

ISSUE BRIEF

TAXABLE SALES IN SOUTHWEST FLORIDA

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Introduction

The recently published *Regional Economic Indicators* by the Regional Economic Research Institute reported that taxable sales were up 6 percent in October 2020 compared with October 2019. The Covid-19 protocols imposed by the state such as lockdowns and limited capacity imposed at businesses associated with consumer fear of face-to-face contact changed the pattern of consumption for most households who started to rely more heavily on online purchases. This shift in consumption pattern makes the reported numbers by the RERI puzzling at a first look. This issue brief digs deeper into the drivers of local taxable sales.

Florida is one of the few states in the country with no state income tax, making it largely dependent on sales tax as a revenue source. Sales tax currently represents over three-quarters of state revenues. Also, Florida is one of two states that has not yet implemented the collection of sales taxes on remote sellers, only collecting from online sellers with physical presence in the state. For online purchases the state relies on the honor system, which results in the state foregoing hundreds of millions of dollars in sales tax revenue every year. In light of the changes presented by the Covid-19 crisis state legislators have started to look into revising the tax code.¹

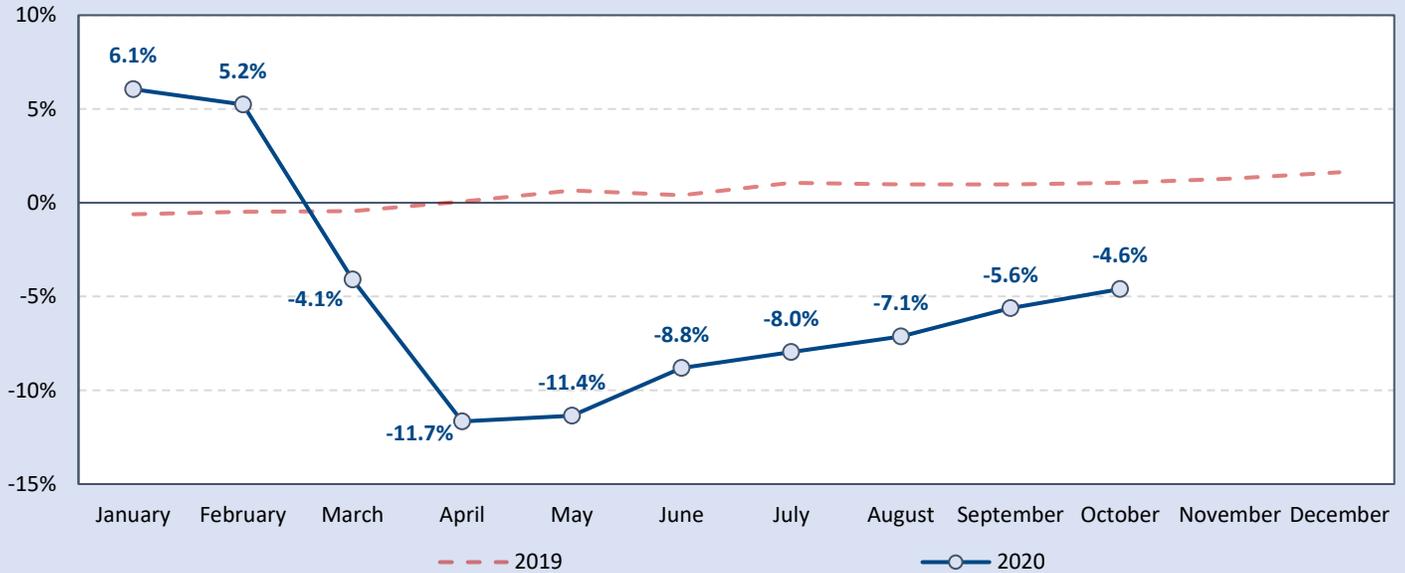
In this issue brief we report year-to-date change in taxable sales, first looking at overall taxable sales for the region, then breaking it up into the top five categories and “big-ticket items” categories. Year-to-date figures give a snapshot of how the indicator has performed for the reported year when compared to the same set of months in the previous year. Thus, it tracks how well that business type performed at the same time last year. For example, when it is reported that year-to-date figures on taxable sales for Southwest Florida were down -4.6 percent in 2020, it compares the first 10 months in 2020 to the first 10 months in 2019. This provides an overall snapshot of how taxable sales have performed throughout the year, so far. Note, however, that while this serves as a good proxy for revenues, we cannot say anything about cost of doing business, thus profits.

In sum, although businesses have been improving as the sanctions were loosened and consumer confidence improved, the main drivers of taxable sales seem to be those associated with “big-ticket items”. The Covid-19 crisis created somewhat of a perfect storm for these businesses: first, as part of the stimulus plan by the federal government, interest rates were reduced to historical low numbers close to zero; second, the lockdown government-imposed in March and April and the self-imposed lockdown throughout the year contributed to an increase in household savings; third, Florida remains one of top three destinations in the country in terms of in-migration. Taken all together, new and existing Southwest Florida households upgraded houses by purchasing and renovating their homes, and were able to purchase those more expensive items in their bucket list by taking advantage of better financing options due to higher savings, which equals higher down payments, and low interest rates.

¹ <https://www.myfloridahouse.gov/Sections/Bills/billsdetail.aspx?BillId=69923>

Southwest Florida Taxable Sales

Year-to-date change



Source: Florida Department of Revenue, Office of Tax Research

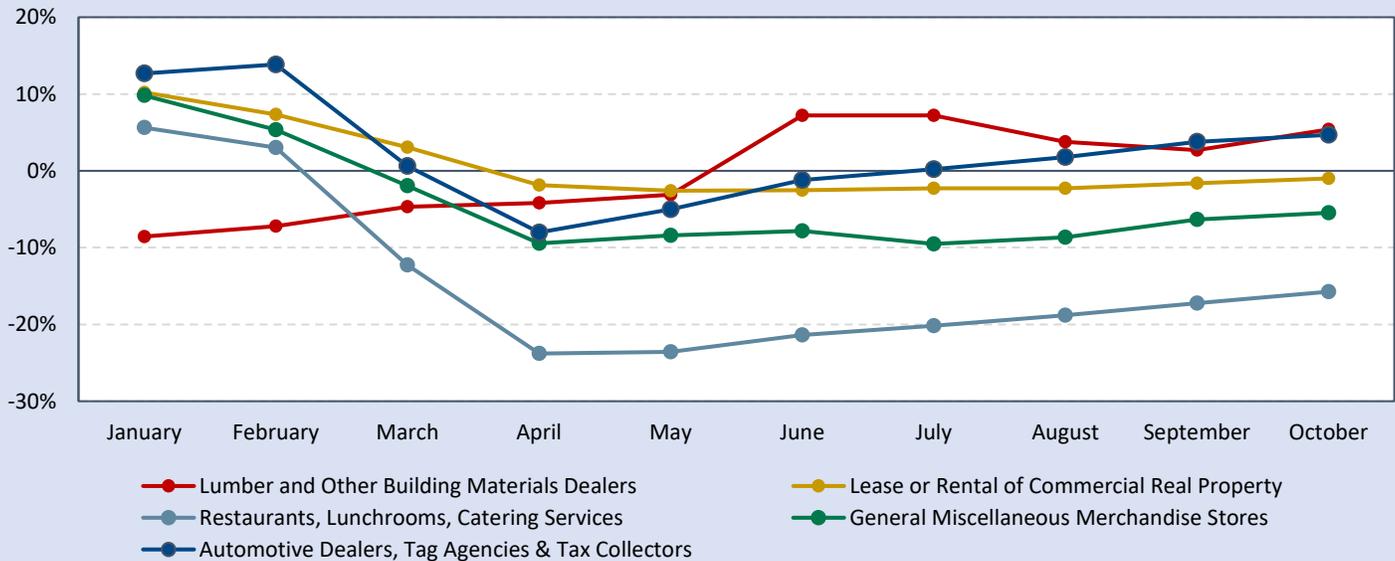
Note: Data is lagged one month from the Florida Department of Revenue reported month. All values adjusted to 2020 dollars.

Year-to-Date Taxable Sales

The chart above shows how year-to-date taxable sales figures changed in Southwest Florida in 2019 and 2020. Taxable sales started off well in the beginning of the year, with year-to-date figures staying positive in the first two months. However, the impact of Covid-19 and the subsequent shutdown of the Florida economy through Governor Ron DeSantis's stay-at-home executive order led to a fall in taxable sales, resulting in year-to-date figures slipping down to -11.7 percent in April 2020. While taxable sales have improved since April, year-to-date figures remain negative in October and likely will when November and December data become available.

Top Five Taxable Sales by Business Type

Year-to-date change



Source: Florida Department of Revenue, Office of Tax Research

Note: Data is lagged one month from the Florida Department of Revenue reported month. All values adjusted to 2020 dollars.

Top 5 Taxable Sales by Business Type

The Florida Department of Revenue also provides taxable sales information by business type. By looking at business type, we can have a better understanding of which types of businesses have fared better and which businesses have struggled more since the Covid-19 pandemic began in March 2020.

The chart above looks at how taxable sales have fared for the five largest industries.² The top five business types, in terms of year-to-date taxable sales in October 2020, were:

1. Automotive dealers, tag agencies & tax collectors
2. General miscellaneous merchandise stores
3. Restaurants, lunchrooms, catering services
4. Lease or rental of commercial real property
5. Lumber and other building materials dealers.

These top five business types accounted for approximately 51 percent of total taxable sales in the region so far in 2020. While automotive dealers initially went into the negatives between March and June, year-to-date taxable sales are up in October 2020 over October 2019. The rise in sales for automotive dealers can be partially explained by low interest rates, as the Federal Reserve Open Market Committee reduced rates down to near zero levels back in March 2020 in an effort to support the economy by encouraging borrowing and investing.

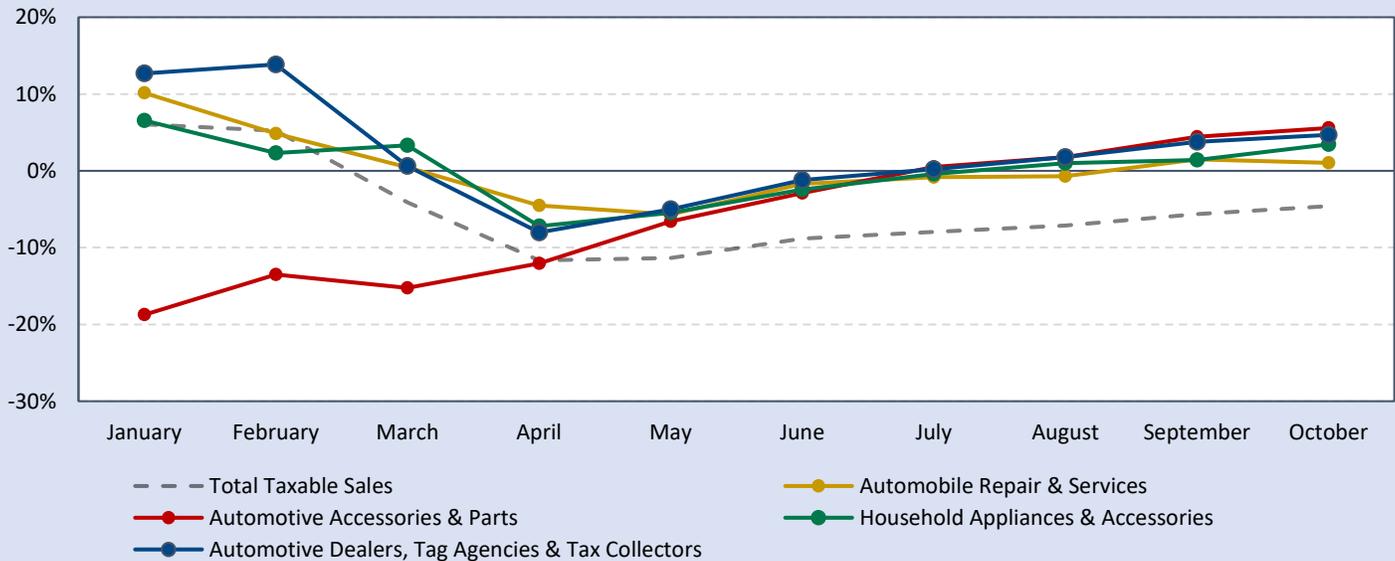
Covid-19 protocols imposed by the state, along with social distancing guidelines and consumer fear of face-to-face contact, have impacted many businesses including restaurants and merchandise stores since the onset of the pandemic. On the other hand, lumber and other building material dealers have fared well during the pandemic despite Covid-19 protocol concerns, as lumber shortages³ have caused prices to increase in recent months. And while many owners had to close their business for an extended period of time due to Covid-19, access to relief programs such as EIDL and bridge loans have enabled owners to make payments to property managers each month, propping up businesses operating in leasing and renting of commercial real property.

² See the Appendix for a list of the top 25 business types by year-to-date taxable sales figures in October 2020.

³ Lumber shortage is explained by an increase in demand by construction (and remodeling) associated with restrictions in supply due large wildfires and new safety protocols plus lockdowns at mills.

Taxable Sales for "Big Ticket" Business Types

Year-to-date change



Source: Florida Department of Revenue, Office of Tax Research

Note: Data is lagged one month from the Florida Department of Revenue reported month. All values adjusted to 2020 dollars.

Year-to-Date Figures of "Big Ticket" Items

The following chart provides a closer look at taxable sales for businesses likely to sell "big ticket" items. We define these businesses as firms that sell goods with a price tag high enough that might justify either saving or searching for financing options. Examples of "big ticket" items would include major appliances (such as refrigerators, ovens, etc.), furniture, computer equipment or vehicles.

We considered the following four "big ticket" items, shown in the graph above:

1. Automotive dealers, tag agencies & tax collectors
2. Automotive Accessories & parts
3. Automobile Repair & Services
4. Household Appliances & Accessories

These four business types accounted for approximately 20 percent of total taxable sales in the region so far in 2020. During the first four months of the year, total taxable sales decreased (or stalled) compared to the same period of 2019. Since April, the numbers have been improving, and by August most these categories had positive year-to-date taxable sales compared at the same time last year.

Covid-19 protocols imposed by the state such as the lockdown and limited capacity at stores, coupled with the stimulus plan for the economy, created a favorable time for the purchase of "big ticket items". The stay-at-home order and practice allowed households to increase their savings. In addition, the federal government stimulus plan provided low interest rates, and for some households additional income through the stimulus checks. These conditions allowed households to check these "big ticket items" off their bucket list.

Appendix: Top 25 Taxable Sales by Business Type

The table below shows the top 25 year-to-date taxable sales in Southwest Florida for the first 10 months of 2020.

Taxable Sales by Business Type				
Rank	Business Type	2020 YTD	Percent of Total	Cumulative %
1	Automotive Dealers (Sale & Lease), Tag Agencies & Tax Collectors	\$3,364,286,041	14.8%	14.8%
2	General Miscellaneous Merchandise Stores	\$2,688,991,249	11.8%	26.6%
3	Restaurants, Lunchrooms, Catering Services	\$2,222,354,287	9.8%	36.4%
4	Lease or Rental of Commercial Real Property	\$1,625,912,125	7.1%	43.5%
5	Lumber and Other Building Materials Dealers	\$1,625,661,623	7.1%	50.6%
6	Food & Beverage Stores	\$1,560,007,296	6.9%	57.5%
7	Hotel/Motel Accommodations, Rooming Houses, Camps & Other Lodging Places	\$1,384,954,293	6.1%	63.6%
8	Wholesale Dealers	\$793,696,040	3.5%	67.1%
9	Home Furniture, Furnishings & Equipment	\$712,058,965	3.1%	70.2%
10	Apparel & Accessory Stores	\$621,988,219	2.7%	72.9%
11	Admissions, Amusement & Recreation Services	\$599,253,848	2.6%	75.5%
12	Manufacturing	\$469,912,056	2.1%	77.6%
13	Communication, Telephone, Telegraph, Radio & Television Stations	\$423,557,509	1.9%	79.5%
14	Automotive Accessories & Parts	\$400,170,827	1.8%	81.3%
15	Automobile Repair & Services	\$379,549,121	1.7%	83.0%
16	Boat Dealers	\$374,956,555	1.6%	84.6%
17	Utilities, Electric, Gas, Water, Sewer	\$285,967,672	1.3%	85.9%
18	Rental of Tangible Personal Property	\$271,282,737	1.2%	87.1%
19	Paint, Wallpaper & Hardware Dealers	\$267,160,360	1.2%	88.3%
20	Radio, Television, Consumer Electronics, Computers, Music Stores	\$203,602,416	0.9%	89.2%
21	Building Contractors	\$175,599,820	0.8%	90.0%
22	Repair of Tangible Personal Property	\$167,207,871	0.7%	90.7%
23	Household Appliances & Accessories	\$139,134,271	0.6%	91.3%
24	Farm Implements & Equipment Suppliers	\$113,684,852	0.5%	91.8%
25	Drinking Places (Alcoholic beverages served on premises)	\$107,458,095	0.5%	92.3%
--	All other business types	\$1,775,482,725	7.8%	100.0%
--	Total	\$22,753,890,873	100.0%	--

Source: Florida Department of Revenue, Office of Tax Research

Note: Data is lagged one month from the Florida Department of Revenue reported month. All values adjusted to 2020 dollars.