

Revenue Option Analysis: Local Grocery Tax Replacement

City of Chicago

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City of Chicago
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Local Grocery Tax Replacement: Revenue Analysis

In August 2024, the State of Illinois [revoked](#) the statewide 1% tax on groceries, effective January 1, 2026. The same law authorized municipalities in Illinois to pass a 1% local replacement of the tax as it goes into effect after the end of the state tax. The City of Chicago could implement a replacement of the Illinois grocery tax, ensuring continuity of a revenue stream previously transferred to the City without creating a new cost from a consumer perspective

Context

Public Act 103-0781 [repealed](#) the sales and use tax on “food for human consumption that is to be consumed off premises where it is sold.” “Food for human consumption” excludes alcoholic beverages, food consisting of or infused with adult use cannabis, soft drinks, candy, and food that has been prepared for immediate consumption. Ten states now [impose](#) a tax on groceries, while [three](#) allow local governments to impose the tax. In the absence of the grocery tax, the statewide sales tax of 6.25% will remain for food items except for food prepared for immediate consumption by certain licensed entities.

The grocery tax exists within Illinois’ larger [sale and use taxes](#), which have generated billions in revenue over the years – with FY 2023 collecting nearly \$10.5 billion in sales and use tax revenue. The 1% tax on groceries was created in 1990, and while local governments were prohibited from levying local grocery taxes, proceeds collected by the state were transferred to municipalities and counties via the Local Government Tax Fund. Prior to the repeal of the grocery tax, Illinois suspended it from July 2022 to June 2023.

If municipalities choose to levy the grocery tax locally, the Illinois Department of Revenue will still be responsible for collecting any municipal local sales tax on groceries. As such, municipalities must consider the State’s fiscal year when considering passing its tax. For municipalities that wish to have a replacement tax effective January 1, 2026, municipalities [must submit a passed ordinance](#) authorizing the tax by October 1, 2025. Municipalities are allowed to implement the tax even if they wait to pass an ordinance beyond October. However, local governments should note implications of state collection for timing of receiving revenue – for example, ordinances must be submitted to the State by April 1, 2026 to begin collections on July 1, 2026.

Many cities and townships across Illinois have already passed a 1% replacement tax. [Approximately 50 to 60](#) localities decided to implement a local grocery tax as of May 1, 2025, including [many conservative downstate entities](#). The City of Chicago has not yet introduced an ordinance to replace the state tax.

Estimated revenue

In FY 2023, annual revenues for Chicago, as transferred from the state, from the statewide grocery tax was [\\$50,262,061](#). The Illinois Municipal League estimates Chicago would see a loss of [\\$60 – \\$80 million](#) in revenue in FY 2026 without replacing the tax. The following provides a conservative estimate of annual tax revenue in 2026 from a 1% tax on groceries in the City of Chicago. Continued inflation and implications of federal economic policies not yet reflected in federal data collections introduces challenges for estimating future expenditure on groceries.

Estimate for annual grocery tax revenue for City of Chicago in 2026

Average U.S. Household At-Home Annual Food Expenditure, 2026*	\$6,410
Chicago Households**	1,146,547
Total Grocery Expenditure, 2026	\$7,349,366,270
Grocery Tax	1%
Tax Revenue, 2026	\$73,493,662

*Assumptions for average U.S. household at-home food spending annually:

- Average U.S. household at-home food expenditure [\\$6,053 annually in 2023](#). Chicago metropolitan statistical area [spends 60.9%](#) of annual household budget on at-home food compared to 60.8% national average, thus per average household spending estimates are conservative.
- Projected cost of at-home food in 2026 is a **5.9%** price increase from 2023 (\$357.127 annually). This assumes: March 2024, annual CPI [1.1% change](#); March 2025, annual CPI [2.4% change](#); continuation of current annual CPI of 2.4% between 2025 - 2026 prices. However, with month-over-month increases throughout 2025 thus far, and effects of April 2025 tariffs not yet reflected in national data, 2.4% annual inflation estimate for remainder of 2025 is likely an underestimation.

**Latest [U.S. Census Bureau](#) data, 2019-2023 period

Implementation

Little will change regarding the implementation of a local replacement for the existing state grocery tax. The Illinois Department of Revenue will continue to collect the tax from retailers and distribute the revenue to the City.

Responsible departments

- **Illinois Department of Revenue:** continued collection and distribution of grocery tax revenue
- **City of Chicago Department of Finance:** responsible for managing intergovernmental transfers, including transfers from the State of Illinois

Discussion

Proponents

The grocery tax has long been incorporated into Chicagoans' expenditures and budgets. If the City can pass a grocery tax replacement before October 1, 2025, consumers will see no change in grocery expenditure due to the tax. If the City does not choose to levy a local replacement, it will experience a loss in tax revenue; passing a 1% local grocery tax will enable the City to maintain levels of tax revenue without needing to identify new or enhanced ways to replace lost funds.

Opponents

The grocery tax is considered a regressive tax, taking a larger percentage of income from lower-income households than higher-income households. Groceries are a necessity, making the tax unavoidable even if households operate on tight budgets. Further, the current economic environment is experiencing a period of instability. With persistent high inflation, continued economic recovery from the COVID-19 pandemic,

and forthcoming effects of new federal policies, households may experience increasing economic burden in coming months. Allowing the elimination of an additional tax on necessary expenses like groceries can help alleviate strains on household spending.

Concluding commentary

The City of Chicago faces a \$1.1 billion budget gap entering FY 2026, according to [projections](#) from the Mayor's Office of Budget and Management. Forgoing a local replacement of the current statewide grocery tax would create an additional need for new or enhanced revenue sources to ensure a balanced budget. Alternatively, as a home-rule municipality, the City could choose to increase a variety of other taxes to fill the loss of the state transfer of tax revenue from groceries.