



NYC Taxable Sales and Purchases: Resilient Amid Economic Uncertainty

Highlights

- Total taxable sales in New York City declined by \$42.4 billion to \$140.1 billion, a drop of 23.2 percent from sales tax year 2019-2020 to sales tax year 2020-2021 while the rest of the State remained relatively stable.
- Leisure and hospitality fared worse in the City than in the rest of the State, dropping 66 percent to \$13.2 billion in sales tax year 2020-2021, compared to a decline of 27 percent across the rest of the State.
- One component of the retail trade sector that has fared well is e-commerce, aided by the embrace of remote work. In sales tax year 2020-2021, City e-commerce grew by 55.4 percent to reach \$10.1 billion, protecting retail taxable sales from further declines.
- Two changes to New York State tax law regarding the definition of nexus and the application of internet marketplace sales tax may have contributed nearly \$540 million in sales tax revenue for New York City over sales tax years 2019-2020 and 2020-2021.
- In 2021-2022, taxable sales in most sectors in the City exceeded pre-pandemic levels but some still lagged behind. Leisure and hospitality taxable sales made up 15.2 percent of total taxable sales compared to 21.2 percent prior to the pandemic.
- City sales tax revenue made up 47.1 percent of the State total in 2022, close to the pre-pandemic share of 49.1 percent.
- In the first three quarters (March-November) of sales tax year 2022-23, the City's growth (18.1 percent) was still much stronger than the rest of the State's (4.6 percent).

At the onset of the COVID-19 pandemic, purchases of goods and services, which measure consumption, in New York City fell drastically. Shutdowns and social distancing devastated a place that previously thrived with commuters and visitors experiencing the many sites and events the City has to offer. At the same time, many office workers were able to shift to remote work and stayed home or left the City, at least temporarily, for more space elsewhere.¹ These changes to behavioral patterns also accelerated a shift in consumer purchases from brick-and-mortar stores to e-commerce, which saw significant growth during the height of the pandemic.

Despite e-commerce success, industry sectors such as trade, transportation and utilities, and leisure and hospitality, were disproportionately impacted by the pandemic. As a result, City sales tax collections fell two years in a row as travelers and office workers were slow to return. Sales tax is the third-largest source of tax revenue in the City, contributing over 12 percent of total taxes, and is driven by consumer spending. City sales tax revenue now makes up nearly 50 percent of the State total.

As New York City's consumer spending begins to normalize from its pandemic-fueled levels, leisure and hospitality continues to recover from pandemic declines. As other industry sectors have already recovered, the City expects sales tax collections to grow by just under 7 percent in fiscal year 2023, compared to over 30 percent in fiscal year 2022. However, the Office of the State Comptroller believes this figure is conservative given elevated prices and continued local consumption, which show fiscal year-to-date collections through March 2023 at nearly 15 percent higher than the same period a year ago.

New York City's Taxable Sales Suffer Worse than Rest of State's at Onset of Pandemic

One way to study consumption trends during the pandemic is to review taxable sales data, which is sales and purchases subject to State and local sales tax. Total taxable sales in the City declined by \$42.4 billion (23.2 percent) to \$140.1 billion from sales tax year 2019-20 to sales tax year 2020-21.² Taxable sales for the rest of the State held up much better (see Figure 1).³

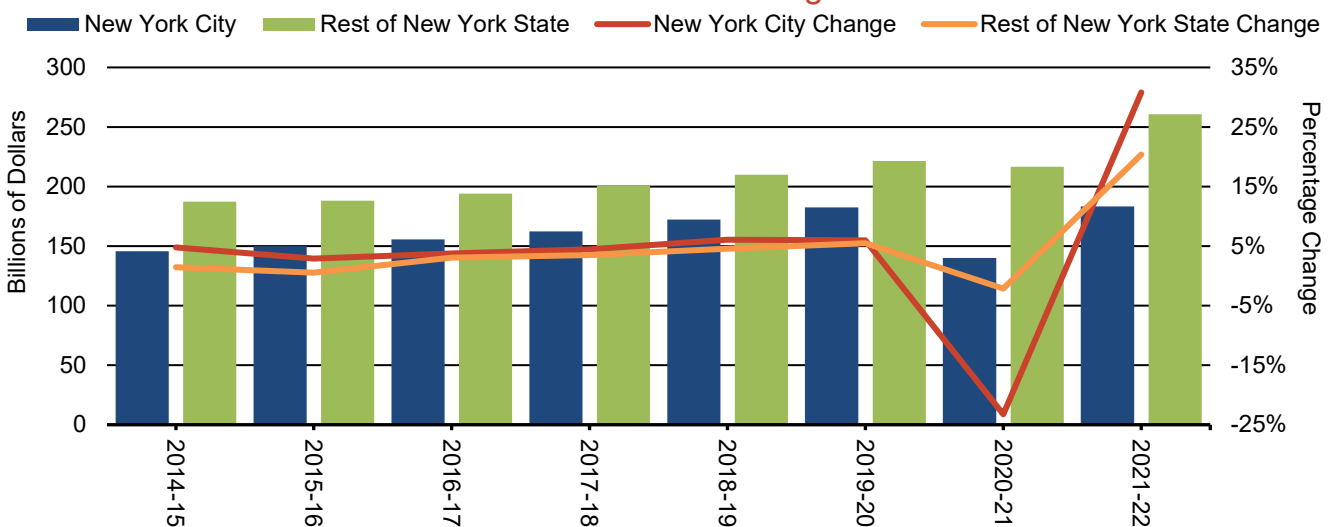
Taxable sales can be broadly grouped as sales made by goods-producing sectors such as mining, construction, and manufacturing and those made by service-providing sectors such as retail, information, and leisure and hospitality.⁴ Goods-producing taxable sales, which represent 6 percent of the total, fared better than service-providing taxable sales, which represent 94 percent, during sales tax year 2020-21 for New York City and the rest of the State due to a demand for health (e.g., masks, cleaning wipes and hygiene products), personal care and remote work-related (e.g., electronics) products.⁵ The City's goods-producing taxable sales declined by

only 5.1 percent year over year, to a total of \$12.7 billion in sales tax year 2020-21. The rest of the State instead saw its goods-producing taxable sales rise slightly during this period.

Throughout the State, taxable sales made by service-providing sectors declined. In New York City, these sales declined by 24.7 percent to \$127.4 billion in sales tax year 2020-21, driving the statewide decline. The rest of the State's service-providing taxable sales declined by only 2.3 percent.

The two biggest contributing "super sectors" to service-providing taxable sales in sales tax year 2019-20, trade, transportation, and utilities at 45.1 percent, and leisure and hospitality at 21.2 percent, were disproportionately impacted by the pandemic. In contrast, the information sector continued to grow as reliance on technological services rose.⁶ However, leisure and hospitality fared worse in the City than in the rest of the State, declining 66 percent to \$13.2 billion in sales tax year 2020-21 compared to a decline of 27 percent across the rest of the State (see Figure 2, next page).

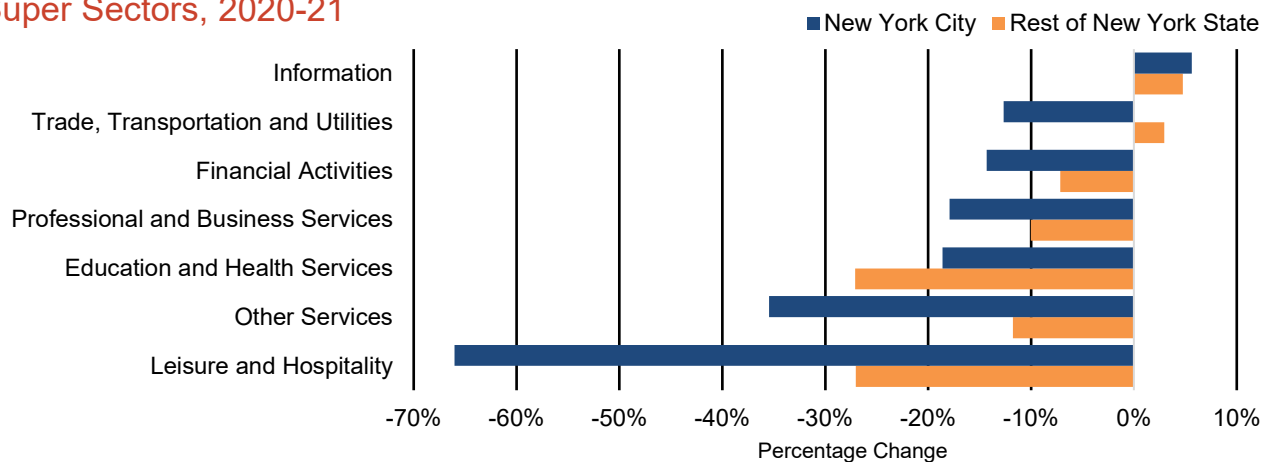
FIGURE 1
Total Taxable Sales Level and Year-Over-Year Change



Note: Sales tax year starts March of one year and ends February of the next year. Taxable sales for New York City are calculated using the City's tax base, while those for the rest of New York State are calculated using all other localities' or counties' tax bases.

Sources: NYS Department of Taxation and Finance; OSC analysis

FIGURE 2
Year-Over-Year Change in Taxable Sales by Service-Providing Super Sectors, 2020-21

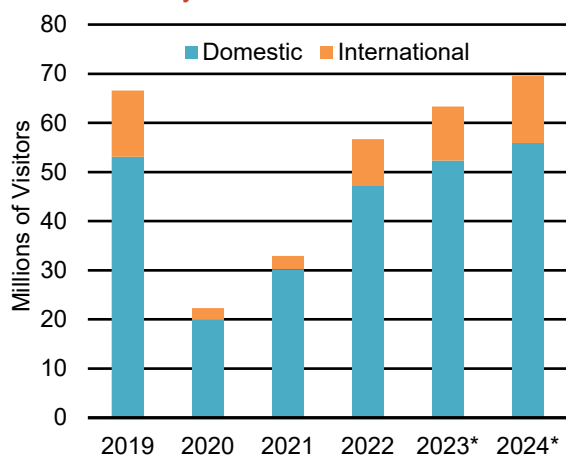


Note: Sales tax year starts March of one year and ends February of the next year. Public administration was excluded from this analysis. Sources: NYS Department of Taxation and Finance; OSC analysis

These super sectors suffered worse in New York City because its typically large [number of visitors dropped substantially](#) during the pandemic and has been slow to return to pre-pandemic levels (see Figure 3).⁷

Within trade, transportation and utilities, City transportation and warehousing taxable sales declined 47.8 percent to \$2.7 billion in sales tax

FIGURE 3
New York City Visitors



Note: 2023 and 2024 are forecasts. Sources: NYC & Company; OSC analysis

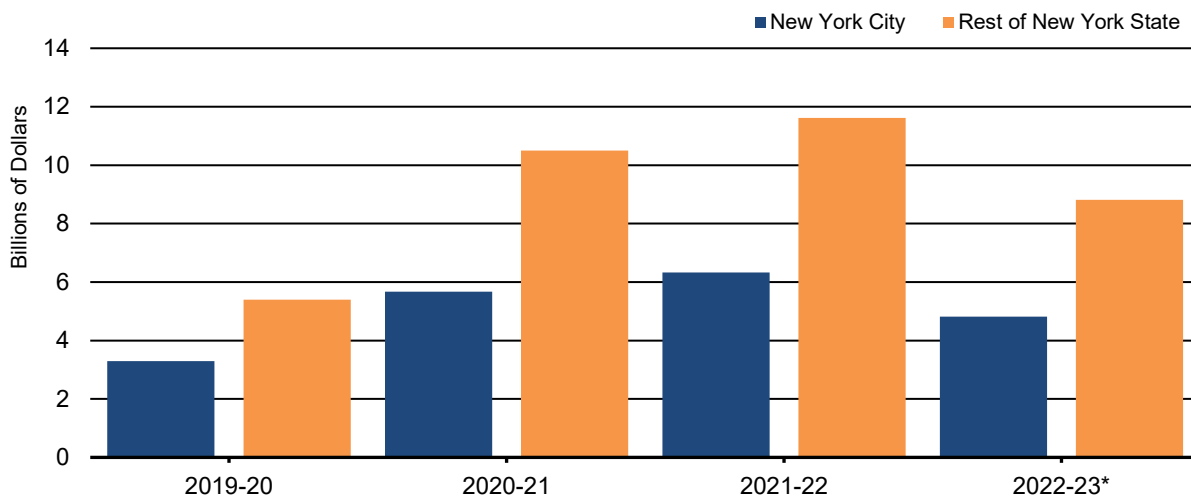
year 2020-21, as much of the passenger transportation sector was halted during the pandemic shutdowns and social distancing policies.⁸ Retail trade taxable sales also declined, by 11.9 percent to \$48.8 billion. A component of retail sales that was heavily affected by tourism declining was jewelry, luggage, and leather goods stores as foot traffic in key corridors in the City dropped by 90 percent.⁹

One component of the retail trade sector that has fared well is e-commerce, aided by remote work.¹⁰ In 2019, 126,921, or 46 percent of New York City residents who commuted outside the City had the ability to work remotely; 533,505 commuters working in the City, 53 percent of workers, had the ability to work remotely.¹¹ Part of the reason why the rest of the State fared better than the City in taxable sales was the shift in spending of people who used to commute but are now able to work from home. While the spending habits of office workers might include coffee, lunch, and shopping, those of at-home workers shifted, in part, to e-commerce. In sales tax year 2020-21, City e-commerce grew by 55.4 percent to reach \$10.1 billion, protecting retail taxable sales from further declines. Retail taxable sales fared better outside of the City during the

Changes to State Tax Law to Include Nexus and Marketplace

Two changes to New York State tax law may have contributed to approximately \$540 million in sales tax revenue for New York City over sales tax years 2019-20 and 2020-21 that it otherwise would not have collected. The first change was to the definition of “nexus,” or presence, from a physical location to a measure of sales made by vendors to New York residents. The second is a “marketplace” provision that enabled New York to capture sales taxes on out-of-State online purchases made in State from marketplace sellers. This provision especially benefited the rest of the State as consumption behavior shifted to online shopping from brick-and-mortar stores that shuttered (see Figure 4). The City’s marketplace share rose from 1.8 percent in sales tax year 2019-20 to 4.0 percent in sales tax year 2020-21.

FIGURE 4
Marketplace Nexus Levels of Total Taxable Sales



Note: Sales tax year starts in March of one year and ends February of the next year; 2022-2023 is year to date (Mar-Nov).
Sources: NYS Department of Taxation and Finance; OSC analysis; Office of the New York State Comptroller, *Local Sales Taxes Surge 49.2 Percent in April-June 2021 Over Same Quarter in 2020*, July 2021.

period, growing 3.4 percent, also propelled by e-commerce sales (85.1 percent).¹²

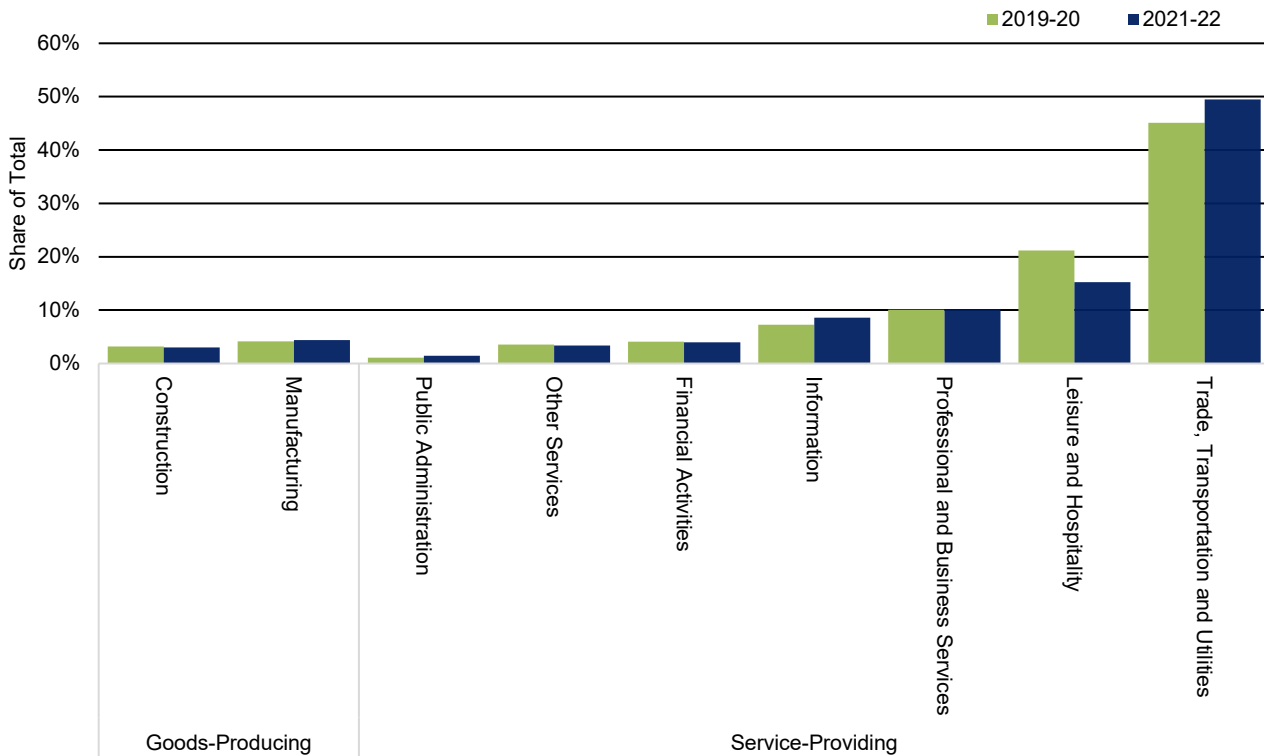
Strong Rebound in City Sales Due to Service-Providing Sectors

One year later, in the final quarter of sales tax year 2021-22, total taxable sales for both the City and the rest of the State recovered and exceeded pre-pandemic levels to reach record highs. The City’s taxable sales increased by \$43.2 billion (30.8 percent) to reach \$183.3 billion in sales tax year 2021-22, or 0.4 percent greater than the pre-pandemic level in 2019-20.

In sales tax year 2021-22 taxable sales in most sectors in the City exceeded pre-pandemic levels but some still lagged behind, including construction, financial services, leisure and hospitality and other services; in the rest of the State only education and health services lagged behind.

While both the City and the rest of the State recovered in sales tax year 2021-22, the sizes of the component shares of taxable sales shifted dramatically (see Figure 5). For example, leisure and hospitality taxable sales made up 15.2 percent of total taxable sales in the City in 2021-

FIGURE 5
Sector Share of Total Taxable Sales in New York City



Note: Sales tax year starts March of one year and ends February of the next year. Together, Natural Resources and Mining, and Education and Health Services comprise less than one quarter of a percent of total taxable sales and are not included here.
Sources: NYS Department of Taxation and Finance; OSC analysis

22 compared to 21.2 percent prior to the pandemic. During this period, City leisure and hospitality taxable sales increased significantly, by 112.3 percent, to reach \$27.9 billion as the sector recovered with the return of tourism (see Figure 6, next page). However, this figure was still 27.9 percent below pre-pandemic levels.

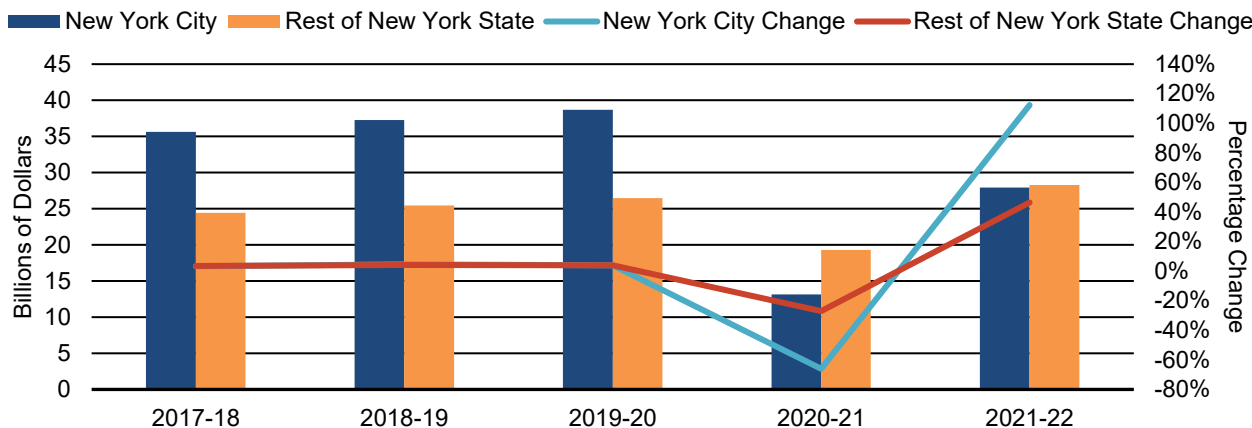
In the same period, City transportation and warehousing taxable sales grew 74.6 percent from 2020-21, but also remained 8.8 percent below pre-pandemic levels. Transportation sales growth was fueled by components such as local messengers and local delivery, which saw taxable sales dramatically increase 168.4 percent, to reach \$49.1 million.¹³

In sales tax year 2021-22, another important driver in the overall recovery was the growth of

retail taxable sales, which continued to be supported by strong e-commerce. City retail taxable sales grew 27.6 percent to reach a record \$62.3 billion. Rest of State retail taxable sales grew 17.3 percent to reach a record \$146.1 billion.

During sales tax year 2021-22, e-commerce growth slowed but remained strong, increasing 15.1 percent. E-commerce sales for the rest of the State slowed as well, growing only 8.3 percent, much smaller than the 85.1 percent growth experienced in sales tax year 2020-21. The e-commerce share of the City’s retail taxable sales has grown over time, going from 11.7 percent of retail taxable sales before the pandemic, from March 2019 to February 2020 to 20.6 percent during the pandemic, from March 2020-February 2021.

FIGURE 6
Leisure and Hospitality Taxable Sales



Note: Sales tax year starts March of one year and ends February of the next year.
 Sources: NYS Department of Taxation and Finance; OSC analysis

City Sales Continue to Outperform, Buoying State Sales Tax Collections

In the first three quarters, from March to November of sales tax year 2022-23, the City and the rest of the State experienced a slowdown from the significant growth in 2021-22, although the City’s growth was much stronger than the rest of the State’s. The City’s taxable sales increased 18.1 percent to reach \$158 billion whereas the rest of the State’s increased 4.6 percent to reach \$206.6 billion from 2021-22, partially driven by persistent inflation. Historically, growth prior to the pandemic has been between 3 percent and 5 percent, on average each year (see Figure 7, next page).

State sales tax collections, which reached record levels in 2021, began to experience slower growth, in step with taxable sales. June 2022 marked the first time since March 2021 that monthly year-over-year growth statewide fell below double digits, while citywide it continued to rise rapidly, by 24.9 percent.¹⁴ This difference persisted through the end of the year. Sales tax collections in the City in 2022 grew by 20.6 percent and those in the rest of the State grew by 6.5 percent.¹⁵ Between 2021 and 2022, the City’s share of sales tax collections statewide grew from

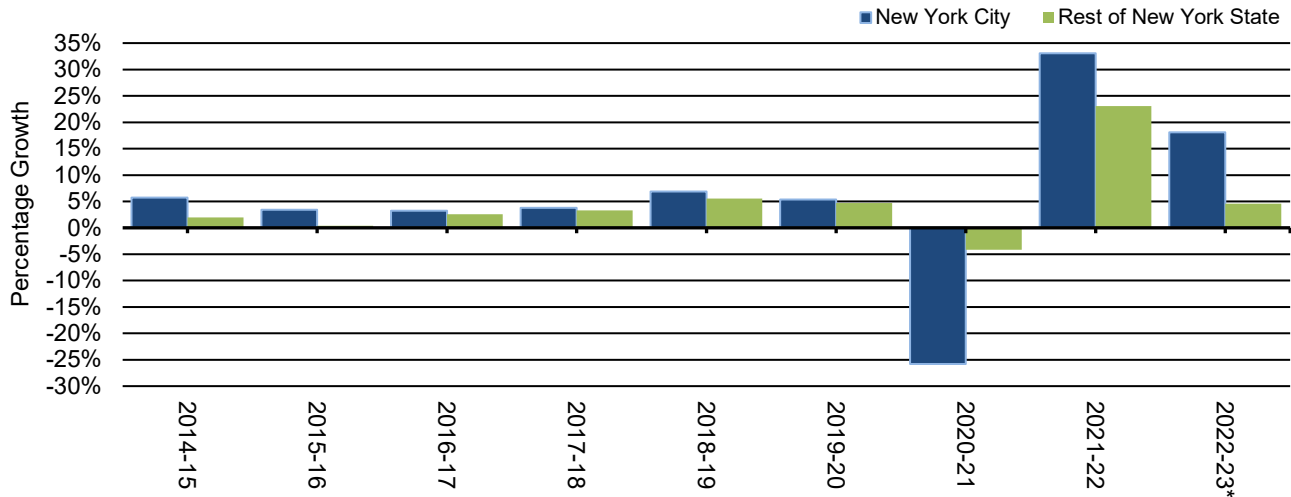
44 percent to 47.1 percent, suggesting the City is capturing a larger share of economic activity once again. In 2019, the share was 49.1 percent.

In the first three quarters of sales tax year 2022-23, City leisure and hospitality taxable sales grew 52.2 percent compared to a year earlier whereas those in the rest of the State grew only 9.5 percent. The City’s leisure and hospitality taxable sales are on pace to exceed pre-pandemic levels in sales tax year 2022-23 as current year-to-date taxable sales are 5.5 percent higher than the same period in sales tax year 2019-20.

Retail taxable sales for the City increased 8 percent to reach \$50 billion in the first three quarters of sales tax year 2022-23 compared to a year earlier and the rest of the State retail taxable sales saw a 1.2 percent increase.¹⁶ During the same period, City e-commerce taxable sales began to normalize, growing 4.1 percent. Still, from the first three quarters of sales tax year 2019-20 to the same period in sales tax year 2022-23, e-commerce taxable sales are more than double (108.9 percent). The year-to-date e-commerce share of City retail taxable sales is 17.8 percent, also greater than the pre-pandemic

FIGURE 7

New York City vs. Rest of New York State Total Taxable Sales (Year-to-Date Change)



Note: Sales tax year starts in March of one year and ends February of the next year; Year to date is Mar-Nov.
Sources: NYS Department of Taxation and Finance; OSC analysis

share, which was 10.4 percent in the first three quarters of sales tax year 2019-20.¹⁷

As New York City's overall taxable sales begin to normalize from their pandemic-fueled levels, various industry sectors, most notably leisure and hospitality, continue to recover their pandemic declines. While temporary shifts in consumption patterns boosted taxable sales in the trade, transportation and utilities, and information, sectors, both appear to have slowed in growth from the beginning of calendar year 2022 and are expected to slow further as the Federal Reserve remains steadfast in keeping rates elevated to quell stubborn inflation. As national retail sales growth slows from its double-digit paces of 2021, with March 2023 sales outpacing those from a year ago by a more moderate 2.9 percent, City retail sales, and thereby revenues, could see a return to historical growth rates following the next two fiscal years.

ENDNOTES

- ¹ Office of the New York State Comptroller (OSC), *The Office Sector in New York City*, Report 11-2022, October 2021, <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-11-2022.pdf>.
- ² Taxable sales and purchases are sales and purchases that are subject to State and local sales tax. Taxable sales and purchases are reported on a sales tax year schedule and the tax year starts in March and ends in February.
- ³ Taxable sales for the City and those for the State cannot be directly compared since they reflect different tax bases depending on the goods and services that are permitted to be taxed. Taxable sales for the City are more comparable to those for all other localities and counties, as local jurisdictions tend to tax goods and services in a similar manner.
- ⁴ U.S. Bureau of Labor Statistics defines goods-producing sectors as sectors that include Agriculture, Forestry, Fishing and Hunting (North American Industry Classification System (NAICS) 11); Mining, Quarrying, and Oil and Gas Extraction (NAICS 21); Construction (NAICS 23); and Manufacturing (NAICS 31-33). Service-providing sectors include Trade, Transportation, and Utilities (NAICS 22, 42, 44-45, 48-49); Information (NAICS 51); Financial Activities (NAICS 52,53); Professional and Business Services (NAICS 54,55,56); Education and Health Services (NAICS 61,62); Leisure and Hospitality (NAICS 71,72); Other Services, except Public Administration (NAICS 81); and Public Administration (NAICS 92).
- ⁵ Sales made by service-providing sectors comprise the vast majority of total sales because taxes are imposed at the point of sale. Sales tend to happen most frequently at retail trade establishments, which fall under service-providing sectors as defined by the U.S. Bureau of Labor Statistics. Goods-producing sectors, on the other hand, are less likely to sell products.
- ⁶ Super sectors as defined by the U.S. Bureau of Labor Statistics are a combination of related NAICS codes at the two-digit level, <https://www.bls.gov/sae/additional-resources/naics-supersectors-for-ces-program.htm>.
- ⁷ OSC, *The Tourism Industry in New York City: Reigniting the Return*, Report 2-2022, April 2021, <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-2-2022.pdf>.
- ⁸ OSC, *The Transportation and Warehousing Sector in New York City*, Report 5-2023, June 2022, <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-5-2023.pdf>.
- ⁹ OSC, *The Retail Sector in New York City: Recent Trends and the Impact of COVID-19*, Report 5-2023, June 2022, <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-8-2021.pdf>.
- ¹⁰ E-commerce falls under NAICS code 4541 or Electronic Shopping and Mail-Order Houses.
- ¹¹ OSC, *The Impact of Hybrid Work on Commuters and NYC Sales Tax*, October 2021, <https://comptroller.nyc.gov/wp-content/uploads/documents/The-impact-of-hybrid-work-on-commuters-and-NYC-Sales-Tax.pdf>.
- ¹² OSC, *Review of the Financial Plan of the City of New York*, Report 5-2022, June 2021, <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-5-2022.pdf>.
- ¹³ OSC, *The Transportation and Warehousing Sector in New York City*, Report 5-2023, June 2022, <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-5-2023.pdf>.
- ¹⁴ OSC, *DiNapoli: Local Sales Tax Collections Up Over 12% in Second Quarter of 2022*, July 27, 2022, <https://www.osc.state.ny.us/press/releases/2022/07/dinapoli-local-sales-tax-collections-over-12-second-quarter-2022>.
- ¹⁵ OSC, *Local Sales Tax Collections Grew by 12.7 Percent in 2022; New York City Growth Plays a Major Role*, February 2023, <https://www.osc.state.ny.us/files/local-government/publications/pdf/2022-annual-sales-taxes.pdf>.
- ¹⁶ OSC, *New York City Industry Sector Dashboards, Retail Sector*, <https://www.osc.state.ny.us/osdc/reports/nyc-sectors/retail>.
- ¹⁷ OSC, *Review of the Financial Plan of the City of New York*, Report 19-2022, March 2022, <https://www.osc.state.ny.us/files/reports/osdc/pdf/report-19-2022.pdf>.

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