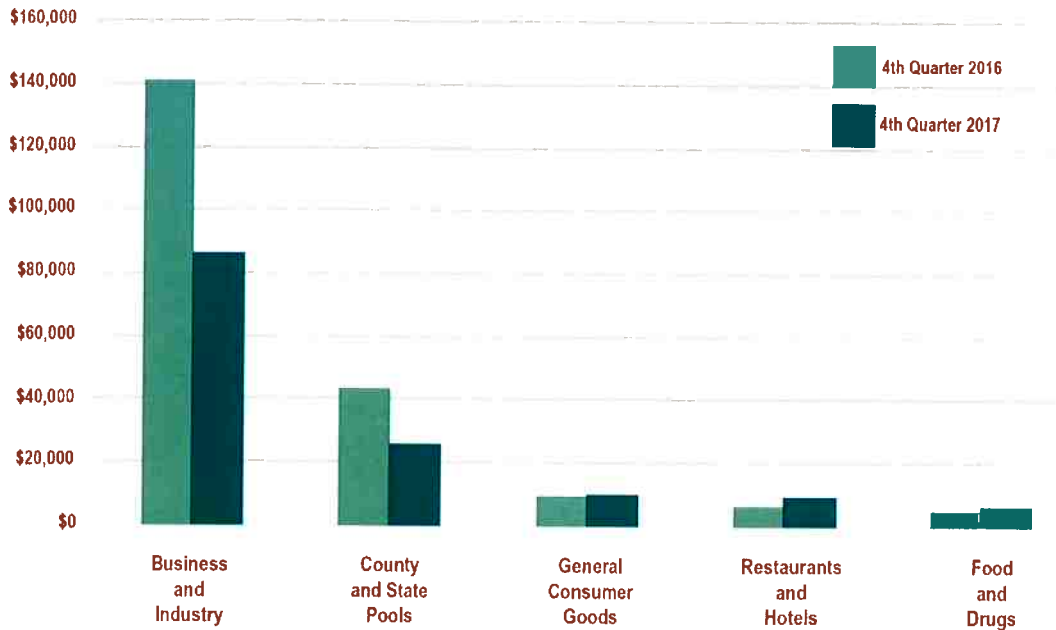
Returns from the business-industry group experienced a sharp 39.1% decline due to decreased sales from a major outlet.

Payment anomalies were largely responsible for the temporary dip in Hughson's countywide use tax pool share.

Continued consumer interest in food-drugs, general consumer goods, and restaurants-hotels partially offset the declines in other major industry groups.

Net of aberrations, taxable sales for all of Stanislaus County were flat over the comparable time period; the San Joaquin Valley was up 7.2%.

SALES TAX BY MAJOR BUSINESS GROUP



TOP 25 PRODUCERS IN ALPHABETICAL ORDER

Agave Azul	Lacy's Furniture & Home Decor
Bobs Coffee Shop	Mid Valley Agricultural Services
California Trustrame	Napa Auto Parts
Coco's Taqueria	Pizza Factory
Dollar General	Quick N Save
Dollar Tree	Ricos Italian Pizza
Golden Bowl	Santa Fe Market & Liquor
Grossi Fabrication	Save More Market
Hughson Chevron	Sekhmet Health
Hughson Farm Supply	Subway
Hughson Samaritan Village	Team Bass ADX
Hughson Shell	Wilbur Ellis
La Perla Tapatia	

REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$717,528	\$684,909
County Pool	114,287	79,799
State Pool	425	143
Gross Receipts	\$832,240	\$764,850

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 CPAs 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

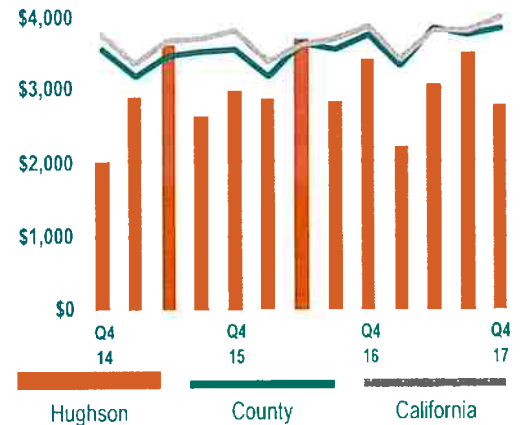
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state of \$697 Million: (<https://www.boe.ca.gov/legdiv/pdf/e-commerce-2017E.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	2.9%	2.9%
Building and Construction	11.4%	9.2%
Business and Industry	-10.7%	-7.9%
Food and Drugs	10.8%	9.8%
Fuel and Service Stations	27.3%	25.1%
General Consumer Goods	1.8%	1.7%
Restaurants and Hotels	4.4%	4.2%
County and State Pools	-25.6%	-23.2%
Total	-0.5%	-0.1%

*Accounting anomalies factored out

REVENUE BY BUSINESS GROUP
Hughson This Quarter

