



CITY OF WASHINGTON, ILLINOIS City Council Agenda Communication

Meeting Date: March 3, 2025

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Agenda Item: Local Grocery Tax Adoption Consideration

Explanation: In 2024, the State legislature approved the elimination of the 1% statewide tax on grocery sales. This becomes effective on January 1, 2026. This permanent repeal of the tax followed a temporary repeal in 2022, though municipalities continued to be reimbursed from the State's General Revenue Fund, which ensured there was no financial shortfall. The elimination of the tax that becomes effective on January 1 does not include replacement funding from the State.

Home rule and non-home rule municipalities have the authority to implement a local 1% grocery sales tax by ordinance. In order for a local grocery sales tax to become effective on January 1, 2026, and not lose the corresponding revenue, an ordinance must be approved and a certified copy of that must be filed with the Illinois Department of Revenue by October 1, 2025. Attached is a model ordinance drafted by the Illinois Municipal League (IML) that could be used for approval should that be the direction given by the City Council. Dozens of municipalities around the state have approved an ordinance to date. Locally, Normal, Pekin, and Peoria have adopted local grocery tax ordinances.

Fiscal Impact: The State does not provide a detailed breakdown of sales tax revenues that are remitted to municipalities for businesses that at least partially sell groceries. Staff has estimated that the City's grocery stores collectively generate approximately \$500,000 annually. This is a reliable revenue source that can assist with expenses such as infrastructure investments or public safety. The grocery stores in the city limits are frequented both by residents and non-residents. According to site analytics data, Kroger had approximately 35% of its customers over the past year drive from at least four miles from the store, which would cover all non-residents. Staff suspects that this percentage would be slightly lower for Lindy's but higher for Walmart.

Staff takes a conservative approach to revenue and as such for budget purposes, the 2026 proposed budget reflects the potential loss to sales tax revenue for the four-month period should the local grocery tax not be approved to take effect on January 1, 2026.

Action Requested: No action is requested at the current time. Staff seeks initial discussion and direction at the March 3 Council meeting regarding the possible placing of a local grocery tax ordinance on a future Council agenda for adoption.

ORDINANCE NO. _____

AN ORDINANCE IMPLEMENTING A MUNICIPAL GROCERY RETAILERS' OCCUPATION TAX AND A MUNICIPAL GROCERY SERVICE OCCUPATION TAX FOR THE CITY OF WASHINGTON

WHEREAS, the Illinois Municipal Code, 65 ILCS 5/1-2-1, provides that the corporate authorities of each municipality may pass all ordinances and make all rules and regulations proper or necessary, to carry into effect the powers granted to municipalities, with such fines or penalties as may be deemed proper; and,

WHEREAS, the City of Washington ("City") is a home rule Illinois municipality pursuant to the Constitution of the State of Illinois of 1970, as amended; and,

WHEREAS, Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24) provides that, beginning on January 1, 2026, all Illinois municipalities may impose a tax "upon all persons engaged in the business of selling groceries at retail in the municipality" (the "Municipal Grocery Tax") (65 ILCS 5/8-11-24); and,

WHEREAS, the Municipal Grocery Retailers' Occupation Tax may be imposed "at the rate of 1% of the gross receipts from these sales" (65 ILCS 5/8-11-24); and,

WHEREAS, any Municipal Grocery Retailers' Occupation Tax shall be administered, collected and enforced by the Illinois Department of Revenue; and,

WHEREAS, Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24) requires any municipality imposing a Municipal Grocery Retailers' Occupation Tax under Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24) to also impose a Service Occupation Tax at the same rate, "upon all persons engaged, in the municipality, in the business of making sales of service, who, as an incident to making those sales of service, transfer groceries" as "an incident to a sale of service" (the "Municipal Grocery Service Occupation Tax") (65 ILCS 5/8-11-24); and,

WHEREAS, any Municipal Grocery Service Occupation Tax shall be administered, collected and enforced by the Illinois Department of Revenue; and,

WHEREAS, the City Council believes that it is appropriate, necessary and in the best interests of the City and its residents, that the City levy a Municipal Grocery Retailers' Occupation Tax as permitted by Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24); and,

WHEREAS, the City Council believe that it is appropriate, necessary and in the best interests of the City and its residents, that the City levy a Municipal Grocery Service Occupation Tax as permitted by Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24); and,

NOW, THEREFORE, be it ordained, by the City Council as follows:

Section 1. Incorporation of Recitals. The foregoing recitals shall be and are hereby incorporated as findings of fact as if said recitals were fully set forth herein.

Section 2. Municipal Grocery Retailers' Occupation Tax Imposed. A tax is hereby imposed upon all persons engaged in the business of selling groceries at retail in this municipality at the rate of 1% of the gross receipts from such sales made in the course of such business while this Ordinance is in effect. The imposition of this tax is in accordance with and subject to the provisions of Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24).

Section 3. Municipal Grocery Service Occupation Tax. A tax is hereby imposed upon all persons engaged in this municipality in the business of making sales of service, who, as an incident to making those sales of service, transfer groceries as an incident to a sale of service. The rate of this tax shall be the same rate identified in Section 2, above. The imposition of this tax is in accordance with and subject to the provisions of Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24).

Section 4. Illinois Department of Revenue to Administer Both Taxes. The taxes hereby imposed, and all civil penalties that may be assessed as an incident thereto, shall be collected and enforced by the Department of Revenue of the State of Illinois. The Illinois Department of Revenue shall have full power to administer and enforce the provisions of this Ordinance.

Section 5. Clerk to file Ordinance with Illinois Department of Revenue. As required under Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24), the Clerk is hereby directed to file a certified copy of this Ordinance with the Illinois Department of Revenue on or before October 1, 2025.

Section 6. Effective Date. The taxes imposed by this Ordinance shall take effect on the later of: (i) January 1, 2026; (ii) the first day of July next following the adoption and filing of this Ordinance with the Department of Revenue, if filed on or before the preceding April 1st; or, (iii) the first day of January next following the adoption and filing of this Ordinance with the Department of Revenue, if filed on or before the preceding October 1st.

Section 7. Repeal of Conflicting Provisions. All ordinances, resolutions and policies or parts thereof, in conflict with the provisions of this Ordinance are, to the extent of the conflict, expressly repealed on the effective date of this Ordinance.

Section 8. Severability. If any provision of this Ordinance or application thereof to any person or circumstances is ruled unconstitutional or otherwise invalid, such invalidity shall not affect other provisions or applications of this Ordinance that can be given effect without the invalid application or provision, and each invalid provision or invalid application of this Ordinance is severable.

Section 9. Headings/Captions. The headings/captions identifying the various sections and subsections of this Ordinance are for reference only and do not define, modify, expand or limit any of the terms or provisions of the Ordinance.

Section 10. Publication. The Clerk is directed by the corporate authorities to publish this Ordinance in pamphlet form. This Ordinance shall be in full force and effect after its passage and publication in accordance with 65 ILCS 5/1-2-4.

PASSED THIS _____ day of _____, 2025.

AYES: _____

NAYS: _____

ABSTENTIONS: _____

ABSENT: _____

Mayor

ATTEST:

City Clerk