

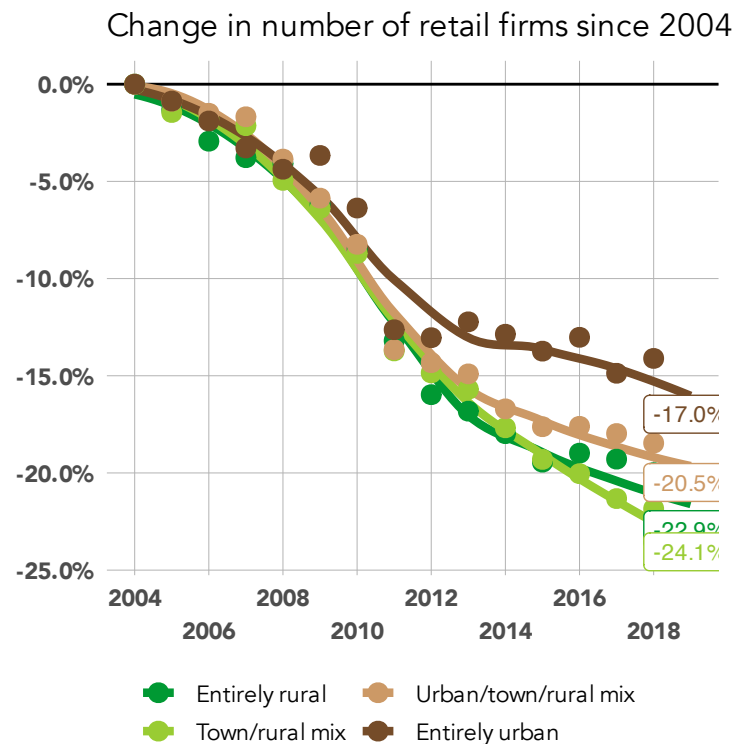
Amazon Effect on Rural Tax Revenues

Amazon Effect: What is it?

The Amazon Effect is the powerful disruption e-commerce has caused in the retail sector, putting downward pressure on retail prices and forcing brick-and-mortar retailers to invest in new strategies to draw in customers. It has caused many retail firms to close.

Amazon Effect: Why the concern?

Retail storefronts are declining in number across the state, with the largest decreases occurring in the more rural areas. These decreases have rural leaders concerned about two revenue sources: i) local option sales tax and ii) property taxes from commercial properties.



Data: MN Department of Revenue – Sales and Use Tax

The Good News So Far

In summary, the data support what our local leaders are seeing in rural areas: traditional brick-and-mortar retail storefronts are sitting vacant as consumers shift more of their shopping to online marketplaces and businesses. This isn't having a negative impact on county and municipal revenues yet, though, for two reasons:

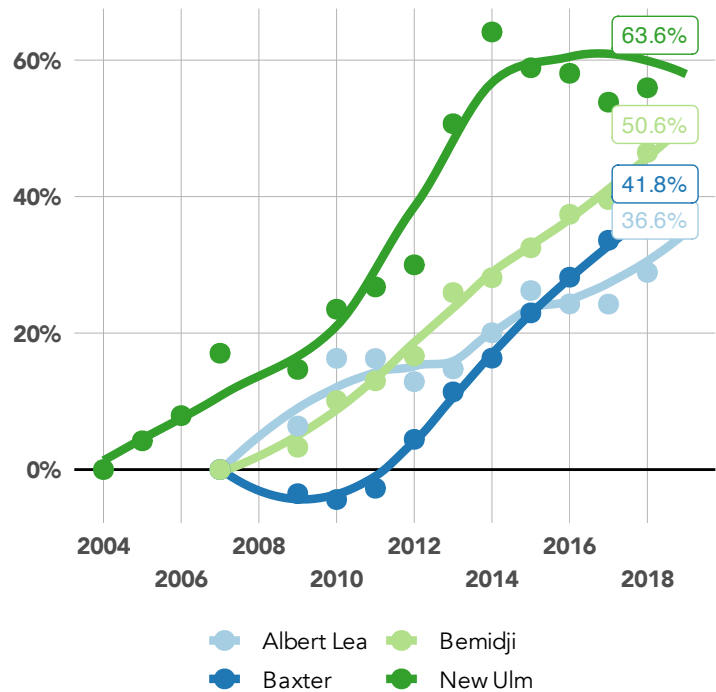
- Sales tax revenues:** The Minnesota Department of Revenue has developed a streamlined system that ensures online retailers are charging and remitting the appropriate taxes and that those tax revenues then trickle down to the appropriate government units. Since online sales continue to increase, it can be safely assumed that tax revenues will follow along.
- Property tax revenues:** Total gross retail sales continue to increase, and the retail storefronts that have survived are strong. Although the number of retail properties in our rural areas is still declining, growth in the values of other types of properties have more than made up for losses from commercial properties. In addition, commercial and retail property taxes make up a fairly small percentage of total property taxes in our rural areas.

Local-Option Sales Tax: Still growing

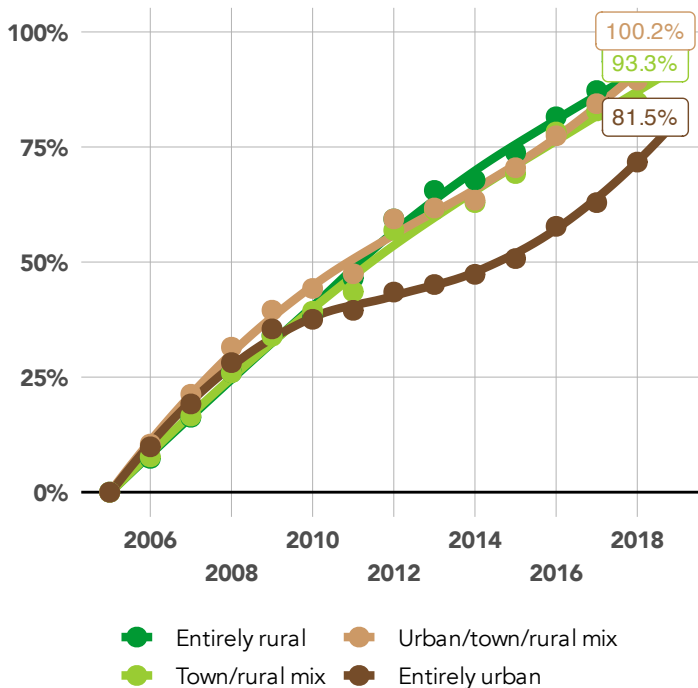
The data show that the Amazon Effect has had little negative impact on local-option sales tax revenues, and so far, our economic centers have continued to do well, given the pandemic.

In fact, academic literature points out that our most rural areas of the state, including some of our economic centers, may be positioned to see positive impacts from the shift in shopping behaviors.

Change in local option sales tax revenue



Change in total net property taxes



Property Taxes: Continued growth

Despite the decline in the number of retail firms in rural areas, property tax revenues continue to grow due to a couple of factors:

1. Other property types such as ag and forest lands, residential properties, and cabins and resorts have experienced significant growth in value, which has overcome any loss from a decline in commercial properties.
2. Retail properties make up a comparatively small percentage of the total property tax revenue pie.