



# The Civic Federation

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## SELECTED CONSUMER TAXES IN THE CITY OF CHICAGO

*A compilation of selected consumer taxes, including rates and descriptions, in  
place in the City of Chicago as of July 1, 2017*

**February 6, 2017**

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## INTRODUCTION

This annual report lists and describes selected consumer taxes within the City of Chicago. For ease of use by non-specialists, the taxes in this report are grouped under the following categories: sales taxes, tobacco-related taxes, beverage-related taxes, utility-related taxes, accommodations-related taxes, transportation-related taxes and other taxes. It is important to note for tax professionals that the groupings are not related to how the taxes are imposed or collected, but are simply for ease of use by the general public. The effective date of July 1, 2017 is used for this report because several new taxes will go into effect on different dates in 2017. A summary of these new taxes can be found on page 7 of this report.

The taxing authorities that impose taxes on consumers in the City of Chicago include the federal government, State of Illinois, Cook County, City of Chicago, Regional Transit Authority, Metropolitan Pier and Exposition Authority and Illinois Sports Facilities Authority. The selected tax rates imposed by each of these units are shown in the table on the next page.

It is important to note that many taxes are subject to the general sales tax in addition to excise taxes on certain goods (e.g. alcohol tax and motor fuel tax, etc.).

### City and County Tax Categorization

For the purposes of this report, taxes for Cook County and the City of Chicago have been organized into two categories: *municipal* or *county* and *home rule*.

*Municipal* or *county* refers to the taxing authority granted by the State of Illinois to all municipalities or counties and is distinct from taxes imposed by virtue of home rule status. An example of this type of tax is the City of Chicago's Automobile Rental Tax. The State authorizes any municipality in Illinois to impose a tax on automobile rentals and limits the amount of the tax.

Taxes categorized as *municipal* and *county* can also include taxes imposed by the State of Illinois, where a portion of the tax revenue is distributed to municipalities or counties. For example, Illinois' State sales tax rate is 6.25%, but 5.0% of the sales tax revenue goes to the State, 1.0% goes to all municipalities, including Chicago, and the remaining 0.25% goes to the counties. However, Cook County's 0.25% share of the State sales tax is distributed to the Regional Transportation Authority.

*Home rule* refers to the taxing authority granted by the State of Illinois to home rule municipalities to impose taxes not otherwise prohibited by the Constitution (Article VII, Section 6). Both Cook County and the City of Chicago are home rule units of government. According to the Illinois Constitution, a municipality can qualify as home rule if it has a population of at least 25,000 or through referendum. A county with a chief executive officer elected by the county electorate may also become home rule. Cook County is the only home rule county in Illinois. An example of a *home rule* tax is the City of Chicago's bottled water tax, which the City can impose because it is a home rule unit of government and because the State has not prohibited it.

## Summary Table of Selected Consumer Taxes in the City of Chicago

<b>Selected Consumer Taxes in Chicago as of July 1, 2017</b> <i>(see accompanying narrative for details)</i>										
	Federal	State	Cook County		City of Chicago		RTA <sup>1</sup>	MPEA <sup>2</sup>	ISFA <sup>3</sup>	TOTAL
			County	Home Rule	Municipal	Home Rule				
<b>Sales Related Taxes</b>										
General Merchandise (including motor fuel & restaurant purchases)	--	5.0% <sup>4</sup>	--	1.75%	1.0%	1.25%	1.25% <sup>5</sup>	--	--	10.25%
Food & Drugs	--	--	--	--	1.0%	--	1.25%	--	--	2.25%
Restaurant Tax*	--	--	--	--	--	0.25%	--	1.0%	--	1.25%
<b>Tobacco Related Taxes*</b>										
Cigarette (per pack)	\$1.01	\$1.98	--	\$3.00	--	\$1.18	--	--	--	\$7.17
Smoking tobacco (per ounce)	\$0.17	36% of wholesale price	--	\$0.60	--	--	--	--	--	36.00% + \$0.77
Smokeless tobacco (per ounce)	\$0.03 to \$0.09	\$0.30	--	\$0.60	--	--	--	--	--	\$0.93 to \$0.99
Little cigar (per unit)	\$0.05	\$1.98	--	\$0.05	--	--	--	--	--	\$2.08
Large cigar (per unit)	52.75% of sales price <sup>6</sup>	36% of wholesale price	--	\$0.30	--	--	--	--	--	88.75% + \$0.30 <sup>7</sup>
Liquid Nicotine Products	--	--	--	\$0.20 per milliliter	--	\$0.55 per milliliter; \$0.80 per unit	--	--	--	\$0.75 per milliliter; \$0.80 per unit
<b>Beverage Related Taxes</b>										
<b>Liquor Tax (per gallon)*</b>										
Beer <sup>8</sup>	\$0.58	\$0.231	--	\$0.09	--	\$0.29	--	--	--	\$1.19
Wine (range based on alcohol content and type)	\$1.07 to \$3.40	\$1.39	--	\$0.24 to \$0.45	--	\$0.36 to \$0.89	--	--	--	\$3.06 to \$6.13
Distilled Liquor	\$13.50 <sup>9</sup>	\$8.55	--	\$2.50	--	\$2.68	--	--	--	\$27.23
Fountain Soft Drink Syrup Tax	--	--	--	--	--	9.0%	--	--	--	9.0%
Soft Drink Tax	--	--	--	--	--	3.00%	--	--	--	3.00%
Sweetened Beverage Tax (per oz.)*	--	--	--	\$0.01	--	--	--	--	--	\$0.01
Bottled Water Tax (per bottle)*	--	--	--	--	--	\$0.05	--	--	--	\$0.05
<b>Utility Related Taxes</b>										
Electricity Infrastructure Fee per kwh (base rate) <sup>10</sup>	--	--	--	--	\$0.0053	--	--	--	--	\$0.0053
Electricity Use Tax per kwh (base rate) <sup>10</sup>	--	\$0.0033	--	--	\$0.00615	--	--	--	--	\$0.0094
Natural Gas Utility Tax	--	\$0.024 per therm or 5.0% <sup>11</sup>	--	--	8.0% <sup>12</sup>	--	--	--	--	≤13.00%
Gas Use Tax	--	\$0.024 per therm or 5.0%	--	--	--	\$0.063 per therm	--	--	--	\$0.024 per therm or 5.0% + \$0.063 per therm
Water-Sewer Tax (per 1,000 gallons)	--	--	--	--	--	\$0.59	--	--	--	\$0.5900
<b>Accommodation Related Taxes</b>										
Hotel Operators' Tax	--	6.17%	--	1.00%	1.08%	4.50%	--	2.50%	2.14%	17.39% <sup>13</sup>
Home Sharing Tax	--	--	--	--	--	4.00%	--	--	--	4.00%
<b>Transportation Related Taxes</b>										
<b>Motor Fuel (per gallon)*</b>										
Gasoline <sup>14</sup>	\$0.184	\$0.201	--	\$0.06	--	\$0.05	--	--	--	\$0.50
Diesel <sup>14</sup>	\$0.244	\$0.226	--	\$0.06	--	\$0.05	--	--	--	\$0.58
Wheel Tax (Vehicle Registration) per small passenger automobile (per year)	--	\$101.00	--	15	--	\$85.97	--	--	--	\$186.97
Wheel Tax (Vehicle Registration) per large passenger automobile (per year)	--	\$101.00	--	16	--	\$136.54	--	--	--	\$237.54
<b>Parking Tax</b>										
Daily (24 hours or less)	--	--	--	6.0%	--	20.0% to 22.0% <sup>17</sup>	--	--	--	26.0% to 28.0%
Weekly/Monthly	--	--	--	9.0%	--	22.0%	--	--	--	31.00%
New Motor Vehicle Tax (per 4-wheel vehicle)*	--	--	--	\$15.00	--	--	--	--	--	\$15.00
Tire Fee (per new tire)*	--	\$2.50	--	--	--	\$1.00	--	--	--	\$3.50
Automobile Rental Tax	--	5.0%	--	--	\$2.75 per rental period <sup>18</sup>	--	--	6.0%	--	11.0% + \$2.75
Airport Departure Tax	--	--	--	--	--	--	--	\$2.00 to \$54.00	--	\$2.00 to \$54.00
Ground Transportation Tax	--	--	--	--	--	\$0.52 per ride <sup>19</sup>	--	--	--	\$0.52
Boat Mooring Tax	--	--	--	--	--	7.0%	--	--	--	7.0%
<b>Other Selected Taxes</b>										
Checkout Bag Tax (per bag)	--	--	--	--	--	\$0.07 <sup>20</sup>	--	--	--	\$0.07
Telecommunications Excise Tax	3.0%	7.0%	--	--	7.0%	--	--	--	--	17.00%
911 service per network connection (per month)	--	--	--	--	\$3.90 <sup>21</sup>	--	--	--	--	\$3.90
Personal Property Lease Transaction Tax	--	--	--	--	--	5.25% to 9.0%	--	--	--	5.25% to 9.0%
Real Estate Transfer Tax	--	\$0.50 per \$500 (0.1%)	\$0.25 per \$500 (0.05%)	--	\$1.50 per \$500 (0.3%) <sup>22</sup>	\$3.75 per \$500 (0.75%)	--	--	--	\$6.00 per \$500 (1.2%)
Amusement Tax	--	--	--	1.0% to 1.5% live, 3.0% other	--	5.0% live, 9.0% all other	--	--	--	6.0% to 12.0%
Firearm and Ammunition Taxes*	--	23	--	\$25 per firearm; \$0.1 to \$0.05 per cartridge	--	--	--	--	--	\$25 per firearm; \$0.1 to \$0.05 per cartridge

See notes on next page and accompanying narrative for details.

Note: "Municipal" and "County" refer to taxing authority granted by state law to municipalities and counties and is distinct from taxes imposed by virtue of home rule status.

\* Subject to general merchandise sales tax in addition to tax referenced.

<sup>1</sup> Regional Transportation Authority (Chicago Transit Authority, Metra, Pace).

<sup>2</sup> Metropolitan Pier and Exposition Authority taxes are levied on different geographic areas. The restaurant tax area consists of Stevenson Expressway (south), Ashland Avenue (west), Diversey Avenue (north), Lake Michigan (east) and airports. The hotel tax is throughout Chicago, the airport departure tax is at airports and the automobile rental tax is throughout Cook County.

<sup>3</sup> Illinois Sports Facilities Authority (U.S. Cellular Field and Soldier Field).

<sup>4</sup> The State collects a tax of 6.25%. The State keeps 5.0% and distributes the remaining 1.25% to local governments.

<sup>5</sup> This includes a 1.0% tax by the RTA and the 0.25% county share of sales tax which in Cook County is distributed to the RTA.

<sup>6</sup> Federal tax is limited to \$ .4026 per cigar.

<sup>7</sup> A \$1 surcharge goes to the State Police Vehicle Fund.

<sup>8</sup> The State taxes beer and cider at the same rate of \$0.231 per gallon. The federal government tax on cider is \$0.226 per gallon.

<sup>9</sup> The federal government is the only one that taxes distilled liquor based on proof of the distilled alcohol rather than volume. It taxes \$13.50 per 100-proof gallon of liquor. See the narrative for more detail.

<sup>10</sup> Rates shown for the Electricity Infrastructure Fee and Electricity Use Tax are the base rate for the first 2,000 kilowatt hours of electricity used. As electricity usage increases, additional taxes accumulate at a diminishing rate. The rate for any amount over 20 million kwh is \$0.0026.

<sup>11</sup> The State rate for natural gas usage is the lesser of \$0.024 per therm of gas sold to each customer or 5% of gross revenue from each customer.

<sup>12</sup> Large institutions that purchase from providers other than Peoples Energy are subject to \$0.063 per therm instead of 8%.

<sup>13</sup> This figure represents the effective rate of this tax. See the narrative for more detail.

<sup>14</sup> Includes \$0.003 for Underground Storage Tank Tax and \$0.008 for environmental impact fee imposed by the State of Illinois.

<sup>15</sup> Cook County levies wheel taxes in unincorporated portions of the county. The current rate for residents of unincorporated Cook County is \$80 per small passenger automobile per year.

<sup>16</sup> Cook County levies wheel taxes in unincorporated portions of the county. The current rate for residents of unincorporated Cook County is \$100 per large passenger automobile per year.

<sup>17</sup> The City of Chicago charges a parking tax rate of 20.0% on weekends (Saturday and Sunday) and 22.0% on weekdays (Monday-Friday).

<sup>18</sup> The City of Chicago imposes a 9% personal property lease tax on auto rental in addition to the \$2.75 per rental of motor vehicle lessor tax.

<sup>19</sup> In addition to the \$0.40 per ride fee there is a \$0.10 fee per ride for non-accessible rideshare vehicles plus an additional \$0.02 administrative fee per ride. Rideshare companies that pickup and dropoff at Chicago Airports, Navy Pier and McCormick Place also pay \$5.40 per ride accepted.

<sup>20</sup> The City of Chicago imposes a \$0.07 tax on each checkout bag for sale or use in the City of Chicago. Of the \$0.07 tax, the City collects \$0.05 of the tax and the retailer keeps the remaining \$0.02 of the tax.

<sup>21</sup> The City of Chicago imposes a 911 surcharge on prepaid wireless services of 9%. The enforcement and collection of this surcharge is administered by the Illinois Department of Revenue.

<sup>22</sup> The \$1.50 per \$500 tax is transferred to the Chicago Transit Authority.

<sup>23</sup> The State of Illinois requires residents to have a Firearm Owners Identification Card in order to purchase a firearm. The fee for the card is \$10.00 per ten years.

Source: Illinois Legislative Research Unit 2016 Tax Handbook for Legislators; Illinois Department of Revenue website; City of Chicago Department of Revenue website; Cook County Department of Revenue website; United States Government Printing Office website; Illinois Compiled Statutes; Code of Ordinances of Cook County, Illinois; Municipal Code of Chicago; and United States Code.

## Recent Changes to Selected Consumer Taxes

The following taxes have undergone changes over the past year since the release of the previous annual “Selected Consumer Taxes in the City of Chicago” report. They are listed in alphabetical order.

- **Amusement Tax, City of Chicago and Cook County** – The City of Chicago made changes to the way ticket resales are taxed in fall 2016. Previously, the amusement tax on ticket resales applied to the price of the mark-up. As part of its FY2017 budget process, the City simplified the ticket resale tax to a flat rate of 3.5% of the full resale price, regardless of the mark-up. The City also clarified the application of the amusement tax related to satellite TV, requiring Chicago businesses, including bars and restaurants that subscribe to and use satellite TV, to pay the 9.0% amusement tax. In addition, Cook County amended its amusement tax ordinance on October 26, 2016 by clarifying that live musical performances, including certain live DJ performances, in venues with a capacity of 750 or less are exempt from paying the Cook County amusement tax.
- **Compassionate Use of Medical Cannabis, State of Illinois** – In August 2013, the Illinois General Assembly passed and then-Governor Quinn signed into law Public Act 98-0122 (the Compassionate Use of Medical Cannabis Pilot Program Act), which went into effect on January 1, 2015. On December 10, 2014 the Chicago City Council passed Substitute Ordinance 2014-8106, which enacted certain regulations related to medical cannabis cultivation centers and dispensing facilities in the City of Chicago. In June 2016, the Illinois General Assembly amended and Governor Rauner extended the Pilot Program for an additional two-and-a-half years under Public Act 99-0519 to be in effect until July 1, 2020. The first medical marijuana dispensary opened in the City of Chicago in mid-2016. The sale of medical marijuana products by licensed medical marijuana dispensaries is taxed at the rate of 1.0%.
- **Female Hygiene Product Tax Exemption, City of Chicago, Cook County and State of Illinois** – Beginning in 2009, a change to Illinois law made personal grooming and hygiene products that were previously taxed at the reduced 1.0% food and drugs sales tax subject to the full sales tax on general merchandise, which is now an aggregate 10.25% in Chicago. As such, in addition to items such as shampoo, soap and antiperspirant, certain female hygiene products were subject to the full 10.25% sales tax rate. However, in 2016 the State of Illinois, Cook County and the City of Chicago all approved legislation that made tampons, menstrual pads and menstrual cups exempt from the full sales tax. The sales tax exemption for these products became effective January 1, 2017.
- **Ground Transportation Tax, City of Chicago** – On June 22, 2016 the Chicago City Council passed an ordinance eliminating the classification between Class A and Class B rideshare drivers. Previously, Class A rideshare vehicles, or those in operation for less than 20 hours per week on average, were charged \$0.40 per ride and Class B vehicles, or those in operation for more than 20 hours per week on average, were charged \$0.80 per ride. The elimination of the rideshare driver classification effectively reduced the Class B surcharge to \$0.40 per ride. Currently the tax for any rideshare trip is \$0.40, or \$5.40 for rides that include a pick-up or drop-off at O’Hare Airport, Midway Airport, McCormick Place or Navy Pier.
- **Other Tobacco Products Tax, City of Chicago** – In March 2016 the City of Chicago adopted an ordinance imposing a tax on other tobacco products effective July 1, 2016.

However, a complaint was filed in the Circuit Court of Cook County challenging the City's authority to impose a tax on these products and the July 1, 2016 implementation date was deferred until the matter was resolved by the courts.<sup>1</sup> On January 20, 2017, the Cook County Circuit Court ruled that the City's tax on other tobacco products violated a state law that prohibited home rule municipalities in Illinois from imposing a tax on other tobacco products prior to July 1, 1993.<sup>2</sup> The City has until February 20, 2017 to file a notice of appeal.

- **Personal Property Lease Transaction Tax, City of Chicago** – The City of Chicago charges a 9.0% tax for the rental or lease of personal property in the City, including car rentals. Until recently, the tax also applied to personal property that was rented or leased outside the City but used within the City's boundaries for at least 50% of the rental period. In 2011 the City of Chicago issued Personal Property Lease Transaction Tax Ruling #11, which stated that suburban car rental agencies located within 3 miles of the City's borders would be responsible for paying the 9.0% tax unless there was written proof that the lessee used the car outside of the City for at least 50% of the rental period. However, two rental car companies filed lawsuits challenging Ruling #11. On January 20, 2017, the Illinois Supreme Court ruled that Ruling #11 violates the Illinois Constitution because it is an improper use of the City's home rule authority to impose a tax on a transaction that occurs outside of the City's borders. Therefore, the personal property lease transaction tax will no longer apply to rentals or leases that take place outside the City of Chicago.

### **New Consumer Taxes Approved in 2016**

The following are new taxes that were approved in 2016. They are presented in chronological order based on their effective date.

- **Home Share Tax, City of Chicago** – On June 22, 2016 the Chicago City Council approved a shared housing ordinance that included a 4.0% tax on the gross rental charge of vacation rentals or shared housing units in the City of Chicago, in addition to the 4.5% hotel operators' tax already imposed on shared housing under the City's home rule authority. The new home share surcharge went into effect on July 1, 2016.
- **Water and Sewer Tax, City of Chicago** – The City of Chicago approved a new tax on the consumption of water and the transfer of wastewater to the sewer system on September 14, 2016. Beginning January 1, 2017, in addition to the regular water-sewer rate charged on Chicago residents' water and sewer bills, the City will charge a tax of \$0.59 per 1,000 gallons used, increasing over a period of four years to \$2.51 per 1,000 gallons in 2020.
- **Checkout Bag Tax, City of Chicago** – The City of Chicago previously passed an ordinance prohibiting the use of certain checkout bags by retailers. However, the ordinance resulted in unintended consequences, such as the retailers offering a thicker checkout bag. As part of the FY2017 budget approval process, the City of Chicago passed an ordinance imposing a \$0.07 tax on the sale and use of both paper and plastic checkout bags at all retailers in the City of Chicago. However, there are some exceptions,

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<sup>1</sup> City of Chicago Finance Department, News Release, Update to Other Tobacco Products Tax, June 16, 2016.

<sup>2</sup> Iwan Ries & Co., et al. v. City of Chicago.

e.g. prescription bags, produce bags and restaurant takeout bags. The City will collect \$0.05 of the tax and the retailer is eligible to keep the remaining \$0.02 of the tax. This ordinance was originally scheduled to begin January 1, 2017, but was postponed to February 1, 2017 to allow retailers and distributors additional time to comply. Consumers who purchase goods using federal food stamp benefits are not subject to the tax.

- **Sweetened Beverage Tax, Cook County** – On November 10, 2016 the Cook County Board of Commissioners voted to approve a new County tax on sweetened beverages that charges one cent per ounce purchased. The tax will go into effect on July 1, 2017 and will apply to both fountain and bottled beverages containing real or artificial sweetener. Consumers who purchase these products using federal food stamp benefits are not subject to the tax.

## **DESCRIPTION OF SELECTED CONSUMER TAXES IN CHICAGO**

### **Sales Taxes**

“Sales” taxes in Illinois are actually composed of two matching pairs of taxes: retailers’ occupation and use taxes and service occupation and use taxes. For simplicity, we refer to them as sales taxes. It is important to note that a number of the other taxes and fees in this report are also subject to the sales tax on general merchandise.

### ***Sales Tax on General Merchandise***

The sales tax on general merchandise applies to tangible items except food and drugs but includes alcoholic beverages, soft drinks and food prepared for immediate consumption. Various exemptions apply. The reduced sales tax rate on food and drugs applies to food purchased for consumption off the premises, prescription and non-prescription drugs. The 1.00% municipal tax is collected by the State and distributed to municipalities. For all counties in Illinois except Cook County a 0.25% county tax on general merchandise is collected by the State and distributed to counties. In Cook County the 0.25% tax is collected by the State and allocated to the Regional Transportation Authority (RTA).



The following table summarizes local government sales tax rates on general merchandise in Chicago, Suburban Cook County, DuPage County and other collar counties (e.g., Kane, Lake, McHenry and Will Counties) and their composite sales tax rates.

<b>Sales Tax on General Merchandise As of January 1, 2017</b>				
	<b>Chicago</b>	<b>Suburban Cook County</b>	<b>DuPage County</b>	<b>Other Collar County</b>
<b>State</b>	5.00%	5.00%	5.00%	5.00%
<b>Municipal*</b>	1.00%	1.00%	1.00%	1.00%
<b>County**</b>	0.25%	0.25%	0.25%	0.25%
<b>Cook County Home Rule</b>	1.75%	1.75%	-	-
<b>RTA</b>	1.00%	1.00%	0.75%	0.75%
<b>DuPage Water***</b>	-	-	-	-
<b>Municipal Home Rule****</b>	1.25%	0.50% to 2.00%	0.50% to 1.25%	0.25% to 2.00%
<b>Composite Rate*****</b>	<b>10.25%</b>	<b>9.00% to 11.00%</b>	<b>7.00% to 8.25%</b>	<b>7.00% to 9.00%</b>

\*This rate also applies to county unincorporated areas.

\*\*In Cook County only, this portion is allocated to the RTA rather than to the county.

\*\*\*Per Public Act 96-1389, the DuPage Water Commission sales tax sunset on June 1, 2016.

\*\*\*\*Not all municipalities are home rule units of government and therefore can not impose a municipal home rule sales tax without a referendum.

\*\*\*\*\*Some municipalities may have business improvement district sales taxes that raise local totals above the ranges shown in this chart.

Note: City and County home rule sales taxes must be implemented in 0.25% increments.

Source: Illinois Legislative Research Unit 2016 Tax Handbook for Legislators, p. 123.

Changes that have impacted the composite sales tax rates of these regions include:

- Chicago home rule tax was imposed at 1.0% on August 1, 1981 and increased by 0.25% on July 1, 2005;
- RTA tax increased by 0.25% on both general sales and food and drugs (plus an additional 0.25% in collar counties for their road projects), effective April 1, 2008;
- Cook County home rule was imposed at 0.75% on September 1, 1992 and increased to 1.75% effective July 1, 2008;
- Cook County home rule sales tax decreased to 1.25% effective July 1, 2010;
- On February 25, 2011, the Cook County Board of Commissioners passed an ordinance amendment proposed by Board President Preckwinkle to lower the County's home rule sales tax to 1.0% beginning in January 2012 and to 0.75% beginning January 2013. The amendment constituted the full repeal of the one cent increase in the sales tax passed in 2008 and reduced the composite sales tax rate in Chicago from 9.75% to 9.50% in January 2012 and to 9.25% in January 2013;
- Effective January 1, 2015, the State of Illinois expanded<sup>3</sup> the type of out-of-state retailers required to register in Illinois and collect and remit Use Tax. Collection and remittance of the Use Tax now "applies to out-of-state retailers and servicemen" that satisfy the following criteria:
  - The out-of-state retailer has a contract with a person in Illinois;

<sup>3</sup> Public Act 98-1089, 35 ILCS 105/2(1.1) and 35 ILCS 110/2(1.1); Illinois Department of Revenue Informational Bulletin: Important Notice of Changes to Out-of-State Retailers, December 2014, <http://www.revenue.state.il.us/Publications/Bulletins/2015/FY-2015-07.pdf>

- Under the contract, the person in Illinois refers potential customers to the retailer and the retailer pays to the person in Illinois a commission or other consideration based on the sale of tangible personal property by the retailer;
- The person in Illinois provides to the potential customers a promotional code or other mechanism that allows the retailer to trace the purchases made by these customers; and
- The retailer made cumulative gross sales of \$10,000 during the preceding four quarterly periods to customers referred by persons located in Illinois, regardless of the location of the customers; and
- Effective January 1, 2016, the Cook County sales tax was again increased by one percentage point, bringing the total composite sales tax rate in the City of Chicago to 10.25%.

The following table summarizes changes in the composite sales tax rate in the City of Chicago from 1969 to 2017.

City of Chicago Composite Sales Tax Rates: 1969-2017														
	1969	1981	1983	1984	1990	1992	2005	2008	2010	2012	2013	2015	2016	2017
State	4.00%	4.00%	4.00%	5.00%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
Chicago		1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%	1.25%
RTA			0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Cook County						0.75%	0.75%	1.75%	1.25%	1.00%	0.75%	0.75%	1.75%	1.75%
<b>Total</b>	<b>4.00%</b>	<b>5.00%</b>	<b>5.75%</b>	<b>6.75%</b>	<b>8.00%</b>	<b>8.75%</b>	<b>9.00%</b>	<b>10.25%</b>	<b>9.75%</b>	<b>9.50%</b>	<b>9.25%</b>	<b>9.25%</b>	<b>10.25%</b>	<b>10.25%</b>

Source: Legislative Research Unit 2016 Tax Handbook for Legislators, pp. 110 and 120; 35 ILCS 105, 35 ILCS 110, 35 ILCS 115 and 35 ILCS 120; Code of Ordinances of Cook County, Illinois, Chapter 74; City of Chicago Municipal Code, Chapters 3-27, 3-28 and 3-40.

*(35 ILCS 105/1 ff – use tax)*

*(35 ILCS 120/1 ff – retailers’ occupation tax)*

*(35 ILCS 110/1 ff – service use tax)*

*(35 ILCS 115/1 ff – service occupation tax)*

*(55 ILCS 5/5-1006 and 5/5-1007)*

*(65 ILCS 5/8-11-1, 5/8-11-5 and 5/8-11-6)*

*(70 ILCS 3615/4.03)*

*(70 ILCS 3615/4.09(b) (1))*

*(410 ILCS 130)*

*(Code of Ordinances of Cook County, Illinois, Chapter 74, Articles IV and V)*

*(City of Chicago Municipal Code, Chapters 3-27 and 3-28; 3-40-10 and 3-40-430)*

The following table notes sales tax rates in selected U.S. cities. On January 1, 2016, the composite sales tax rate in the City of Chicago increased one percentage point from the previous year to 10.25%, making the City's tax rate the highest among selected large U.S. cities.

<b>Sales Tax Rates for Selected Cities in the United States as of January 1, 2017</b>	
<b>Chicago, IL</b>	<b>10.250%</b>
Montgomery, AL	10.000%
Seattle, WA	9.600%
Memphis, TN	9.250%
Los Angeles, CA	9.000%
New Orleans, LA	9.000%
New York City, NY	8.875%
St. Louis, MO	8.679%
Oklahoma City, OK*	8.375%
Phoenix, AZ	8.300%
Houston, TX	8.250%
Minneapolis, MN	7.775%
Columbus, OH	7.500%
Gary, IN	7.000%
Indianapolis, IN	7.000%
Cincinnati, OH	7.000%
Detroit, MI	6.000%
Milwaukee, WI	5.600%
Madison, WI	5.500%

\*Sales tax rate for Oklahoma City only reflects the tax rate for the part of Oklahoma City located within Oklahoma County.

Sources: Information provided by the City of Montgomery Finance Department; the Washington State Department of Revenue; the City of Phoenix Tax and License Department; the City of Memphis Division of Finance; the New York City Department of Finance; the City of Los Angeles Office on Finance; the Missouri Department of Revenue; the City of Oklahoma Finance Department; the Texas Comptroller Office; the Indiana Department of Revenue; the State of Ohio Taxation Department; the City of Northville, Michigan Department of Finance and Administration; and the Wisconsin Department on Revenue on December 28, 2016.

### ***Sales Tax on Food and Drugs***

The following table shows the local government sales taxes on food and drugs in Chicago and nearby counties. The composite sales tax rate on food and drugs in Chicago is 2.25%, compared to the general sales tax of 10.25%. Prior to 1980, food, drugs and medical appliances were taxed

at the full sales tax rate. However, that year a rate reduction was applied to food and both prescription and non-prescription drugs.

<b>Sales Tax on Food and Drugs</b>				
<b>As of January 1, 2017</b>				
	<b>Chicago</b>	<b>Suburban Cook County</b>	<b>DuPage County</b>	<b>Other Collar Counties</b>
<b>Municipal*</b>	1.00%	1.00%	1.00%	1.00%
<b>RTA</b>	1.25%	1.25%	0.75%	0.75%
<b>Composite Rate</b>	<b>2.25%</b>	<b>2.25%</b>	<b>1.75%</b>	<b>1.75%</b>

\*This rate also applies to county unincorporated areas.

Source: Illinois Legislative Research Unit 2016 Tax Handbook for Legislators, p. 121.

Changes that have impacted the composite sales tax rate on food and drugs in Chicago include an RTA tax increase effective April 1, 2008 (see note under General Merchandise above).

On September 1, 2009, a law passed by the General Assembly went into effect redefining certain items subject to the food and drugs sales tax. According to the law, the items that were previously subject to the reduced 1.0% food and drugs sales tax were now subject to the full 6.25% general merchandise sales tax. Under the new law, candy is defined as a preparation of sugar, honey or other sweeteners in combination with chocolate, fruits, nuts or other ingredients, but not as a preparation containing flour. Candy containing flour such as Twix and Kit Kats are taxed at the lower food and drugs rate, while candy not containing flour such as Snickers is taxed at the higher general merchandise rate. In addition, the law no longer categorized grooming and hygiene products as nonprescription medicines and drugs. As such, shampoo and toothpaste products that were previously considered medication are now subject to the 6.25% tax rate rather than the 1.0% tax rate. Included in this change were certain female menstrual products. However, in 2016 the State of Illinois, Cook County and the City of Chicago all approved legislation that made tampons, menstrual pads and menstrual cups exempt from the full sales tax. Also, with the passage of Public Act 98-0122 (the Compassionate Use of Medical Cannabis Pilot Program Act), which went into effect January 1, 2014 and was recently extended for an additional two-and-a-half years to July 1, 2020, the sale of medical marijuana at licensed medical marijuana dispensaries is taxed at the reduced rate of 1.0% for prescription and non-prescription drugs.

*(Illinois Legislative Research Unit 2016 Tax Handbook for Legislators, pp. 117 and 121)*

*(State of Illinois, Public Act 99-0855)*

*County of Cook, Illinois, Ordinance Amendment 16-1942)*

*(City of Chicago, Substitute Ordinance 2016-705)*

### **Restaurant Tax**

The restaurant tax is imposed on the selling price of all food and beverages sold at retail by a place for eating. The City of Chicago and the Metropolitan Pier and Exposition Authority levy a restaurant tax for a combined rate of 1.25% in the MPEA area (noted under the table below). Chicago's 0.25% restaurant tax applies to the entire area of the City. These rates are in addition

to the sales tax on general merchandise, which applies to prepared food purchases. The following table shows the total tax rate levied on prepared foods, including the sales tax and restaurant tax.

<b>Taxes on Prepared Food As of January 1, 2017</b>		
	<b>Chicago MPEA<sup>1</sup></b>	<b>Chicago - not MPEA</b>
<b>State Sales</b>	5.00%	5.00%
<b>Municipal Sales<sup>2</sup></b>	1.00%	1.00%
<b>County Sales (to RTA)<sup>3</sup></b>	0.25%	0.25%
<b>Cook County Home Rule Sales</b>	1.75%	1.75%
<b>RTA Sales</b>	1.00%	1.00%
<b>City of Chicago Home Rule Sales</b>	1.25%	1.25%
<b>MPEA Restaurant</b>	1.00%	0.00%
<b>Chicago Restaurant</b>	0.25%	0.25%
<b>Composite Rate</b>	<b>11.50%</b>	<b>10.50%</b>

<sup>1</sup>The MPEA area consists of Stevenson Expressway (south), Ashland Avenue (west), Diversey Avenue (north), Lake Michigan (east), O'Hare Airport and Midway Airport.

<sup>2</sup>This rate also applies to Cook County unincorporated areas.

<sup>3</sup>In Cook County only, this portion is allocated to the RTA rather than to the County.

Source: Illinois Legislative Research Unit Tax Handbook for Legislators, 32nd Edition, March 2016, p. 123.

Changes that have impacted the composite restaurant tax rates include:

- MPEA restaurant tax imposed October 1, 1992;
- Chicago restaurant tax imposed April 1, 2004;
- Chicago home rule sales tax increase of 0.25%, effective July 1, 2005;
- RTA sales tax increase of 0.25%, effective April 1, 2008;
- Cook County home rule sales tax increase of 1.0%, from 0.75% to 1.75%, effective July 1, 2008;
- Cook County home rule sales tax decrease of 0.50%, to 1.25%, effective July 1, 2010;
- Cook County home rule sales tax decrease of 0.25%, to 1.0%, effective January 1, 2012;
- Cook County home rule sales tax decrease of 0.25%, to 0.75%, effective January 1, 2013; and
- Cook County home rule sales tax increase of 1.0%, from 0.75% to 1.75%, effective January 1, 2016.

*(65 ILCS 5/8-11-6a)*

*(70 ILCS 210/13b)*

*(City of Chicago Municipal Code, Chapter 3-30-030)*

*(Code of Ordinances of Cook County, Illinois, Article IV, Section 74-151)*

## **Tobacco-Related Taxes**

### ***Cigarette Tax (per pack)***

Cigarette packs typically have 20 cigarettes. State and local laws specify tax per cigarette, but per pack is used here for simplicity.

- On April 1, 2009, the federal tax on cigarettes increased by \$0.62 to \$1.0066 per pack.
- Effective June 24, 2012, the State of Illinois increased its cigarette tax by \$1.00 from \$0.98 per pack of cigarettes to \$1.98.
- Effective July 1, 2012, the State expanded its definition of cigarettes to include little cigars.
- As part of the FY2013 budget, Cook County increased its tax on cigarettes from \$2.00 per pack to \$3.00 per pack, effective March 1, 2013.
- As part of the FY2014 budget approval process, the City of Chicago increased its tax on cigarettes from \$0.68 per pack to \$1.18 per pack, effective January 10, 2014.
- The total tax per-pack of 20 cigarettes in the City of Chicago is now \$7.166.
- Cigarettes are also subject to the sales tax on general merchandise.

*(26 USC Sec. 5701)*

*(35 ILCS 130/1ff and 35 ILCS 135/1ff)*

*(Code of Ordinances of Cook County, Illinois, Chapter 74, Article XI)*

*(City of Chicago Municipal Code, Chapter 3-42)*

### ***Other Tobacco Taxes***

Federal, state and local governments also tax other tobacco products as described below. Cook County began taxing these products effective March 1, 2012. As of January 1, 2013, County taxes on tobacco include \$0.60 per ounce of smoking tobacco and smokeless tobacco, \$0.05 per little cigar and \$0.30 per large cigar.

In March 2016 the City of Chicago adopted an ordinance imposing a tax on other tobacco products effective July 1, 2016. However, a complaint was filed in the Circuit Court of Cook County challenging the City's authority to impose a tax on these products and the July 1, 2016 implementation date was deferred until the matter was resolved by the courts.<sup>4</sup> On January 20, 2017, the Cook County Circuit Court ruled that the City's tax on other tobacco products violated a state law that prohibited home rule municipalities in Illinois from imposing a tax on other tobacco products prior to July 1, 1993.<sup>5</sup> The City has until February 20, 2017 to file a notice of appeal. The City taxes on other tobacco products include \$1.80 per ounce for both smoking tobacco and smokeless tobacco, \$0.20 per cigar for both little and large cigars and \$0.60 per ounce of pipe tobacco.

The State of Illinois imposes a tax on the wholesale price for non-cigarette tobacco products. Effective July 1, 2012, the State tax on the wholesale price for non-cigarette tobacco products increased from 18.0% to 36.0%. Effective August 1, 2012, roll-your-own cigarette machine operators are required to pay an annual license fee of \$250. While this fee is not a consumer tax, the additional cost may be passed onto consumers. Cigarettes sold by roll-your-own establishments are also subject to the State's regular cigarette tax of \$1.98 per pack. As of January 1, 2013, moist snuff tobacco products are taxed at \$0.30 per ounce. Previously, moist snuff was taxed at its wholesale price and categorized under smokeless tobacco.

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<sup>4</sup> City of Chicago Finance Department, News Release, Update to Other Tobacco Products Tax, June 16, 2016.

<sup>5</sup> Iwan Ries & Co., et al. v. City of Chicago.

Federal government taxes on tobacco products range from \$0.03 per ounce for smokeless tobacco to \$0.18 per ounce for smoking tobacco. Large cigars are taxed by the federal government at 52.75% of the sale price, up to approximately \$0.40 per cigar.

In 2016 the City of Chicago and Cook County also began imposing a tax on liquid nicotine products. Chicago began taxing liquid nicotine on January 1, 2016 at the rate of \$0.80 per product unit and \$0.55 per fluid milliliter of liquid nicotine. Cook County's rate of tax on liquid nicotine is \$0.20 per fluid milliliter effective May 1, 2016.

Other tobacco products are also subject to the sales tax on general merchandise.

*(26 USC 5701)*

*(35 ILCS 143/10-1ff)*

*(Code of Ordinances of Cook County, Illinois, Article XI, Section 74-433)*

*(City of Chicago Municipal Code, Chapters 3-47 and 3-49)*

## **Beverage-Related Taxes**

### ***Liquor Tax***

This tax is applied to the making or distribution of alcoholic beverages in Illinois and is passed on to consumers, charged by the gallon. Liquor is taxed at all levels of government – federal, state and local – and there are different rates for beer, wine and distilled liquor. The sale of liquor is also subject to the sales tax on general merchandise.

The composite rates per gallon including federal, state, Cook County and City of Chicago are the following: \$1.19 per gallon of beer; \$3.06 per gallon of wine with 14.0% or less in alcohol; \$6.13 per gallon of wine with between 14.0% and 20.0% alcohol; and \$27.23 per gallon of distilled liquor with over 20.0% alcohol (assuming the liquor is 100-proof).

The federal liquor tax rate varies depending on the proof of the alcohol because the federal government bases its tax on proof (alcohol content) rather than general volume. The federal tax is \$13.50 per 100-proof gallon of liquor. So for example, the federal tax on an 80-proof 750 ml bottle is \$2.14 ( $\$13.50 \times 0.8$  proof gallons  $\times$  750 ml (0.198 gallons)). Total composite taxes for the same bottle would be \$4.86, including \$2.14 in federal taxes, \$1.69 in State taxes, \$0.50 in County taxes and \$0.53 in City taxes.

Cider is taxed at the same rate as beer by the State of Illinois, City of Chicago and Cook County. The federal tax on cider differs from the tax rate for beer and is \$0.226 per gallon.

Recent changes to the liquor tax include an increase of Cook County's liquor taxes effective January 2, 2012, which increased the tax on beer and wine by 50% and the distilled liquor tax by 25%. Effective September 1, 2009, the State of Illinois increased its liquor tax on wine and distilled liquor by 90% and on beer by 25%. The City of Chicago's liquor tax was last increased in 2007.

*(26 USC Sec. 5001)*

*(235 ILCS 5/8-1ff)*

*(Code of Ordinances of Cook County, Illinois, Chapter 74, Article IX)*

*(City of Chicago Municipal Code, Chapter 3-44)*

### ***Fountain Soft Drink Syrup Tax***

The City of Chicago imposes a tax of 9.0% of the syrup price on businesses that sell soft drink syrup to retailers located in Chicago or retailers that sell fountain soft drinks in the City of Chicago where the tax was not remitted to the distributor. The soft drink syrup supplier is responsible for collecting the tax by adding it to the selling price of the soft drink syrup.

*(65 ILCS 5/8-11-6b(c))*

*(City of Chicago Municipal Code, Chapter 3-45, Article III)*

### ***Soft Drink Tax***

The City of Chicago also collects a 3.0% tax on gross receipts from sellers of soft drinks other than fountain drinks, which are taxed separately. This applies to non-alcoholic beverages that contain natural or artificial sweeteners and less than 50.0% juice, including sales from vending machines. The State collects this revenue and distributes it to Chicago. Soft drink purchases are also subject to the sales tax on general merchandise.

*(35 ILCS 120/2-10 and 65 ILCS 5/8-11-6b(b))*

*(City of Chicago Municipal Code, Chapter 3-45, Article II)*

### ***Sweetened Beverage Tax***

On November 10, 2016, as part of Cook County's FY2017 budget, the Cook County Board of Commissioners approved an ordinance authorizing a one cent per ounce tax on sweetened beverages. The tax applies to any non-alcoholic beverage, carbonated or non-carbonated, that contains any caloric sweetener or non-caloric sweetener, and is available for sale in a bottle or produced for sale through the use of syrup or powder. The tax does not apply to the following:

- Beverages consisting of 100% natural fruit or vegetable juice;
- Beverages in which milk, or soy, rice, or similar milk substitute makes up more than 50% of the beverage or is the first listed ingredient on the label;
- Beverages to which a purchaser can add or request that a retailer add sweetener; infant formula;
- Beverages for medical use;
- Liquid nutritional meal replacements or weight loss supplements; and
- Syrup or powder that is combined with other ingredients to create a beverage.

The tax will go into effect on July 1, 2017.

*(Cook County Ordinance 16-5931)*



### ***Bottled Water Tax***

This tax was created with the November 13, 2007 approval of the FY2008 City Budget. It is a tax of five cents on any size bottle of water sold in the City of Chicago. The sale of bottled water is also subject to the reduced sales tax on food and drugs.

*(City of Chicago Municipal Code, Chapter 3-43)*

### **Utility-Related Taxes**

#### ***Electricity Infrastructure Maintenance Fee (per kilowatt hour)***

This fee is imposed on electricity deliverers as compensation for using public rights of way in the City of Chicago and is passed on to consumers. It is charged on a monthly basis per kilowatt hours (kwh) of electricity usage, beginning at a rate of \$0.0053 for the first 2,000 kwh and adding additional rates for additional electricity usage at a diminishing rate. For example, the fee for using the next 48,000 kwh after the base 2,000 kwh is \$0.0035, followed by \$0.0031 for the next 50,000 kwh, and so on. For electricity usage in any amount over 20 million kwh, the rate is \$0.0026 per kwh.

*(35 ILCS 645/5-5)*

*(City of Chicago Municipal Code, Chapter 3-54)*

#### ***Electricity Use Tax (per kilowatt hour)***

This tax applies to electricity usage per kilowatt hour (kwh) per month and is reflected on electric bills. The tax rates vary based on usage for residential customers (non-residential customers pay as a percentage of the purchase price). As with the Electricity Infrastructure Maintenance Fee, this tax is applied using a range based on monthly kilowatt hours of usage. For the first 2,000 kwh used, the composite (State and City) tax is \$0.0094 per kwh, increasing at a diminishing rate as additional kilowatt hours of electricity are used. The composite rate for any amount over 20 million of kilowatt hours used is \$0.00502 per kwh.

*(35 ILCS 640/2-1ff and 220 ILCS 5/9-222)*

*(65 ILCS 5/8-11-2(3))*

*(City of Chicago Municipal Code, Chapter 3-53)*

#### ***Natural Gas Utility Tax***

This tax is imposed on companies distributing natural gas in Illinois and is passed on to customers on their gas bills. The State rate for the natural gas tax (referred to as the State's Gas Revenue Tax) is the lesser of \$0.024 per therm of gas sold to each customer or 5.0% of gross revenue from each customer. The City of Chicago rate is 8.0% of gross receipts.

*(35 ILCS 615/1ff and 220 ILCS 5/9-222)*

*(65 ILCS 5/8-11-2)*

*(City of Chicago Municipal Code, Chapter 3-40, Article II)*

### ***Gas Use Tax***

The State of Illinois charges a gas use tax for natural gas purchased out of state for use in Illinois at the same rate as the natural gas utility tax: either \$0.024 per therm of gas sold to each customer or 5.0% of gross revenue from each customer, whichever is less. The City of Chicago also charges a gas use tax at a rate of \$0.063 per therm for natural gas purchases not subject to the Natural Gas Utility Tax. Utility companies are responsible for collecting the tax from customers and remitting the tax to the City.

*(35 ILCS 173/5)*

*(City of Chicago Municipal Code, Chapter 3-41)*

### ***Water and Sewer Tax***

On September 14, 2016 the City of Chicago passed an ordinance creating a new tax on water consumption and the transfer of wastewater to the sewer system, which will be phased in over a four-year period. The City will begin charging \$0.59 per 1,000 gallons of water on January 1, 2017, increasing to \$2.51 per 1,000 gallons in 2020. Revenue from the water and sewer tax will be used to fund the City of Chicago's municipal employees' pension fund.

*(City of Chicago Municipal Code, Chapter 3-80)*

### **Accommodations-Related Taxes**

#### ***Hotel Operators' Tax***

The Hotel Operators' Tax (also referred to as the hotel accommodations tax) rate is expressed as an effective rate because three taxing authorities tax hotel operators' gross receipts (including tax receipts) while three taxing authorities tax net receipts (not including taxes). The hotel taxes for State of Illinois, the City of Chicago through its municipal taxing authority and the Illinois Sports Facilities Authority are all taxes on gross receipts. Hotel taxes for Cook County, the Metropolitan Pier and Exposition Authority and the City of Chicago through its home rule taxing authority are applied to net receipts, or base charges paid by guests. In order to compensate for this structure and not double-tax, the rates are expressed as a fraction of total receipts, excluding the receipts collected from the Metropolitan Pier and Exposition Authority tax and the City of Chicago home rule hotel tax. The total composite effective tax rate is 17.39%.

<b>Hotel Operators' Tax: Effective Rates</b>			
State	$(6\% \text{ of } 94\%) \times (1\% \text{ Municipal} + 2\% \text{ ISFA}) + 6\%$	=	6.17%
City (Municipal)	$(1\% \text{ of } 99\%) \times (6\% \text{ State} + 2\% \text{ ISFA}) + 1\%$	=	1.08%
ISFA	$(2\% \text{ of } 98\%) \times (6\% \text{ State} + 1\% \text{ Municipal}) + 2\%$	=	2.14%
Cook County		=	1.00%
MPEA			2.50%
City (Home Rule)			4.50%
<b>Total</b>			<b>17.39%</b>

Source: Illinois Legislative Research Unit Tax Handbook for Legislators, 32nd Edition, March 2016, p. 52 and calculations made by the Civic Federation.

The Hotel Operators' Tax is the only tax available to the Illinois Sports Facilities Authority. The City of Chicago tax also applies to online hotel reservations. As part of the FY2008 City of Chicago budget, the City Council amended the law to clarify that the law applies to online sales effective November 13, 2007. Permanent residents of a lodging place are exempt from the tax.

On November 2, 2011, the Chicago City Council passed an ordinance increasing the Hotel Operators' Tax from 3.50% to 4.50% effective January 1, 2012.

On May 1, 2016, Cook County began charging a 1.0% hotel operations tax on gross hotel charges (net receipts).

*(35 ILCS 145/3)*

*(65 ILCS 5/8-3-13)*

*(70 ILCS 3205/19)*

*(70 ILCS 210/13(c))*

*(City of Chicago Municipal Code, Chapters 3-24 and 3-40, Article VII)*

*(Code of Ordinances of Cook County, Illinois, Chapter 74, Article XXI)*

### ***Home Sharing Tax***

On June 22, 2016 the Chicago City Council approved a shared housing ordinance that included a 4.0% tax on the gross rental charge of vacation rentals or shared housing units in the City of Chicago, in addition to the 4.5% hotel operators' tax already imposed on shared housing under the City's home rule authority. The total effective composite hotel tax in Chicago is 17.4% and includes State of Illinois, City of Chicago, Illinois Sports Facilities Authority, Metropolitan Pier and Exposition Authority and Cook County tax rates. The stated purpose of this home share tax was to fund supportive services and housing for the homeless. The tax does not apply to bed and breakfasts, hospitals, non-profit medical institutions or rental accommodations that are considered to be the permanent residence of the occupant.

The new home share surcharge went into effect on July 1, 2016. Several other provisions of the ordinance were set to take effect on December 17, 2016. However, two lawsuits challenging several new home sharing regulations in the ordinance were filed against the City in November in the Cook County Circuit Court and the U.S. District Court for the Northern District of Illinois. Following the U.S. District Court challenge, the parties to the case agreed to the City pushing back implementation of some of the regulations to February 28, 2017.<sup>6</sup>

*(City of Chicago Municipal Code, Chapter 3-24-030 (Ordinance No. 2016-5111))*

### **Transportation-Related Taxes**

#### ***Motor Fuel Tax (per gallon)***

The tax on motor fuel is included in the retail price of diesel, gasoline and special fuel (aircraft fuel is exempt). The Federal tax on motor fuel is \$0.184 per gallon of gasoline and \$0.244 per

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<sup>6</sup> Ally Marotti, "City agrees to hold off on implementing new Airbnb rules," *Chicago Tribune*, December 14, 2016.

gallon of diesel fuel. The State tax on motor fuel is \$0.19 per gallon of gasoline and \$0.215 per gallon of diesel fuel. The State also levies an additional tax of \$0.003 per gallon for the Underground Storage Tank Fund and a \$0.008 per gallon environmental impact fee. The Cook County and City of Chicago home rule taxes on motor fuel are \$0.06 per gallon and \$0.05 per gallon, respectively. The composite tax for gasoline is \$0.50 per gallon and \$0.58 per gallon of diesel.

Motor fuel is also subject to the sales tax on general merchandise. However, there are several point-of-sale exemptions from the general merchandise sales tax: gasohol is 20.0% exempt, majority blended ethanol is 100.0% exempt, biodiesel blends with less than 11.0% bio-content are 20.0%.

*(26 USC Sec. 4081 and 26 USC Sec. 4041)*

*(35 ILCS 105/3-10)*

*(35 ILCS 505/1 ff)*

*(35 ILCS 505/2a and 415 ILCS 125/301 ff)*

*(Code of Ordinances of Cook County, Illinois, Chapter 74, Article XII)*

*(City of Chicago Municipal Code, Chapter 3-52)*

### ***Wheel Tax***

The City of Chicago Wheel Tax is the equivalent of the State vehicle registration tax and is due annually. There are different rates for different sizes and types of vehicles. Effective January 1, 2014, the City's wheel tax increased by \$10.97 to \$85.97 for smaller passenger automobiles and by \$16.54 to \$136.54 for larger passenger automobiles. Beginning in 2014 and every two years thereafter, applicable license fees are adjusted by the rate of inflation, capped at 5.0%. Cook County also imposes a wheel tax on vehicles in unincorporated parts of the county. The rates for residents of unincorporated Cook County increased from \$40 to \$80 for smaller passenger automobiles and from \$50 to \$100 for larger passenger vehicles effective July 1, 2012.

The rate collected by the State for each small passenger vehicle registration increased from \$78.00 to \$98.00 on January 1, 2010 with the adoption of Public Act 96-34. In addition to the vehicle registration fee, the State also imposes a \$1.00 surcharge that is collected and deposited into the State Police Vehicle Fund and a \$2.00 surcharge collected and deposited into the Park and Conservation Fund.

*(625 ILCS 5/2-119, 625 ILCS 5/3-801 to 5/3-834 and 625 ILCS 5/6-118)*

*(City of Chicago Municipal Code, Chapter 3-56)*

*(Code of Ordinances of Cook County, Illinois, Chapter 74, Article XIV)*

### ***Parking Tax***

This tax applies to businesses that operate parking lots, which must collect the tax from customers. The City of Chicago and Cook County impose a percentage-based tax system. As of January 1, 2015, the City charges a 20.0% tax for parking on weekends and a 22.0% tax for parking on weekdays. This is a two percentage point increase from the prior rates. The City also increased the tax for weekly and monthly parking rates, from 20.0% to 22.0% effective January 1, 2015. Effective September 1, 2013, the County charges a tax between 6.0% and 9.0%.

depending on the charge or fee and length of time. Also as of January 1, 2015, the City began requiring valet operators to pay a tax of 20.0% on all charges or fees received from their valet parking operations in the City.

*(Code of Ordinances of Cook County, Illinois, Chapter 74, Article XIII)  
(City of Chicago Municipal Code, Chapter 4-236)*

### ***New Motor Vehicle Tax***

Cook County applies this tax to all sales of new motor vehicles in the County. Different rates apply per number of wheels, but a standard four-wheel passenger car is chosen for the example in this report's chart. The range is from \$7.50 on a two-wheeled vehicle to \$22.50 on a truck or trailer. This tax is imposed in addition to all other applicable sales taxes.

*(Code of Ordinances of Cook County, Illinois, Chapter 74, Article VI)*

### ***Tire Fee***

The City of Chicago Tire Fee applies to the retail sale of new tires at a rate of \$1.00 per tire and is in addition to the sales tax. It went into effect in 2005. The State levies a \$2.50 tax on all new or used tires, except tires sold by mail, tires sold while mounted on a vehicle or used or reprocessed tires. The sale of new tires is also subject to the sales tax on general merchandise.

*(415 ILCS 5/55.8)  
(City of Chicago Municipal Code, Chapter 3-55)*

### ***Automobile Rental Tax***

The State of Illinois, City of Chicago and the Metropolitan Pier and Exposition Authority (MPEA) impose a tax on the rental of any automobile, van with capacity of 7-16 passengers, or recreational vehicle for the privilege of using Illinois highways. The State of Illinois imposes a tax of 5.0% of the automobile rental charge, MPEA imposes a tax of 6.0% and the City of Chicago charges \$2.75 per rental period in addition to the 9.0% personal property lease transaction tax that applies to Chicago car rentals.

It is the responsibility of the lessor to collect the tax, but the lessor can pass the tax to the customer by adding a separate charge to the transaction. The tax applies only to short-term rental agreements for periods up to one year. Rentals are tax exempt for governments, charitable, religious or educational organizations, non-profits that primarily provide recreation to persons over age 55, rentals where the lessor retains possession of the vehicle (e.g., limousine service) and rentals of demonstration cars by automobile dealers.

*(35 ILCS 155)  
(65 ILCS 5/8-11-11)  
(70 ILCS 210/13(d))  
(City of Chicago Municipal Code, Chapter 3-32 and Chapter 3-48)*

### ***Airport Departure Tax***

This tax is applied to businesses that provide ground transportation for hire to passengers departing from commercial service airports in Chicago (O'Hare and Midway) and is passed on to consumers. The tax is imposed by the Metropolitan Pier and Exposition Authority. The current tax rates have been in effect since September 1, 2010 when the MPEA implemented a 100.0% increase in the prior rates. The tax rate for taxis is \$4.00 per airport departure. The tax rate for vans and buses regulated by the Illinois Commerce Commission or Interstate Commerce Commission is \$2.00 per passenger. Tax rates for other buses and vans range by capacity: the tax is \$18.00 for vehicles with a capacity of 1-12 passengers; \$36.00 for 13-24 passengers; and \$54.00 for over 24 passengers.

*(70 ILCS 210/13(f))*

### ***Ground Transportation Taxes***

This tax is an occupation tax imposed on businesses that provide ground transportation vehicles for hire in Chicago including both taxicabs and transportation network providers, which are rideshare services such as Uber and Lyft.<sup>7</sup> Surcharges can be passed on to riders in the ride fare.

The City charges a monthly fee for licensed taxicabs of \$98.00 per vehicle per month and a daily \$3.50 fee for non-licensed or suburban taxicabs.

The City also collects a rideshare fee of \$0.40 per ride.<sup>8</sup> For rideshare trips that include a pick-up or drop-off at O'Hare Airport, Midway Airport, McCormick Place or Navy Pier the ground transportation charge is \$5.40. Rideshare providers may claim a credit of 50% of the tax (\$0.20 per ride) if the ride includes a pick-up or drop-off in an area designated as an underserved area.

As part of the FY2016 budget process during the fall of 2015, the Chicago City Council increased the ground transportation tax from \$0.20 per ride to \$0.40 per ride for rideshare vehicles that operated for 20 hours or less per week (Class A) and \$0.80 per ride for rideshare vehicles that operated for more than 20 hours per week (Class B). The City Council also allowed rideshare drivers to provide pick-up or drop-off service at Chicago's O'Hare and Midway airports, McCormick Place and Navy Pier at the rate of \$5.40 for Class A drivers and \$5.80 for Class B drivers.

On June 22, 2016 the Chicago City Council approved substitute ordinance 2016-1729 that eliminated the Class A and Class B rideshare driver classifications. This effectively reduced the charges for Class B rides to \$0.40 per ride and to \$5.40 per ride including a pick-up or drop-off at Chicago airports, McCormick Place or Navy Pier.

Other ground transportation taxes collected by the City of Chicago include \$3.50 per day for other ground transportation vehicles with capacity of less than 10 passengers, \$6.00 per vehicle

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<sup>7</sup> For the purposes of this report rideshare transportation vehicles are defined as those transportation drivers that utilize mobile applications provided by companies, such as Uber and Lyft to request transportation services. Non-rideshare transportation vehicles are defined as taxicabs that operate under a metered fare system.

<sup>8</sup> In addition to the \$0.40 per ride fee, the City collects \$0.10 for each ride performed by a non-handicap accessible vehicle and a \$0.02 administrative fee. City of Chicago Municipal Code, Chapters 9-115-040 and 9-115-140.

per day for vehicles with capacity of 11-24 passengers, \$9.00 per day for vehicles with capacity of more than 24 passengers and \$1.00 per day for pedicabs.

*(City of Chicago Municipal Code, Chapter 3-46)*

### ***Boat Mooring Tax***

The City of Chicago has charged a 7.0% tax on the docking of any watercraft for a fee within the City's corporate limits since January 1, 2003. Prior to then, the boat mooring tax rate was 25.0% of the docking fee.<sup>9</sup> The boat mooring tax has been in existence since January 1, 1984. The individual charged a mooring or docking fee is responsible for paying the boat mooring tax to the marina or docking facility.

*(City of Chicago Municipal Code, Chapter 3-16)*

### **Other Taxes**

#### ***Checkout Bag Tax***

The City of Chicago first prohibited chain and franchise stores from using certain disposable plastic bags in 2014. However, the ordinance resulted in unintended consequences, such as stores offering thicker plastic bags free of charge to consumers. In an effort to address these unintended consequences, an ordinance was adopted by the Chicago City Council imposing a tax on both paper and plastic checkout bags in November 2016 as part of the FY2017 budget approval process. The tax is imposed on the retail sale or use of paper and plastic checkout bags within the City at the rate of \$0.07 per checkout bag sold or used in the City. Of the \$0.07 tax per checkout bag, the City will receive \$0.05 and the retailer is eligible to keep the remainder. The checkout bag tax is effective February 1, 2017.

*(City of Chicago Municipal Code, Chapter 3-50)*

#### ***Telecommunications Excise Tax***

This tax applies to the transmission of phone, wire, computer exchange and similar communications. The City of Chicago and State of Illinois both impose a 7.0% rate. The City also levies a tax for 911 emergency services. Effective September 1, 2014, this tax increased from \$2.50 per phone connection per month for 911 emergency services to \$3.90 per phone connection per month. The 911 surcharge on prepaid wireless phones tax rate increased on September 1, 2014 from 7.0% to 9.0%, which the State of Illinois administers and enforces. The rate for Chicago's 911 tax previously increased from \$1.25 to \$2.50 with the November 13, 2007 approval of the FY2008 City Budget, and the surcharge on prepaid wireless service became effective on January 1, 2012.

*(26 USC Sec. 4251)*

*(35 ILCS 630, 635 and 636)*

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<sup>9</sup> City of Chicago Department of Revenue, Informational Bulletin Vol. 9 No. 1, Chicago Boat Mooring Tax, March 2006.



(50 ILCS 750 and 753)  
(City of Chicago Municipal Code, Chapters 3-64; 3-73; 7-50; and 7-51)

### ***Personal Property Lease Transaction Tax***

The City of Chicago lease transaction tax applies to businesses or individuals that either are a lessor or lessee of personal property in Chicago, including leases for automobiles, at a rate of 9.0%. The lessor does not bear the burden of the tax, but is responsible for collecting the tax from the lessee. The rate increased from 6.0% to 8.0% with the November 13, 2007 approval of the FY2008 City Budget. On November 19, 2014, as part of its FY2015 Budget, an amendment was made that increased the rate of this tax one percentage point to 9.0%, effective January 1, 2015. There are various exemptions such as the lease of motion picture films (subject to Amusement Tax instead), medical equipment rentals, lease of rolling stock used for interstate commerce and leases where the lessor and lessee are part of the same related group.

Several changes to the City of Chicago's Personal Property Lease Transaction Tax have taken place in recent years. An ordinance passed in 2006 originally exempted car sharing rentals from the personal property lease tax, but effective January 1, 2015, the exemption was eliminated so that all vehicle rentals, including car sharing rentals, are subject to the lease transaction tax.<sup>10</sup>

In 2011 the City of Chicago issued Personal Property Lease Transaction Tax Ruling #11, which stated that suburban car rental agencies located within 3 miles of the City's borders would be responsible for paying the 9.0% tax unless there was written proof that the lessee used the car outside of the City for at least 50% of the rental period. Customers of these suburban car rental companies were asked to indicate whether they intend to use the car inside or outside the City for at least 50% of the car rental period, and those using the car outside of the City for at least 50% of the time were exempt from paying the tax. The ruling also stated that in the event of an audit with absence of proof, the City would assume that a customer who is a Chicago resident would primarily use the vehicle in the City and require payment of the tax.

However, two rental car companies filed lawsuits against Ruling #11. As a result, the Illinois Supreme Court ruled on January 20, 2017 that Ruling #11 violates the Illinois Constitution because it is an improper use of the City's home rule authority to impose a tax on a transaction that occurs outside of the City's borders.<sup>11</sup> Therefore, the personal property lease transaction tax will no longer apply to car rentals that occur outside the City's borders.

The City issued another ruling in June 2015, Personal Property Lease Transaction Tax Ruling #12, which interpreted that the existing 9.0% tax on nonpossessory computers applies to transactions that provide data to customers, e.g. LexisNexis, and companies that provide storage, e.g. Dropbox. Real estate brokers and certain other professions are exempt from the tax due to the fact that they use data shared in the cloud as part of a membership in a private association. The tax was supposed to go into effect in September 1, 2015, but was postponed until January 1, 2016. The Chicago City Council approved a number of ordinance amendments to the tax as part of the FY2016 budget process, exempting small new businesses, i.e. those

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<sup>10</sup> City of Chicago, Department of Finance, 2015 Tax Changes Bulletin.

<sup>11</sup> The Hertz Corporation et al., Appellants, v. The City of Chicago, et al., Appellees; Case Number 2017 IL 119945.



businesses with less than \$25.0 million in gross receipts or sales and less than 60 months in business, from the tax and imposed a lower rate of 5.25% for “cloud” products.

*(City of Chicago Municipal Code, Chapter 3-32)*

### ***Real Estate Transfer Tax***

This tax is imposed upon the privilege of transferring title to, or beneficial interest in, real property. On April 1, 2008, an additional 0.3% was added to the City of Chicago portion of the tax to be transferred to the Chicago Transit Authority. The 0.3% CTA portion of the City real estate transfer tax is paid by the seller. The State and county real estate transfer taxes are also owed by the seller at the rate of 0.1% and 0.05%, respectively. The City of Chicago 0.75% home rule tax is paid by the buyer. Of the total 1.2% rate, 0.45% is paid by the seller and 0.75% is paid by the buyer. There are various exemptions to the real estate transfer tax. For example, the City of Chicago exempts sales under \$500, bankruptcies and Enterprise Zone transfers from the tax.

*(35 ILCS 200/31-10)*

*(55 ILCS 5/5-1031)*

*(65 ILCS 5/8-3-19(i))*

*(Code of Ordinances of Cook County, Illinois, Chapter 74, Article III)*

*(City of Chicago Municipal Code, Chapter 3-33)*

### ***Amusement Tax***

Cook County charges an Amusement Tax of 1.0% of admission fees for live theatrical, musical or other cultural performances with capacity of 750-5,000 persons and a 1.5% tax for performances with capacity over 5,000 persons. The tax does not apply to such performances with capacity under 750 persons. A tax of 3.0% applies to other exhibitions, performances, presentations and shows such as movies and sports.

As part of Cook County’s FY2016 budget, the Board of Commissioners amended the County’s amusement tax by extending the tax to ticket resellers. Effective February 1, 2016, the amusement tax applies to ticket resellers at the same rates listed above that apply to primary ticket sellers.

The tax may apply to amateur productions, benefits for non-profit organizations, non-profit professional orchestras and operas or participatory activities (e.g., amusement parks, sports games) pursuant to an amendment to the ordinance passed February 1, 2012. Under the amended ordinance, if the Cook County Department of Revenue determines that granting an exemption would result in a potential loss of tax revenue greater than \$150,000, the Board of Commissioners would need to provide final approval of the exemption. Prior to February 2012, the tax was not imposed on these organizations if they applied for a waiver from the Department of Revenue.

On October 26, 2016 the Cook County Board of Commissioners approved an amendment to the County’s amusement tax ordinance clarifying that live musical performances, including certain DJ performances, in venues with a capacity of 750 or less are exempt from paying the Cook

County amusement tax. The City of Chicago clarified its language on the exemption of live DJ performances from the amusement tax on December 1, 2006.<sup>12</sup>

The City of Chicago also charges an Amusement Tax of 5.0% of admission fees for live theatrical, musical or other cultural performances with capacity over 750 persons. The tax does not apply to such performances with capacity under 750. A 9.0% tax applies to all other performances and participatory events including movies, sports, amusement parks, circuses, pleasure boat rides, dancing, bowling, tennis, weightlifting, etc.

Exemptions include activities that are primarily educational rather than recreational, initiation fees and memberships to health clubs. Per-event or per-admission fees are taxed at 9.0%. Cable television is also taxed at 9.0% of charges. A previous partial exemption of the tax to cable television providers was eliminated effective January 1, 2015. Cable television providers must now pay the full 9.0% rate that applies to other amusements. Also effective January 1, 2015, the City eliminated the partial tax exemption on the admission fee paid for special seating areas, such as sky boxes. This tax, however, will be reduced by any other city tax shown to be imposed on these admission fee charges.

On June 9, 2015, the City of Chicago Department of Finance issued Amusement Tax Ruling #5 that introduced revisions to its interpretation of how the 9.0% amusement tax is administered to include streaming services like Netflix and Spotify that are delivered electronically. The ruling went into effect on September 1, 2015. This interpretation of the municipal code was challenged in Cook County Circuit Court<sup>13</sup> and is currently pending. Additionally, the City's Department of Finance announced on December 12, 2016 that business subscribers of satellite television, including restaurants and bars, must pay the 9.0% amusement tax. The announcement was issued because many businesses were unaware of their obligation to pay the tax. The Department of Finance offered to waive interest and penalty fees for businesses that registered to pay the tax by December 31, 2016.

With the stated purpose of simplifying the taxation of ticket resales, as part of the FY2017 budget process the City of Chicago changed the tax rate to a flat 3.5% on the full resale ticket price, regardless of the mark-up. Previously, the ticket resale was taxed on the mark-up price only, which the City says resulted in difficult calculations and a loss in revenue.<sup>14</sup>

*(Code of Ordinances of Cook County, Illinois, Chapter 74, Article X)*  
*(Ordinance Amendment 16-5102)*  
*(City of Chicago Municipal Code, Chapter 4-156)*  
*(City of Chicago Ordinance 2016-7981 (2017 Revenue Ordinance))*

### ***Firearm and Ammunition Taxes***

Cook County imposes a tax on the retail purchase of a firearm of \$25.00 per firearm, effective April 1, 2013. The Cook County Board of Commissioners adopted the ordinance on November

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<sup>12</sup> City of Chicago Department of Revenue, Amusement Tax Ruling #4: Live Cultural Performance Exemption – DJs, Effective December 1, 2006.

<sup>13</sup> Labell et al. v. The City of Chicago et al.; Case Number 2015-CH-13399.

<sup>14</sup> City of Chicago, FY2017 Budget Overview, p. 22; and Ordinance 2016-7981.

9, 2012 as part of the FY2013 budget. For FY2016, the Board voted to add a tax on firearm ammunition which includes a \$0.05 on centerfire cartridges and a \$0.01 on rimfire cartridges and went into effect on June 1, 2016. The State of Illinois also requires residents to register for a Firearm Owners Identification Card in order to purchase a firearm. The card has a fee of \$10.00 for a ten-year term. The purchase of firearms and ammunition is also subject to the sales tax on general merchandise.

*(Code of Ordinances of Cook County, Illinois, Chapter 74, Article XX)*  
*(430 ILCS 65/3)*