

“Luxury” Tax

“Luxury” Tax: Merchandise for sale in Chicago is subject to general sales taxes imposed by the State, County, and City. However, there are no taxes levied specifically on high-end products based only on their status as luxury-type items.

Background

General merchandise purchases in the City are subject to a combined sales tax rate that includes the City, State, Regional Transportation Authority, and Cook County sales taxes. The total combined rate is currently 9.25 percent. The rate will increase to 10.25 percent on January 1, 2016, as a result of a one percent increase imposed by Cook County. Revenue from the City portion of these sales taxes has accounted for an average of approximately 18 percent of total corporate fund revenues over the past 10 years and is expected to generate \$651.3 million in revenue for the City in 2015. Additional information and revenue history for sales taxes can be found on pages 15-16 of the 2015 Annual Financial Analysis.

The sales tax applies uniformly to all general merchandise sales in Chicago. No taxes have been imposed specifically on high-end products based only on their status as luxury-type items, and there are no ‘graduated’ taxes on sales in Chicago – in other words, no taxes apply only to the portion of a sales price above a certain amount and no taxes apply only to sales that are above a certain dollar amount.

Revenue Impact

Revenue from a ‘luxury tax’ would vary significantly depending upon what items are taxed and the amount of the tax. Consideration would need to be given to the practicalities of such a tax – for items that range in price (jewelry, shoes, art), would only expensive versions be taxed? What price point would trigger the ‘luxury tax’? Would it be the same rate for each item? What will count in determining if the trigger price is met (a matching set of earrings and a necklace, or each separately)? The cost of administering such a specific tax may offset a portion of the revenues.

Legal Authority

A change in state law would be necessary to change the percentage tax rate based on the value of a product or products (e.g., to increase the sales tax rate to 15% for items over \$5,000), but the City does have the authority to impose a flat tax on a specific item or subset of items (e.g., to impose an additional \$50 tax on the sale of every fur coat).

However, any such tax must meet the requirements of the Uniformity Clause of the 1970 Illinois Constitution. Under the Uniformity Clause, classifications must be based on a real and substantial difference between the people or products taxed and those that are not taxed, and they must bear some reasonable relationship to the object of the legislation or to public policy. A tax on ‘luxury’ items as such would be unlikely to meet the Uniformity Clause requirement.