



Legislation Text

File #: 18-024B, Version: 1

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Pass the Ordinance amending Section 2, of Chapter 11, of Title 3, of the Naperville Municipal Code increasing the local simplified municipal telecommunications tax rate to six percent (Item 2 of 4).

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

Effective July 1, 2002, the State of Illinois enacted the Simplified Municipal Telecommunications Tax Act (the "SMTT") that replaced other telecommunication taxes imposed under the Illinois Municipal Code. Prior to the SMTT, the General Assembly had authorized municipalities to impose various fees and taxes on the privilege of originating or receiving telecommunications, and on retailers engaged in the business of transmitting such telecommunications, all of which were remitted by such retailers directly to the imposing municipality. To simplify the imposition and collection of municipal telecommunications taxes and to reduce complication and burden, the General Assembly repealed those acts and enacted the SMTT which provides for a single municipally imposed telecommunications tax which, is collected by the Illinois Department of Revenue.

This tax is applied on cell phones and land lines and is charged based upon the taxpayer's service address. Additionally, the rate is only applied to the total bill associated with telecommunications, which does not include data packages or communication through Internet-based services.

The SMTT imposes a 7.00% tax rate on behalf of the State of Illinois and allows municipalities to impose up a local tax rate of up to 6.00%. Effective January 1, 2003, the City of Naperville imposed a 5.00% SMTT rate. Staff's research shows all but one comparable community impose a rate at the 6.00% maximum.

The SMTT may be imposed only in 0.25% increments and there is a deadline for filing ordinances making changes to the rate. Municipalities must file any ordinance changing its rate with the Illinois Department of Revenue on or before March 20 for the tax rate to take effect July 1 and on or before September 20 for the rate to take effect on the following year.

It is notable that the State of Illinois imposes a 0.50% percent administrative fee that is retained by the state treasurer to cover the costs of administering the taxes imposed by municipalities. Also, providers can take a 1.00% discount for timely filing and payment of these taxes.

DISCUSSION:

During the December 19, 2017 City Council meeting, the motion to approve the City's property tax levy was amended to direct staff to bring back for Council consideration \$2.1 million in changes that would further reduce the property tax levy to an amount less than last year's levy.

As a component of the \$2.1 million in changes that would further reduce the property tax levy, it is recommended that the City increase its telecommunications tax from 5% to the maximum 6% rate that is allowed by the state, effective July 1, 2018.

To have an increase become effective July 1, 2018, Council must pass an ordinance to that effect prior to March 20, 2018.

FISCAL IMPACT:

The City currently receives approximately \$4.4 million in annual receipts through the telecommunication tax at 5.00%. Therefore, an incremental 1.00% is projected to yield \$880,000 on an annual basis.

Similar to the implementation of the home rule sales tax, there is a three-month delay in the disbursement of the funds once the tax is enacted. Therefore, if the tax is approved for a July 1 implementation, the City would begin receiving disbursements starting October 2018. The total projected value for 2018 is \$220,000.