



To: Finance & Administration Committee

From: Tim Sexton, Finance Director

Date: March 24, 2025

Subject: Municipal Grocery Tax

Overview:

Staff is seeking a recommendation from the Finance and Administration Committee on the proposal to establish a 1% municipal sales tax on grocery items to replace the current 1% grocery tax that the state eliminated, effective January 1, 2026.

Background:

The grocery tax in Illinois refers to the 1% sales tax on groceries that has been in place since the 1990 sales tax reform. The 1990 reform eliminated state taxation on groceries but allowed for a 1% grocery tax distributed to local governments. It also standardized tax collection, preventing a patchwork of local grocery taxes administered independently by municipalities. The proceeds of the tax are distributed to local governments by the state.

In 2024, Public Act 103-0781 was signed into law, eliminating the 1% sales tax on retail grocery sales, effective January 1, 2026. The law also grants municipalities the authority to implement a local sales tax on grocery items. Currently, the Village generates approximately \$1 million to \$1.3 million in annual revenue from this tax.

Each year during the budget process, staff updates the Multi-Year Financial Forecast (MYFF). Attached are two MYFF Charts presented at the 2025 Budget Workshop on September 5, 2024:

- **Chart A** includes the grocery tax revenue.
- **Chart B** reflects projections without \$1.3 million in annual grocery tax revenue.

As of February 2025, according to the Illinois Policy Institute, over 45 municipalities throughout the State have already passed an Ordinance to impose a local grocery tax to replace the state tax. Without this tax, local governments could face budget shortfalls. Downers Grove and Westmont both passed a 1% Grocery Tax Ordinance in February

2025 and additional municipalities in DuPage County are expected to establish this tax prior to January 1, 2026.

Village Board approval of an Ordinance would be required to impose a municipal grocery retailers' occupation tax and a municipal grocery service occupation tax (commonly referred to as a grocery sales tax) at a rate of 1%. This local tax is simply replacing the 1% state grocery tax that is being eliminated. Consumers will not see a difference in grocery prices due to the new local grocery tax. The State of Illinois will be administering the municipal grocery sales tax for all municipalities that have adopted a municipal grocery tax. The 1% tax would be imposed on the gross receipts on the sale of groceries at retail and the sales of service that include the transfer of groceries as an incident to the sale of service. A copy of the ordinance must be filed with the State prior to October 1, 2025, to ensure the effective date of January 1st.

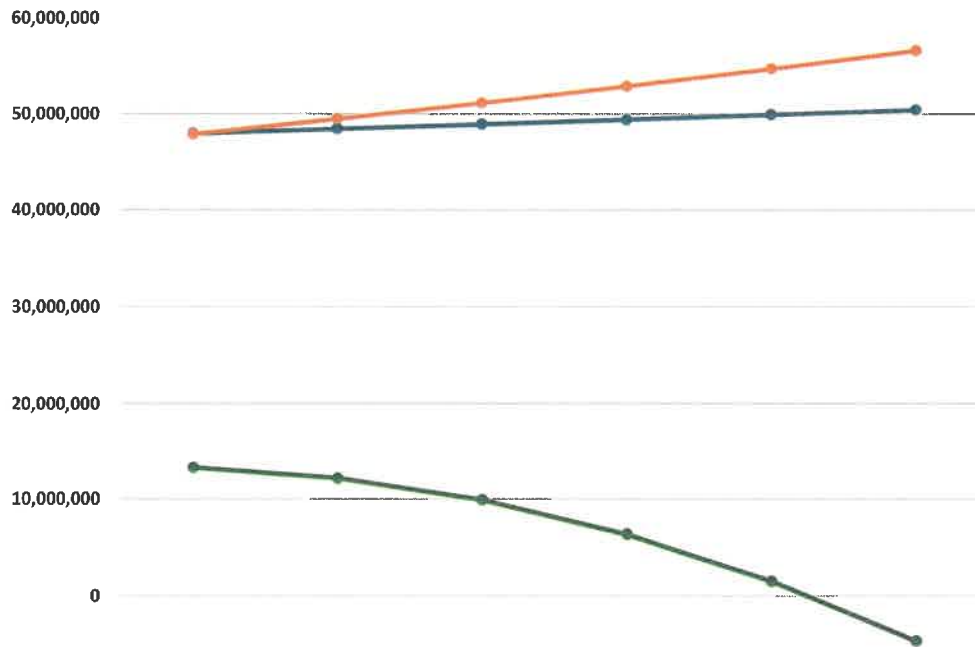
Recommendation:

Staff requests that the Finance & Administration Committee review and provide a recommendation to the Village Board regarding the proposed municipal sales tax on grocery items to replace the current 1% grocery tax that the state eliminated, effective January 1, 2026.

Chart A

PROJECTIONS (As of September 2024) WITH NO CHANGES
GROCERY TAX INCLUDED

Current 5 Year Financial Forecast



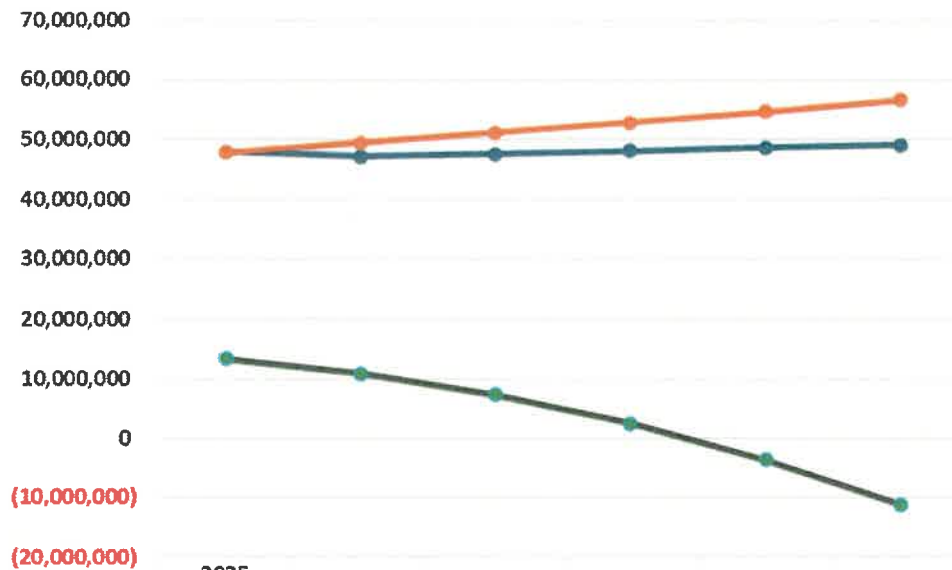
Forecast Assumptions - Conservative Budgeting	
<i>Property tax</i>	3.000%
<i>Sales Tax</i>	0.000%
<i>Utility Tax</i>	0.000%
<i>Interest</i>	3.000%
<i>Personnel</i>	4.000%
<i>Inflation</i>	3.000%
<i>Health Insurance</i>	7.500%
<i>Utilities</i>	3.000%

	2025 Budget - DPT	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
Revenue Total	47,994,960	48,453,570	48,926,030	49,412,620	49,913,900	50,430,240
Expense Total	47,954,300	49,549,280	51,215,140	52,955,400	54,773,710	56,674,000
Fund Balance	13,300,925	12,205,215	9,916,105	6,373,325	1,513,515	(4,730,245)

Chart B

PROJECTIONS (As of September 2024)
WITHOUT GROCERY TAX STARTING JANUARY 1, 2026

Current 5 Year Financial Forecast Without Grocery Tax



	2025 Budget - DPT	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
Revenue Total	47,994,960	47,153,570	47,626,030	48,112,620	48,613,900	49,130,240
Expense Total	47,954,300	49,549,280	51,215,140	52,955,400	54,773,710	56,674,000
Fund Balance	13,300,925	10,905,215	7,316,105	2,473,325	(3,686,485)	(11,230,245)

Forecast Assumptions - Conservative Budgeting	
<i>Property tax</i>	3.000%
<i>Sales Tax</i>	0.000%
<i>Utility Tax</i>	0.000%
<i>Interest</i>	3.000%
<i>Personnel</i>	4.000%
<i>Inflation</i>	3.000%
<i>Health Insurance</i>	7.500%
<i>Utilities</i>	3.000%

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Approved Grocery Tax Ordinance	
Per Illinois Policy Institute article 1/16/25, 46 Towns Have Passed A Grocery Tax. Is Your Town Next?	
Bannockburn	Martinsville
Bethany	Minooka
Burlington	Nokomis
Carlinville	Normal
Central City	Odell
Cerro Gordo	Odin
Cobden	Olney
Coffeen	Palatine
Diamond	Park City
Dixon	Pekin
East Peoria	Petersburg
Elizabeth	Raymond
Fairfield	Roberts
Farmer City	Sandoval
Fisher	Sherman
Georgetown	Smithton
Harrisburg	Southern View
Highland	Stockton
Hillsboro	Wabash County
Illioopolis	West Frankfort
Lexington	Williamsville
Marengo	Witt
Markham	
Recently Approved	
Downers Grove	2/11/2025
Westmont	2/20/2025

Others
Champaign chose to instead increase its sales tax starting in 2026
Wood Dale IL motion failed; January 16, 2025
Naperville July 1st sales tax increase from 7.5% to
Crystal Lake did a HR sales tax recently
Oswego is a no because they have bonds rolling off

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Frequently Asked Questions (FAQ) on Grocery Tax in Illinois

1. What is the grocery tax in Illinois?

The grocery tax in Illinois refers to the 1% sales tax on groceries that has been in place since the 1990 sales tax reform. The 1990 reform eliminated state taxation on groceries but allowed for a 1% grocery tax distributed to local governments. It also standardized tax collection, preventing a patchwork of local grocery taxes administered independently by municipalities. The proceeds of the tax are distributed to local governments by the state.

2. When is the state grocery tax ending?

The Illinois state grocery tax of 1% is set to be eliminated effective January 1, 2026, as per Public Act 103-0781, and provides municipalities the authority to enact a local sales tax on grocery items.

3. Will local governments impose their own grocery tax?

As of February 2025, according to the Illinois Policy Institute, over 45 municipalities throughout the State have already passed an Ordinance to impose a local grocery tax to replace the state tax. Without this tax, local governments could face budget shortfalls. Downers Grove and Westmont both passed a 1% Grocery Tax Ordinance in February 2025 and additional municipalities in DuPage County are expected to establish this tax prior to January 1, 2026.

4. Do municipalities currently have the authority to impose grocery taxes?

Under current law, municipalities do not have the authority to impose grocery taxes unless granted by state legislation. The new law allows municipalities to establish their own grocery tax up to 1%, starting in 2026.

5. Will consumers see a difference in grocery prices due to the new local grocery tax?

NO, consumers are already paying the 1% state grocery tax. The local tax is simply replacing the state tax.

6. How will the revenue from the grocery tax be used?

The Village of Lombard relies on the revenue from grocery taxes to help fund essential services such as police and fire departments, public works, and infrastructure projects.

7. What would happen if the Village of Lombard chose not to implement a grocery tax?

If the Village does not implement a grocery tax, it will lose approximately \$1 million - \$1.3 million in annual revenue, potentially leading to budget cuts and reduced services.

8. How will the municipal grocery tax be collected?

The Illinois Department of Revenue (IDOR) will administer and collect the municipal

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grocery sales tax on behalf of municipalities that enact it, ensuring a streamlined process for retailers.

9. How do municipalities enact a local grocery tax?

To implement a grocery tax, municipalities must pass an ordinance and submit it to the state by October 1, 2025, to ensure it takes effect on January 1, 2026.