

# Q4 2017



# Beverly Hills Sales Tax *Update*

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

## Beverly Hills In Brief

Beverly Hills's receipts from October through December were 4.1% above the fourth sales period in 2016. Excluding reporting aberrations, actual sales were up 0.7%.

Recent additions helped boost revenues from hotels with liquor, specialty stores, new motor vehicle dealers and casual dining restaurants. The City experienced a strong sales quarter for family apparel and auto leases.

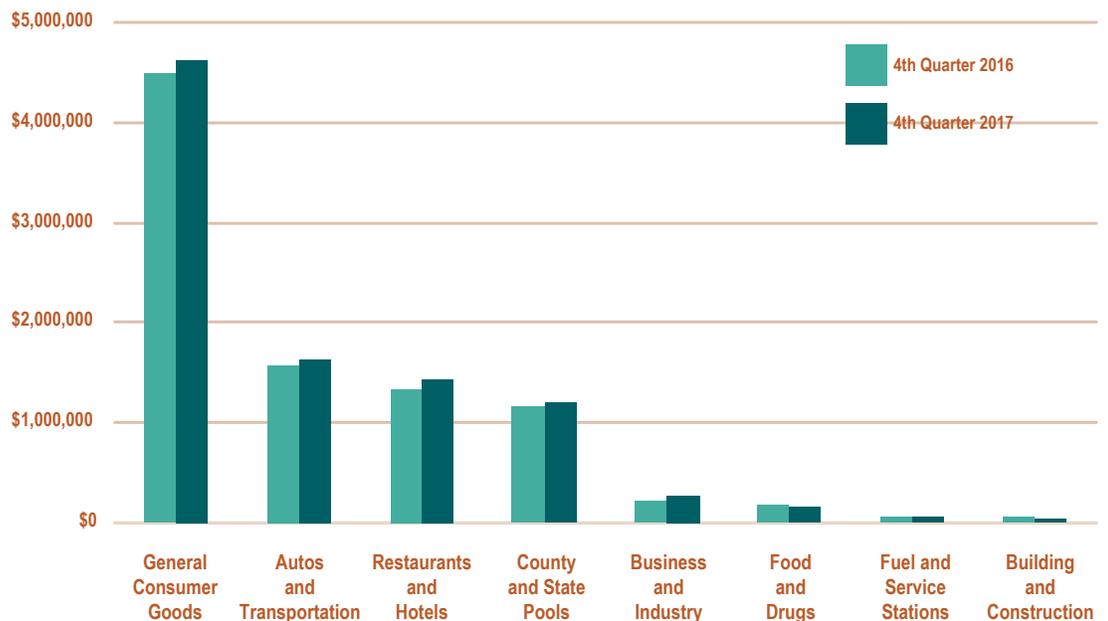
A double up payment exaggerated results from the business and industry sector. Receipts from women's apparel were inflated by onetime accounting adjustments.

An increase in the City's allocation from the county use tax pool added to overall results.

The gains were offset by a decline in sales from jewelry stores and the building-construction group.

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

Audi Beverly Hills	Jim Falk Lexus of Beverly Hills
Barneys	Louis Vuitton
Beverly Hills Hotel	Mastros Steakhouse
Beverly Hilton Hotel	McLaren Beverly Hills
Beverly Wilshire Hotel	Mercedes Benz of Beverly Hills
Cartier	Neiman Marcus
Chanel	Porsche Leasing
Daimler Trust	Saks Fifth Ave
Ferrari of Beverly Hills	Tom Ford
Franchise Tax Board Allocation	Toyota Lease Trust
Gearys	Waldorf Astoria Beverly Hills
Gucci	XIV Karats
Hermes	

### REVENUE COMPARISON

Three Quarters – Fiscal Year To Date

	2016-17	2017-18
Point-of-Sale	\$22,106,760	\$22,614,059
County Pool	3,159,719	3,176,530
State Pool	13,055	3,928
<b>Gross Receipts</b>	<b>\$25,279,533</b>	<b>\$25,794,517</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

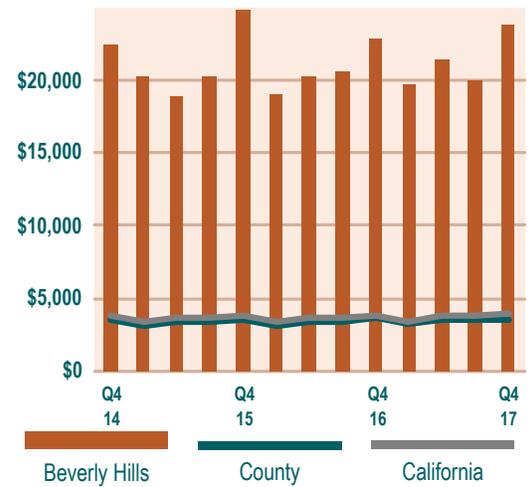
not required to collect the tax for purchases in an adjacent jurisdiction if the retailer has no physical presence in that jurisdiction. The resulting loss to local governments projected by the State Board of Equalization in 2016-17 was \$756 Million in uncollected tax revenues and losses to the state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

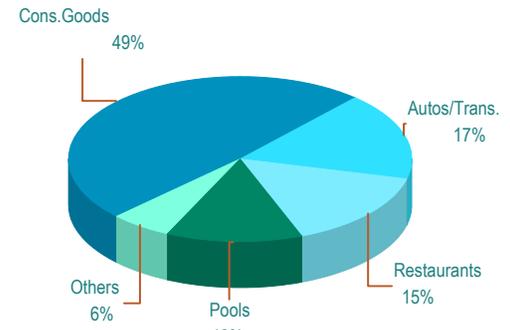
In January 2018, the U.S. Supreme Court agreed to hear arguments in the case of *South Dakota v. Wayfair Inc.* where *Wayfair* is challenging the State's recently adopted requirement that retailers collect and remit, or pay, sales tax on purchases made by South Dakota residents.

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

**SALES PER CAPITA**



**REVENUE BY BUSINESS GROUP**  
Beverly Hills This Quarter



**BEVERLY HILLS TOP 15 BUSINESS TYPES**

Business Type	*In thousands of dollars			
	Beverly Hills Q4 '17*	Beverly Hills Change	County Change	HdL State Change
Auto Lease	553.7	8.6%	12.9%	16.6%
Casual Dining	215.0	4.6%	3.6%	3.5%
Department Stores	— CONFIDENTIAL —	—	-3.0%	-5.4%
Family Apparel	1,105.7	11.7%	3.1%	2.1%
Fine Dining	559.5	1.0%	8.5%	10.2%
Government/Social Org.	— CONFIDENTIAL —	—	-5.2%	-4.9%
Home Furnishings	159.1	1.5%	0.8%	2.6%
Hotels-Liquor	523.4	15.3%	13.5%	7.9%
Jewelry Stores	676.5	-3.6%	-1.7%	2.3%
Men's Apparel	130.7	4.2%	11.7%	7.3%
New Motor Vehicle Dealers	1,027.2	2.4%	-0.9%	2.6%
Quick-Service Restaurants	105.0	1.2%	4.5%	4.9%
Shoe Stores	92.2	-11.8%	2.6%	0.3%
Specialty Stores	502.3	4.7%	5.3%	4.4%
Women's Apparel	431.4	13.4%	-4.9%	-5.9%
<b>Total All Accounts</b>	<b>8,246.3</b>	<b>4.0%</b>	<b>-0.9%</b>	<b>4.0%</b>
<b>County &amp; State Pool Allocation</b>	<b>1,208.2</b>	<b>4.4%</b>	<b>-0.5%</b>	<b>0.8%</b>
<b>Gross Receipts</b>	<b>9,454.5</b>	<b>4.1%</b>	<b>-0.8%</b>	<b>3.6%</b>