Recent Trends in NYC’s Sales Tax

E-commerce, tourism, and general growth trends.

*Presented at the FTA Revenue Estimation and Tax Research Conference.*

*September 2017*
Retail “Apocalypse”

- *CNN Money, April 2017* “Stores are closing at an epic pace”
- *Fortune, May 2017* “Major Wall Street Firm Expects 25% of U.S. Malls to Close by 2022” *
- *Time, June 2017* “Retailers That Are at Serious Risk of Bankruptcy”
- *Bloomberg, September 2017* “Toys ‘R’ Us Collapses Into Bankruptcy Thanks to Crushing Debt

### Unit Closing (Full Year Estimate)*

![Plotted data showing unit closing trend from 2000 to 2017 with a peak in 2017 at 8640]
Sales tax collections have slowed over the past 3 years

NYC Sales Tax Growth (common rate and base)

Source(s): NYC OMB
In the most recent expansionary period U.S. consumption growth has been slow.

Source: Bureau of Economic Analysis
The slowdown in consumption is consistent with weak income growth.

Log(U.S. Consumption) = -0.43 + 1.02 Log (U.S. Personal Income)

Source: Bureau of Economic Analysis, OMB Analysis
U.S. Retail Trade Sales

Source: U.S. Census
Oil prices drove down the value of Retail Trade

Source: EIA
E-commerce is steadily gaining retail market share

New York City
Some facts about NYC Sales Tax

- Rate – 8.875 percent.
  - NYC sales tax rate is 4.5 percent.
  - NYS sales tax rate is 4.0 percent.
  - MCTD Sales tax rate 0.375 percent.

- NYC exempts clothing under $110.

- NYS enacted its “Amazon Law” in 2008 which stated that a seller of taxable property or services is presumed to be a vendor if the seller receives a commission on completed sales for referring customers to the seller by links on a website.

- In 2010, New York State courts upheld the 2008 legislation.
NYC Collects Nearly $7 billion on Taxable Sales of Over $150 billion

Source(s): NYS OTPA, Taxable Sales Data State Fiscal Year (April to March). NYC Sales Tax OMB Fiscal Year (July to June)
Taxable Sales

Source(s): NYS OTPA, NYC OMB
NYC Taxable Sales Retail Trade

Source(s): NYS OTPA, NYC OMB
NYC Taxable Sales Retail Trade

Motor Vehicles and Parts
Building Materials and Garden Equipment
General Merchandise
Nonstore Retail
Food and Beverage
Health and Personal Care
Furniture and Home Furnishings
Clothing (excluding local sales)
Miscellaneous Retail
Retail Trade Total
Electronics and Appliances
Sporting Goods, Hobby, Book and Music Stores

Source(s): NYS OTPA, NYC OMB
The recent decline in nonstore sales is attributable to direct selling establishment. Electronic shopping and mail order continues to rise.

NYC Nonstore Retail 4-digit

Source(s): NYS OTPA, NYC OMB

These establishments typically go to the customers' location rather than the customer coming to them (e.g., door-to-door sales, home parties). Examples of establishments in this industry are home delivery newspaper routes; home delivery of heating oil, liquefied petroleum (LP) gas, and other fuels.
NYC Taxable Sales Services

Source(s): NYS OTPA, NYC OMB
Taxable Services

Source(s): NYS OTPA, NYC OMB
NYC Sales Tax Model

Total Sales Tax

Local Spending
NYC Wage Income

Visitor Spending
NYC Hotel Tax Forecast
NYC Sales Tax (Common Rate & Base) & NYC Personal Income

\[
\log(\text{NYC Sales Tax}) = 3.5 + 0.89 \log(\text{NYC Wage Income})
\]
NYC Retail Trade Employment & Real Estate
Population growth has helped drive retail trade employment growth during the current expansion.
The recent decline in retail employment is concentrated in Manhattan.

Source(s): NYS DOL, NYC OMB
NYC Employment

Source(s): BLS, NYC OMB
Retail availability has risen throughout Manhattan

Availability Rate(%) & 2015Q2 & 2017Q2

Fifth Ave. (42nd-49th) & 25% & 25%
Fifth Ave. (49th-60th) Direct & 10% & 20%
Flatiron & 15% & 30%
Herald Sq. & 20% & 25%
Lower Man. & 30% & 35%
Madison Ave. & 20% & 25%
Meat Packing & 15% & 20%
Soho & 10% & 15%
Third Ave. & 10% & 15%
Times Sq. & 5% & 10%
Upper West Side & 5% & 10%

Source(s): Cushman & Wakefield, NYC OMB
Note: Availability rate is the total amount of available space being marketed divided by the total inventory of space.
Conclusion

- NYC Sales Tax has decelerated in the past few years, following robust post recession growth.
- The slowdown is largely due to moderate income growth. However, weak visitor spending associated with a slowdown in the tourism industry has led to additional drag.
- NYC is also seeing growth in the e-commerce sector.
- The growth in e-commerce though appears to a substitution for traditional brick and mortar stores.
- As a result traditional retail employment in brick and mortar stores has slowed, as has demand for retail stores in Manhattan.
- Lastly, it is possible that another potential drag on sales tax is that the increased competition from e-commerce has driven prices down.