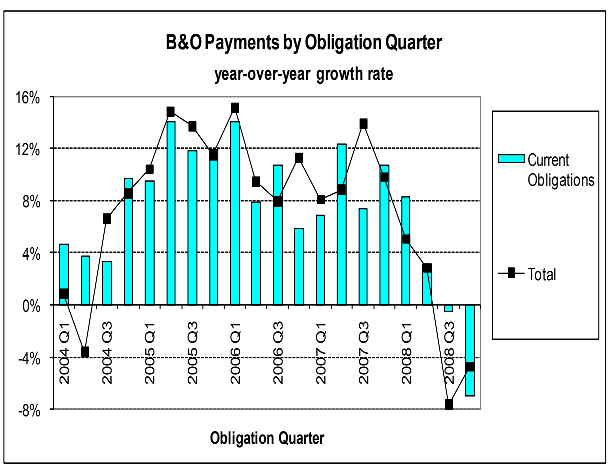
B&O and Sales Tax Update

The newsletter of the City of Seattle's Economics Team/May

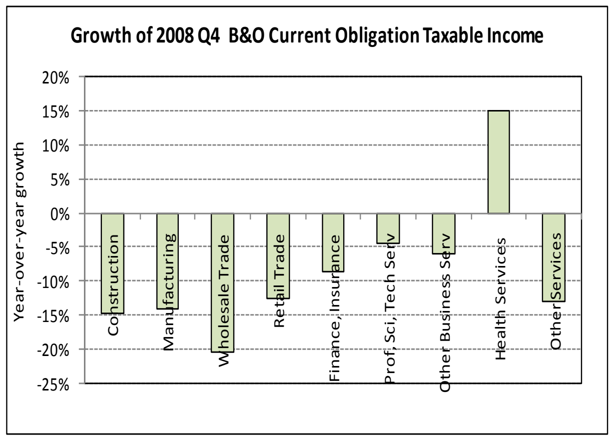
2008 Q4 B&O Tax

The deepening of the recession in the 4th quarter of 2008 led to a significant contraction in Seattle's business and occupation (B&O) tax base. Total taxable income for the quarter was down 4.8% from 4th quarter 2007, while taxable income for current obligations was down 7.0%. Income from current obligations, which excludes income associated with refunds, audits, and late payments, is the best indicator of underlying economic conditions.

2008 was a year of transition for the B&O tax (see graph below). The year began with robust growth as current obligation income increased by 8.3% in the 1st quarter. However, growth decelerated quickly, turning slightly negative (-0.5%) in the 3rd quarter and then falling steeply to -7.0% in the 4th quarter. The 4th quarter's rate of decline is larger than any quarterly decline during the 2001-03 recession.



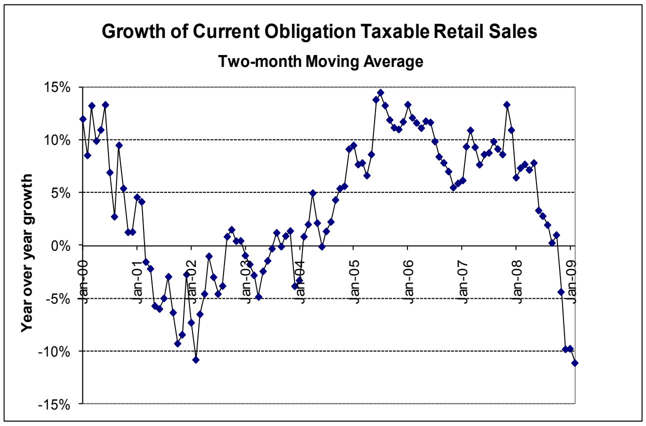
The 4th quarter decline in taxable income was more pronounced in the goods sector than the service sector. The industries with the steepest declines in taxable income were construction, manufacturing, and wholesale trade (see graph below). Retail trade saw a 12.4% drop as consumers reduced their spending sharply. Service industries were the best performers, led by health services with a 14.9% gain. Taxable income for business, professional, scientific, and technical services declined, but at a slower pace than the overall tax base. Seattle's high concentration of service activity has cushioned the impact of the recession on B&O tax receipts.



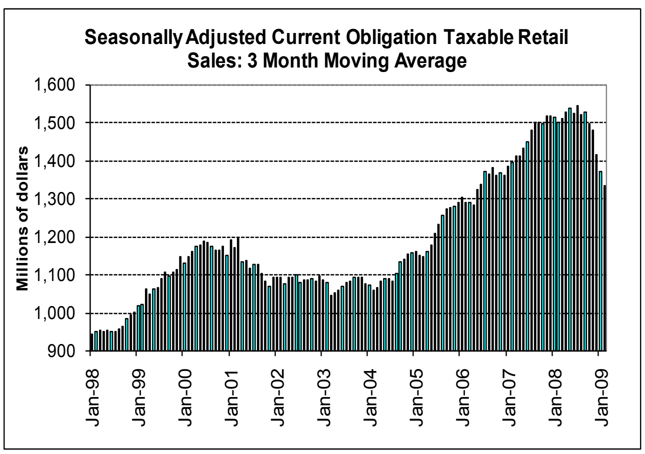
February 2009 Sales Tax Revenue

Sales tax revenue in February was $10.0 million, which is $1.3 million (11.5%) lower than in February 2008. Sales tax revenue for the past four months is down 10.3% from the same period a year ago.

Taxable retail sales for current obligation activity, which excludes sales related to activity that occurred in prior months, was down 13.7% in February on a year-over-year basis. Current growth rates are now on par with those experienced during the worst months of the 2001-03 recession (see graph below). In addition, the fall into recession has been steeper in recent months than it was during the early months of the 2001-03 recession.



The following graph was created using seasonally adjusted data for current obligation taxable retail sales. Seasonal adjustment removes effects such as high retail sales in December from a data series so that trends over time can be portrayed more accurately. As the graph below illustrates, there has been a very steep drop in sales since September 2008 following a lengthy period of relative stability.



Industry level taxable sales data reveal that the downturn has not spared any sectors of the economy. Construction, which had been a bright spot, saw year-over-year sales decline by 12.6% in February. Retail trade had a particularly bad month, with a 17.0% decline from February 2008. If the motor vehicles and parts industry is removed, which was down 37.0% for the month, the rate of decline for retail sales is still a disappointing 13.4%.