

Continuation of the 1% Grocery Tax

Michael Hall (City Manager)



Agenda

- What is the history of the 1% Grocery Tax?
- What does the 1% grocery tax cover?
- How much does an average household spend on groceries?
- How Much Actual Revenue Does the City Receive From the 1% Grocery Tax?
- What Would Be the Impact on City Services and Residents if This Revenue Source Were Eliminated?
- What is the recommendation for continuation of the grocery tax?
- Does the City Council want staff to draft an ordinance or resolution to continue the 1% Grocery Tax?



History of the Grocery Tax



State of Illinois implemented the 1% grocery tax as part of the state sales tax in 1980.



On August 5, 2024, the Governor signed legislation repealing the state 1% grocery tax.



100% of the state grocery tax was going directly to local governments. If the City Council decides to continue the tax, then the state will receive a 3% administration fee.



While the law reduces the state grocery tax starting on January 1st, 2026, it authorizes municipalities to continue the 1% grocery tax without referendum by municipal ordinance or resolution.

What Does the 1% Grocery Tax Cover?

Items Subject to the 1% Grocery Tax

- Unprepared foods:** Items like fresh fruits and vegetables, uncooked meats, dairy products, and packaged foods intended for home preparation.
- Staple groceries:** Bread, cereals, rice, pasta, and similar items that are not ready-to-eat.
- Non-carbonated bottled water:** Plain bottled water without added flavors or sweeteners.

Items Taxed at the Standard 6.25% Rate

- Prepared foods:** Ready-to-eat meals, hot foods, and any food items prepared for immediate consumption.
- Candy and soft drinks:** Items classified as candy (without flour and requiring no refrigeration) and beverages containing added sweeteners.
- Alcoholic beverages:** All forms of alcohol, regardless of packaging.
- Cannabis-infused products:** Edibles and other consumables containing cannabis.

How much does an average household spend on groceries?



According to the U.S. Bureau of Labor Statistics, the average annual grocery spending per household is \$6,053, or about \$504 per month.



Assuming \$200/week on groceries (\$800/month), annual spending would be \$10,400— which is higher than Labor Statistics' estimate.



At 1%, the grocery tax would be \$104/year or \$8.66/month per household.



\$104 per year multiplied by approximately 7,000 households in Sycamore would be \$720,000

How Much Actual Revenue Does the City Receive From the 1% Grocery Tax?

City of Sycamore

2022 - \$750,336.27

2023 – \$719,798.41

2024 – \$719,726.96

City of Dekalb

2022 – \$709,611.81

2023 – 727,817.35

2024 – 736,358.36

What Would Be the Impact on City Services and Residents if This Revenue Source Were Eliminated?

\$720,000 represents approximately 3% of the City's annual \$24 Million-dollar General Fund budget.

\$720,000 would be equivalent to 5 to 6 full-time employees fully burdened.

Employees make up approximately 70% of the annual budget.

What is the recommendation for continuation of the grocery tax?

This tax has been in place since 1980 and accounts for 3% of the City's revenue or approximately \$720,000 per year

The annual cost per family is approximately \$104 per year or \$8.66 per month

Given these facts the recommendation is to continue the 1% grocery tax.

Are there any questions?

This must be approved before October 1st and submitted to the state to take effect by January 1, 2026, when the current state 1% grocery tax expires.
