

Non-Home Rule Sales Tax Could Be A Great Funding Option for Your Community

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For a growing list of Illinois municipalities, financial difficulties continue to hinder their ability to deliver the most fundamental public service and program needs, including basic infrastructure upkeep. More often than not, potential remedies to these financial difficulties include some form of increased taxes, service charges or user fees. This can present a challenging scenario for many non-home rule communities which have more limited taxation and revenue raising capabilities compared to home rule units of local government. There is, however, one financial bright spot available to non-home rule communities. Public Act 91-0649, originally became effective for non-home rule communities on January 1, 2000, and was further broadened by the Illinois General Assembly in 2003.

Public Act 91-0649 initially provided an avenue for non-home rule communities to impose an additional ½% retail sales tax to be collected on most merchandise sold within a municipality's corporate limits beginning in January of 2002. It required that the additional ½% sales tax be authorized through a voter referendum, and that the additional funds generated by the sales tax be utilized for public infrastructure improvements. The Act further specified such infrastructure improvements as municipal roads and streets, access roads, bridges, sidewalks, waste disposal systems, water and sewer line extensions, water distribution and purification facilities, storm water drainage and retention facilities and sewage treatment facilities.

In January of 2003, The Illinois General Assembly afforded municipalities more flexibility by broadening the original legislation when Public Act 92-0739 became law. Modifications to the original act included the option for municipalities to impose the additional retail sales tax in ¼% increments (up to the original ½% maximum) while expanding use of the additional revenue to also include property tax relief. The Act defines property tax relief as the action of a municipality to reduce the levy for real estate taxes or avoid an increase in the levy that would have otherwise been required. According to the Act, property tax relief, or the avoidance of property tax, must uniformly apply to all classes of property.

Some portions of the act have remained consistent since its original adoption by the General Assembly in 2000. For example, there are three basic retail categories which are not

subject to this additional sales tax. The first exemption includes the sale of food (i.e. groceries) purchased for consumption at a location other than the premise where it is sold. This exemption does not include alcoholic beverages, soft drinks and food which is actually prepared for immediate consumption (such as catered or restaurant foods). The second exclusion is for prescription and non-prescription medicines, drugs, and specific medical appliances as further defined in the act. Third, tangible personal property including motor vehicles, trucks, RVs, boats, trailers, motorcycles and other items which are titled and registered by any Illinois State Agency are also exempt from this additional sales tax. Generally speaking, the Act was drafted to exclude most groceries, prescriptions, medical supplies as well as large titled items such as vehicles, boats, and so forth.

One other nuance of this legislation requires that a municipality seeking implementation of the sales tax, simultaneously seek referendum approval for both a retail occupation and service occupation tax. As such, communities are also required to impose the sales tax on any merchandise that accompanies the provision or sale of a service occupation. An auto repair facility providing both labor and parts for the repair of a motor vehicle is a good example. In this instance, the labor or service would not be subject to the additional sales tax but any repair parts utilized would be subject to the additional sales tax. Therefore, if your car was repaired and the labor was \$200 with \$50 in repair parts, the \$50 for parts would be subject to the additional sales tax imposed through referendum. Below are some examples of items that are both included and excluded from this additional sales tax.

<u>Examples of Included Taxable Items</u>	<u>Examples of Excluded Items Not Taxed</u>
<ul style="list-style-type: none"> ◆ Gasoline ◆ Alcohol ◆ Tobacco ◆ Dine In & Carry Out ◆ Soft Drinks ◆ Pet Food & Supplies ◆ Household Hardware ◆ Cleaning Supplies & Detergents ◆ Toilet Paper & Tissues ◆ Cosmetics ◆ Car Parts ◆ Catered Foods 	<ul style="list-style-type: none"> ◆ Groceries & food purchased for later preparation and consumption ◆ Prescriptions, non-prescription and over the counter products such as aspirin, medicated products, corrective eyewear, braces, crutches, walkers, etc. ◆ Vehicles, R.V's, boats, snowmobiles, trailers and other items titled and registered by a State agency ◆ Service occupations such as laundry and dry cleaning, video rental. ◆ Any labor or service where no property exchanges hands ◆ Professional Services such as Attorneys and Accountants

Having said all this, the Village of Mokena is one of more than 30 Illinois non-home rule municipalities that have taken advantage of this legislation by authorizing up to a ½% sales tax. In April of 2001, Mokena voters approved a referendum authorizing the Village to implement this important funding mechanism beginning in January of 2002. Since voter approval of the ½% sales tax, the Village of Mokena has earmarked all funds generated by the tax for local transportation improvement projects. With approximately \$900,000 in revenue projected to be generated annually over the next five years, the Mokena Village Board authorized the sale of \$10,000,000 in General Obligation Alternate Source Revenue Bonds in April of 2004. Mokena is currently utilizing bond sale proceeds, for two large-scale road projects that are under construction while several other projects are in varying design and right-of-way acquisition stages.

These projects would not be a reality today without funding from the ½% non-home rule sales tax approved through voter referendum. The non-home rule sales tax could prove to be an excellent revenue source for municipalities desiring to make infrastructure improvements, advance some form of property tax relief or a combination of both. Specific detail regarding this non-home rule sales tax can be found in 65 ILCS 5/8-11-1.1 through 5/8-11-1.5. ■

John Downs currently serves on the IML Managers Committee.