

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: June 10, 2025

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Director of Finance

Topic: Locally Imposed Grocery Sales Tax

PURPOSE

On August 5, 2024, Illinois Governor J.B. Pritzker signed legislation repealing the 1% State of Illinois Grocery Tax, which is currently collected by the State and distributed to local governments. The tax repeal will go into effect on January 1, 2026. Homewood receives approximately \$650,000 annually from this tax.

Embedded within the language of the same legislation, municipalities are allowed to enact a replacement local sales tax on grocery items. Staff is requesting the Village Board consider passing an ordinance approving the implementation of a 1% local grocery sales tax effective January 1, 2026.

PROCESS

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 that is distributed exclusively to local governments.

Effective January 1, 2026, Illinois Public Act 103-0781 provides that the Illinois grocery tax of 1%, which is currently collected by the State and distributed to local governments, is scheduled to be eliminated. The Act simultaneously allows municipalities to enact a replacement local sales tax on grocery items. As a result of the State's decision to eliminate the grocery tax, it is estimated the direct impact would be \$650,000 annually to the Village's General Fund revenues. That is approximately 11% of the Village's total sales tax revenue.

Staff is recommending the Board implement a 1% local grocery tax to replace the loss of the State grocery tax to prevent the loss of \$650,000 in annual sales tax revenue that would create a budget deficit of \$490,000, absent any adjustments to local funding. This deficit would directly impact essential Village services.

If approved, Homewood would join a growing list of 188 communities to pass the 1% grocery sales tax, including the communities of Chicago Heights, Markham, Tinley Park, Orland Park,

VILLAGE OF HOMEWOOD



Crestwood, Blue Island, Wheaton, Lombard, Downers Grove, Woodridge, Carol Stream, Schaumburg, Des Plaines, and Buffalo Grove.

The ordinance implementing this local grocery tax includes the two categories listed below. Although at first glance it may appear to be more than a 1% tax, each type of sale would only be taxed under one of these categories, for a maximum of 1%.

Municipal Grocery Retailers' Occupation Tax

This tax applies to businesses that sell groceries at retail. Specifically:

- It imposes a **1% tax on the gross receipts** from the sale of groceries.
- It targets traditional retail transactions—i.e., when a customer purchases groceries directly from a store.
- The tax is collected by the Illinois Department of Revenue and remitted to the municipality where the sale occurred.

Municipal Grocery Service Occupation Tax

This tax applies to businesses that provide services and, as part of that service, transfer groceries to the customer. For example:

- It imposes a **1% tax on the selling price** of groceries transferred incidentally during a service.
- It targets service providers (like caterers or meal prep services) who include groceries as part of their offering.
- Like the Retailers' tax, it is administered by the Illinois Department of Revenue.

| | Retailers' Occupation Tax | Service Occupation Tax |
|-----------------------|-----------------------------------|---|
| Applies to | Grocery retailers | Service providers transferring groceries |
| Tax base | Gross receipts from grocery sales | Selling price of groceries transferred during service |
| Rate | 1% | 1% |
| Administration | Illinois Department of Revenue | Illinois Department of Revenue |

Consumers wouldn't notice a difference in grocery prices as a result of the new local grocery tax since the proposed local tax is simply replacing the State tax that is currently in effect, but is being repealed. Current revenues from the State help fund essential operations such as police and fire services, public works, and administration. Revenues from the local grocery tax replacement would ensure that the high quality of these services continues for our residents and visitors.

VILLAGE OF HOMEWOOD



The Village would need to notify the Illinois Department of Revenue (IDOR) by October 1, 2025 that it has enacted the tax locally. IDOR would then administer and collect the municipal grocery sales tax on behalf of Homewood to ensure a streamlined process for retailers, then remit the funds back to the Village.

OUTCOME

Approval of the ordinance will allow the Village to preserve critical General Fund revenues that support essential Village services.

FINANCIAL IMPACT

- **Funding Source:** N/A
- **Budgeted Amount:** N/A
- **Cost:** N/A

LEGAL REVIEW

Completed

RECOMMENDED BOARD ACTION

Pass an ordinance approving the implementation of a 1% municipal grocery retailers' occupation tax and a 1% municipal grocery service occupation tax effective January 1, 2026. *Although at first glance it may appear to be more than a 1% tax, each type of sale would only be taxed under one of these categories, for a maximum of 1%.*

ATTACHMENT(S)

- Ordinance
- List of Illinois municipalities that have implemented a local grocery tax