Occasional Studies

District Retail Sector: Past, Present, and (Possible) Future

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Whither the District Retail Sector?

Sales tax returns data show that the District's retail sector has grown in importance since 2001. This may not be accidental. Attracting retail to the District has been a focus of District policymakers in recent years. But the data also shows that since the Great Recession, which lasted from December 2007 to June 2009, growth in the sector has slowed. As such, tracking the trends in the sector and understanding the forces driving these trends could better inform policymaking. This analysis uses sales tax returns for fiscal years 2001 to 2014 to investigate annual trends in retail sales tax receipts over the period. The analysis categorizes the top 50 retail sales tax returns by revenue into two broad categories of purchases: household and business. The analysis finds that for the top 50 retail sales tax filers, retail sales receipts from both the household and business components grew strongly before the Great Recession, fell during the recession, and have been recovering slowly since then. The household component fell more sharply during the recession and since the recession, the business component has been more stable, mirroring, more or less, changes in federal nondefense spending. Although the household component has been growing over the last three years, it is still below its pre-recession peak and, post-recession, it is now a smaller share of the total retail sales tax receipts.

Trends in Retail Sales Tax Receipts

The District of Columbia government collects sales taxes on a very broad range of goods and services using five different rates. General retail is the largest rate category by revenue. Since 2001, the general retail sales tax rate for specified goods and selected services has been 5.75 percent with the exception of years 2010 to 2013, when the tax rate was temporarily increased to 6.0 percent to help offset the city's tax revenue shortfalls caused by the Great Recession. For this analysis, the sales tax receipts for the years 2010 to 2013 have been adjusted to eliminate the effect of the tax rate increase so that receipts for all years are based on same tax rate of 5.75 percent. This allows the analysis to focus on changes due to economic and demographic forces, not policy-induced changes.

In 2015, the city government collected $481 million in revenue from the retail sales tax. This amount represents more than $8.4 billion in taxable commercial retail activity. Figure 1 shows that, in FY 2001, revenue from the retail sales tax was only about $330 million so that the FY 2015 receipts are a 45 percent increase over the 14 year span even with two recessions during the period. Figure 2 shows that retail sales tax receipts as a share of the city's total sales tax receipts fell from about 50 percent in FY 2001 to about 35 percent in FY 2015. This could be due to the growing importance of e-commerce, which, until recently, was largely exempt from taxation in the District.

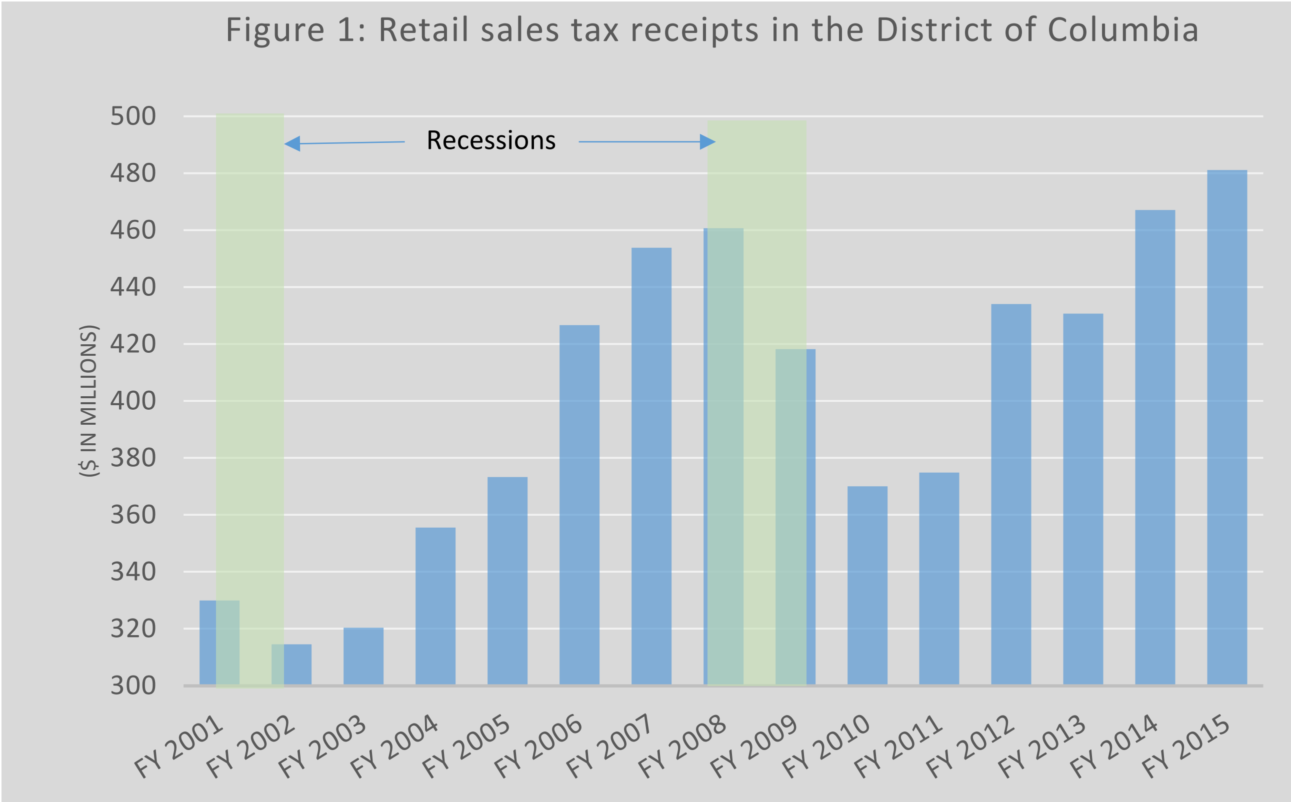
Figure 1: Retail sales tax receipts in the District of Columbia
Recessions
($ IN MILLIONS)
500
480
460
440
420
400
380
360
340
320
300
FY 2001
FY 2002
FY 2003
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009
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FY 2011
FY 2012
FY 2013
FY 2014
FY 2015

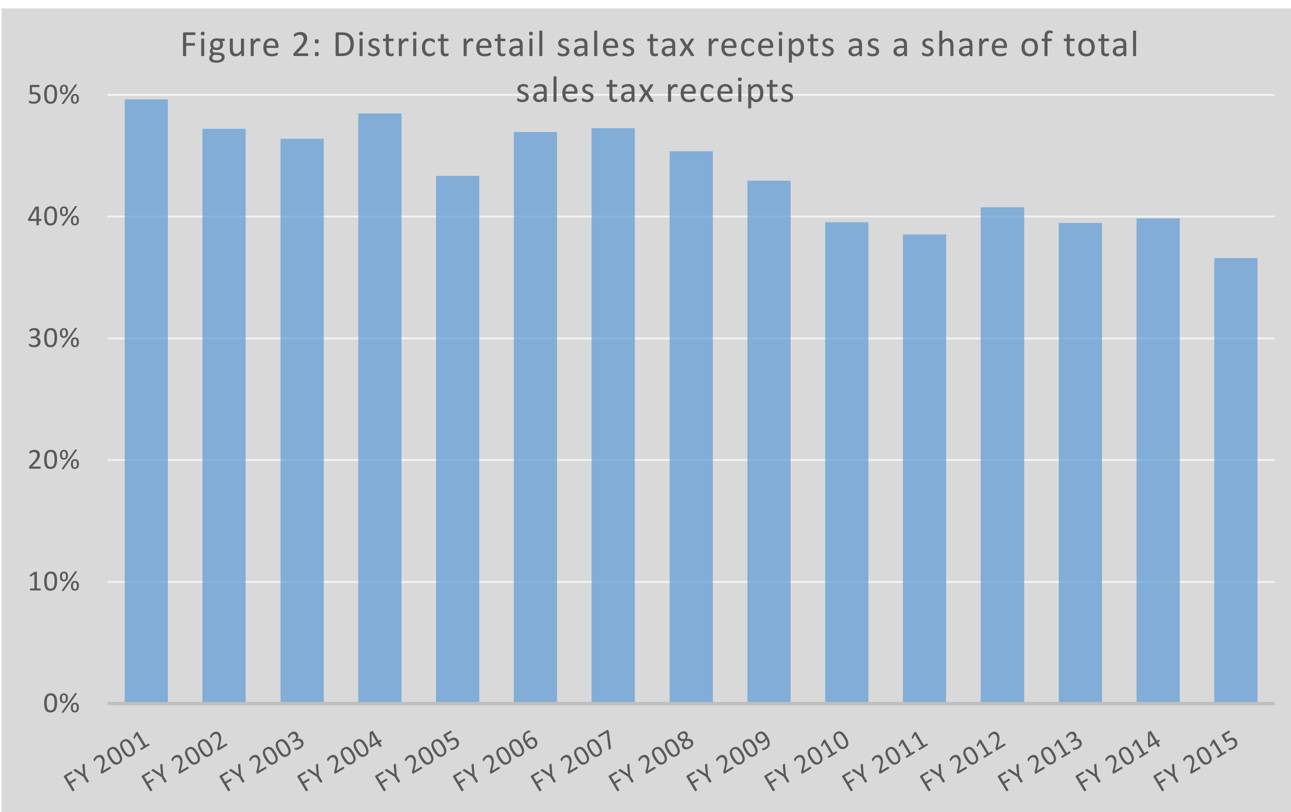


Figure 2: District retail sales tax receipts as a share of total sales tax receipts
50%
40%
30%
20%
10%
0%
FY 2001
FY 2002
FY 2003
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
FY 2015

Top 50 General Retail Sales Tax Filers

The District processes about 9,000 sales tax returns per month. To gain more insight into some of the underlying dynamics of the city's retail sector, this analysis examines the distribution of the city's top 50 general retail sales tax filers by industry sector. The analysis focuses on the top 50 retail sales tax filers because the coding for industry sector on the raw returns data is unreliable and re-coding the entire database of tax returns would be enormously time-consuming.

Figure 3 shows that in FY 2014 retail sales taxes paid by the top 50 tax filers was about $130 million compared to about $340 million for all other retail sales tax filers. That is, the top 50 filers paid about 28 percent of all the retail sales tax receipts. This share did not change by much over the period covered by the analysis. In FY 2001, the top 50 retail sales tax filers paid about $110 million compared to $220 million for all other retail sales tax filers, amounting to a share of about 33 percent of all retail tax receipts for the top 50 filers.

Figure 3 also shows that, for the period FY 2001 – 2014, the *pattern* of growth of retail sales tax receipts from the top 50 filers was similar to the pattern of growth of total retail sales tax receipts: retail sales tax receipts of the top 50 filers grew when overall retail sales tax receipts grew and slowed when growth of overall retail sales tax receipts slowed. However, *growth rates* of retails sales tax receipts for the top 50 was different from growth rates of overall retail sales tax receipts. Table 1 shows that prior to the Great Recession annual average growth of retail sales tax receipts from the top 50 taxpayers was 3.7 percent compared to annual average growth of 5.3 percent for the total retail sales tax receipts. The period during and after the recession (FY 2007-2014) the annual average growth of receipts from the top 50 taxpayers grew about 2 percent, while receipts from all other taxpayers was slightly negative. For the entire period the annual average growth of retail sales tax receipts from the top 50 taxpayers was 1.3 percent compared to annual average growth of 3.3 percent for total retail sales tax receipts.

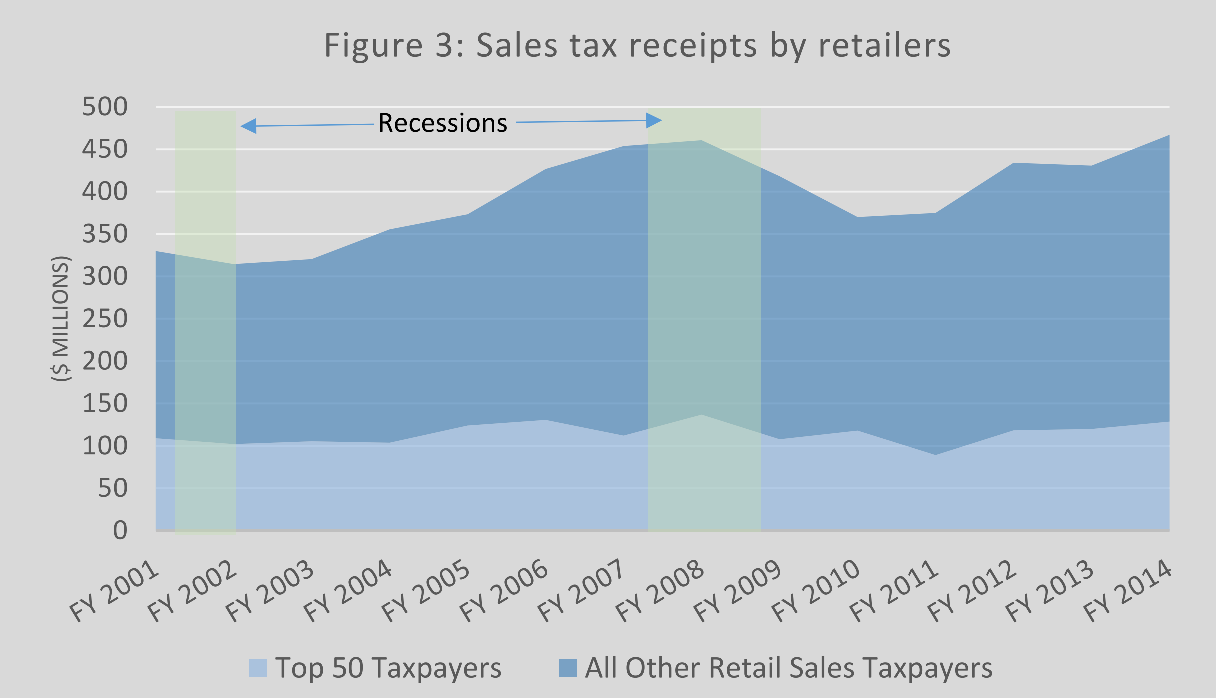


Table 1: Annual Average Growth Rates of Retail Sales Tax Collections

Fiscal Years	2001-2006	2007-2014	2001-2014
Top 50 Tax Filers	3.7%	2.0%	1.3%
All Other Tax Filers	6.0%	-0.1%	3.3%
All Tax Filers	5.3%	0.4%	2.7%

Trends in Household vs. Business Purchases

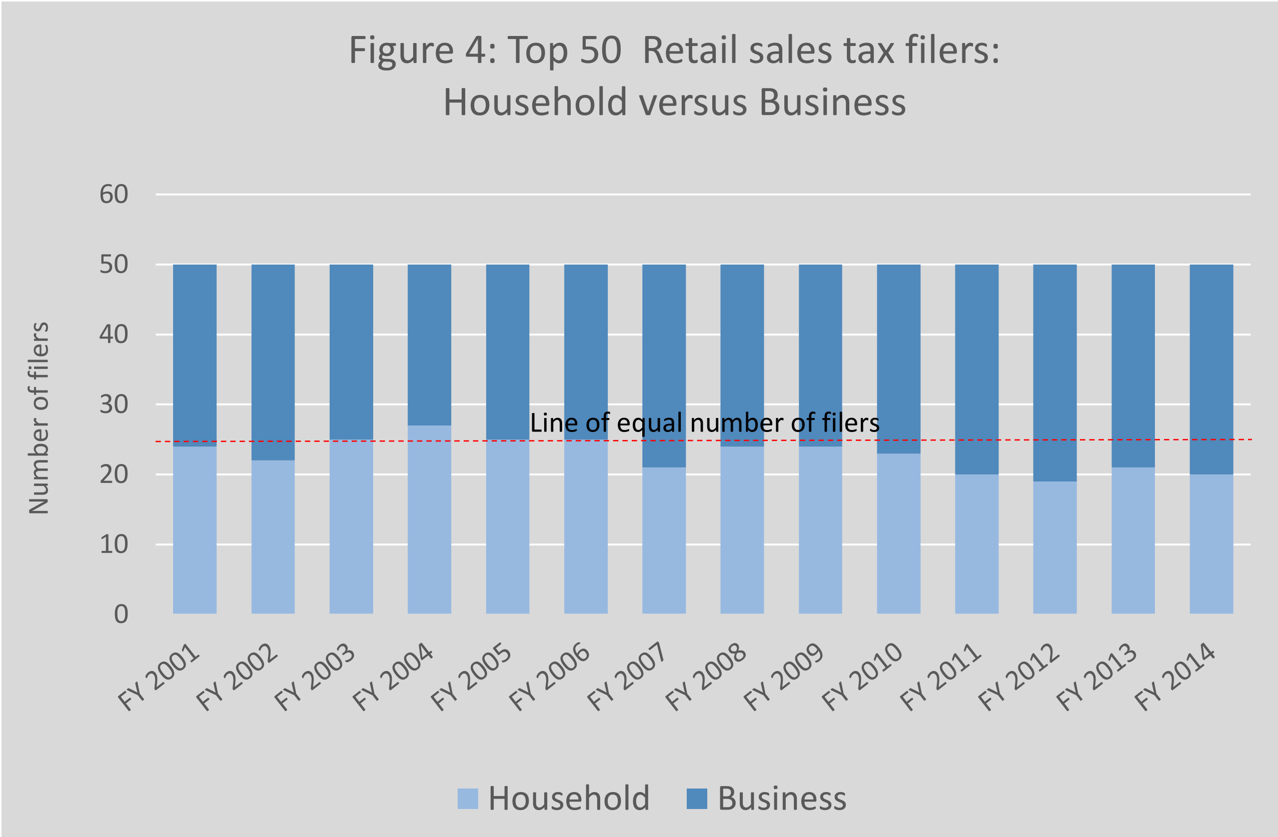
For a closer examination of the underlying trends in the District of Columbia's taxable retail sector, the city's top 50 retail sales filers are classified by their respective North American Industry Classification System (NAICS) industry grouping. These industries are further grouped into two categories: Household or Business. Sales tax returns from sectors more likely to sell to households for final consumption are classified as Household, while sales tax returns from sectors more likely to sell to businesses for final consumption or as inputs to the production of other goods and services are classified as Business.

Sales tax returns categorized as Household sales are ones with the following industry classifications: department store retailers, clothing retailers, home supplies/furnishings retailers, electronic retailers, grocery stores, pharmacies/drugstores and book stores. Business sales tax returns have the following industry classifications: office equipment/materials suppliers and services, construction equipment/materials suppliers, building maintenance services, telecommunication and energy supplier/service retailers[1], and publishers.

Number of Sales Tax Filers

Figure 4 shows that, of the top 50 sales tax filers, those selling primarily to businesses outnumbered those selling primarily to households for 10 of the 14 years analyzed in this study. In FY 2001, 26 out of the top 50 sales tax filers sold primarily to businesses; this rose to 28 in 2002. For years 2003 to 2006 there was more or less an even number of sales tax filers selling primarily to businesses as those selling primarily to households. From FY 2007 to 2014 sales tax filers selling primarily to businesses again outnumbered those selling primarily to households, with only 20 of the top 50 filers selling primarily to households in FY 2014. Figure 4 also shows that, since the recession, the margin by which the number of filers selling primarily to businesses exceeds the number selling primarily to households has increased. This is somewhat surprising as the story of the District since the recession is the increase in population, with the new residents being younger and relatively richer. Given the population growth one would expect relatively faster growth in the number of filers selling primarily to households. Online shopping may be the missing factor here. Until this fiscal year, e-commerce filers were excluded from the sales tax base, and the new residents are in the demographic of those more likely to be online shoppers.

[1] The bulk of sales tax revenue reported by the District's largest telecommunication and energy supplier/service retailers are from their business/industrial customers.



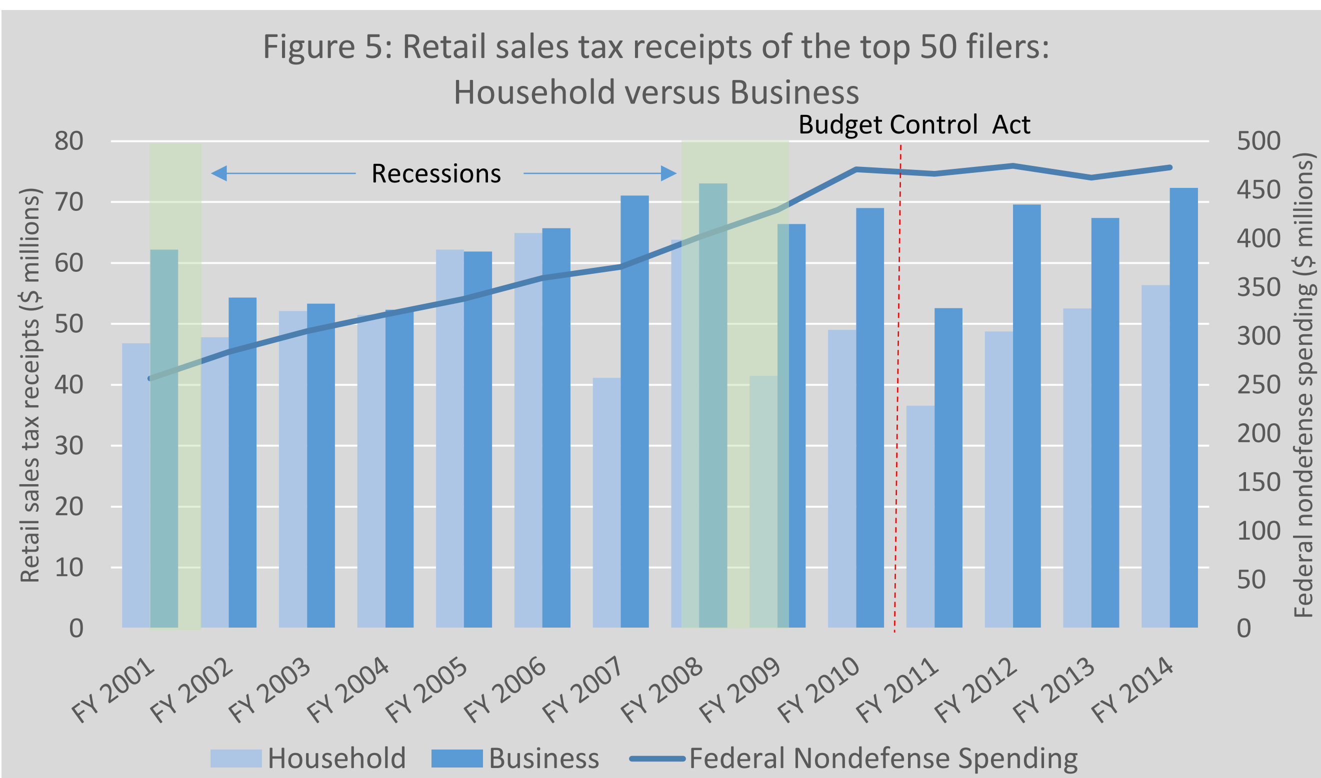
Retail Sales Tax Receipts

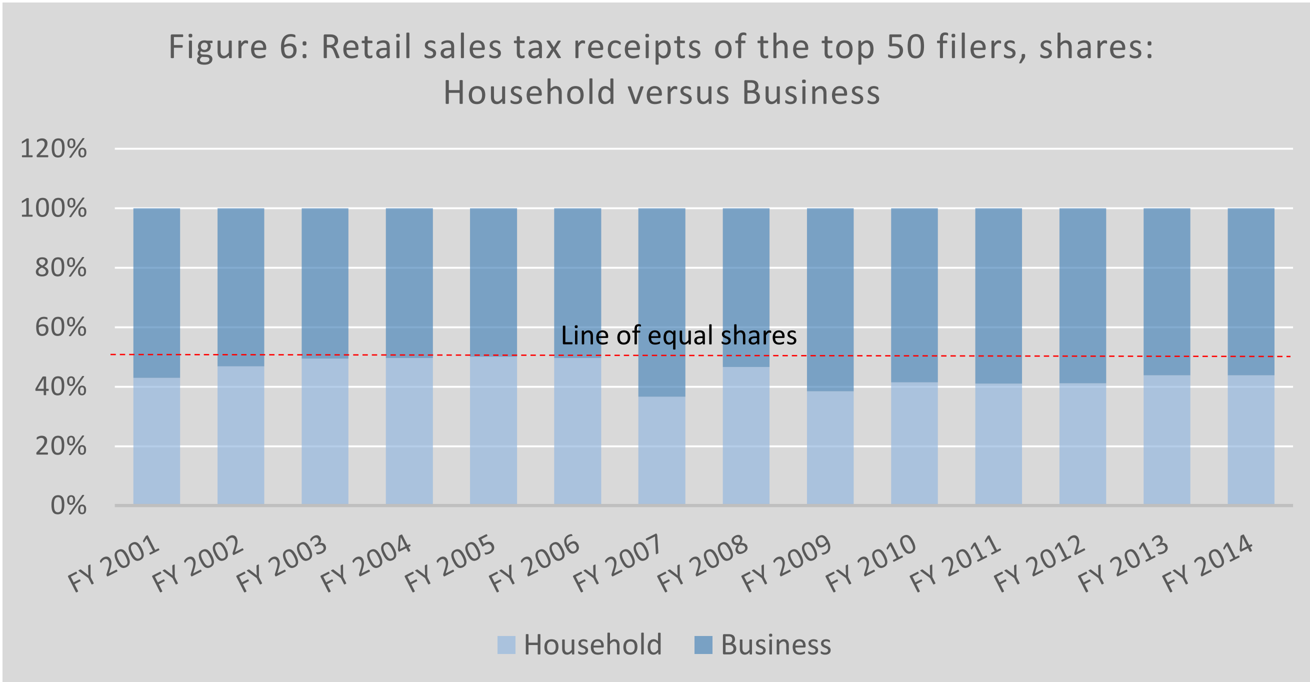
The distribution of retail sales tax filers between household and business purchases yields useful insights, but ultimately we are interested in the relative amount of retail spending by the two groups. So let us turn to the relative spending by households and businesses as measured by retail sales tax receipts. Figures 5 and 6 show that between FY 2001 and 2014, except for fiscal years 2003 through 2006, when retail sales tax receipts from business and household purchases were more or less even, among the top 50 sales tax filers business purchases accounted for more of the receipts than household purchases, both in levels and as a share of the total. Figure 5 also shows that the business purchases component of the retail sales tax is more stable than the household purchases component.

While the household purchases component fell steeply in FY 2007 at the onset of the Great Recession, the business purchases component actually rose slightly. The household component rebounded in FY 2008, but fell back the following year to its FY 2007 level and has since remained below its pre-recession peak. The business purchases component also fell in FY 2009, but not as steeply as the household component. Since the recession the business purchases component has been more or less stable, except for FY 2011, when both it and the household component fell. This followed the passage of the federal Budget Control Act of 2011, which mandated federal budget cuts to reduce the deficit by $1.2 trillion over ten years. The business purchases component recovered in FY 2012 to about the level it was in FY 2010 levels and has remained relatively flat since. While the household component has not returned to pre-recession levels it has grown in the last 3 years.

So what's driving the trends in the relative growth of the household and business purchases components of the retail sales tax? One place to look is federal spending. As the largest single employer in the District, the federal government plays a large role in the District's economy. Although federal government purchases are not taxable, federal spending flows through to households and businesses whose purchases are taxable, so shifts in federal spending may lead to shifts in the household/business composition of District sales tax receipts.

The line in Figure 5 shows the level of federal nondefense spending over the FY 2011 – 2014 period. It shows that prior to the recession, both the household and business components of sales tax receipts grew along with nondefense federal spending. After the recession, changes the business component, which was never hit hard by the recession, continued to mirror, more or less, changes in federal nondefense spending, including the flattening after the implementation of the Budget Control Act of 2011 that curbed the growth in federal spending. The household component, which was hit harder by the recession, seems no longer tightly linked to changes in federal spending. One reason for this change is that, post-recession, District residents, who in recent years have become younger and hipper, are bargain shopping on-line to a greater degree at the same time that the choices for on-line shopping have been expanding. But data to confirm this is scarce. If, in fact, greater on-line shopping is the cause of the post-recession fall off in sales tax receipts from the household component, the recent expansion of the retail sales tax base to include some large e-commerce entities portends well for future growth of the household component.





Future Prospects for the District Retail Sales Tax

Retail sales tax receipts were hit hard by the Great Recession and have been growing more slowly since the recession. Retail sales tax growth has also been hit by federal austerity measures to control the budget and the trends toward more on-line shopping, which, until recently, largely escaped the sales tax. Analysis of tax returns for FY 2001-2014 shows that, retail sales tax from household purchases was hardest hit by the recession and was slower to recover from the recession's effects. After the recession, the tax returns data show that retail sales tax receipts took a further hit from cuts in federal nondefense spending. Post-recession the component of the retail sales tax receipts from business purchases seem to be more closely aligned with federal spending than the household component. The new administration's plans for further cuts to federal nondefense spending could therefore be another hit to retail sales tax growth. The household component, though not as closely linked to federal spending since the recession, would also take a hit from proposed cuts in the federal workforce. On the bright side, the recent addition of major e-commerce entities to the District's tax-base improves the prospects for growth in retail sales tax receipts in the future.