# Illinois

## Highlights

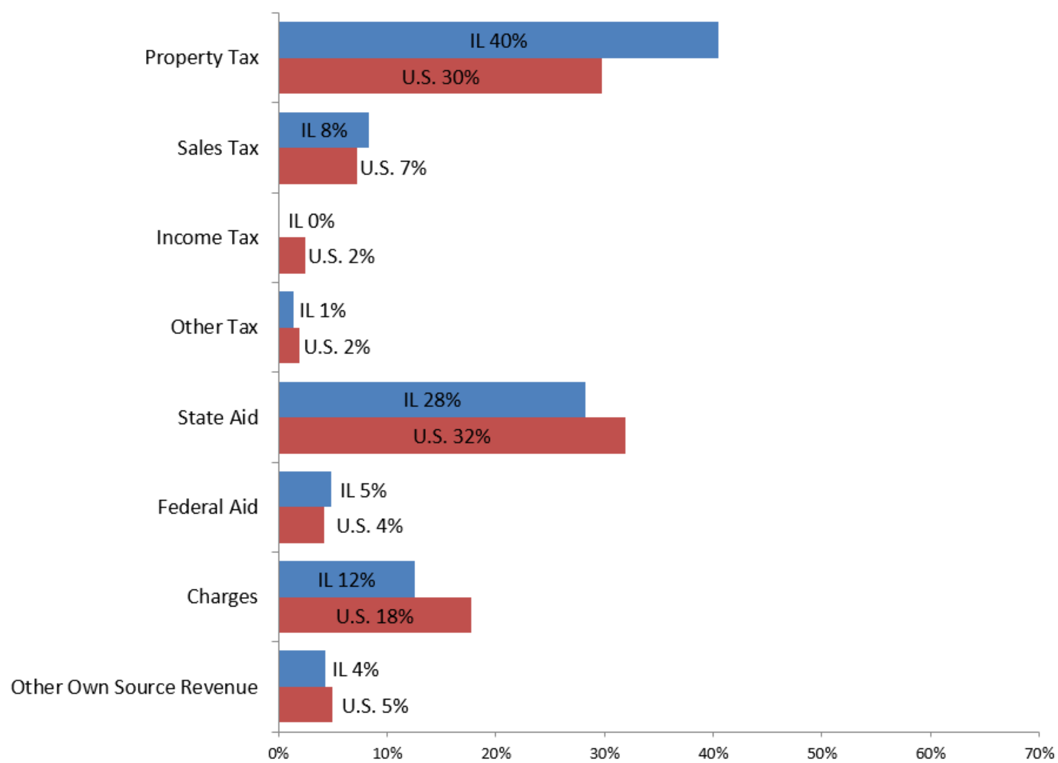
Local governments in Illinois rely on the property tax for 40 percent of local revenue, compared to 30 percent for local governments in the average state (figure IL-1).

In 2016, state aid in Illinois accounted for the smallest share of elementary and secondary education funding in the 50 states—24.1 percent, compared to a national average of 47 percent (U.S. Department of Education 2018). The property tax is virtually the only local tax revenue source for Illinois school districts. Consequently, Illinois relies heavily on local property taxes to fund elementary and secondary education.

Illinois has almost 7,000 units of local government—more than any other state—resulting in a highly fragmented property tax base with 6,000 different jurisdictions levying ad valorem taxes (Census 2017).

Illinois is one of two states, along with New York, in which property tax structures differ substantially by locality. In essence, Cook County (which includes Chicago, which accounts for about half of the county's population) has one property tax system, and the rest of Illinois has a different one.

**Figure IL-1**
**Sources of Local General Revenue, Illinois and U.S., 2016**




Source: U.S. Census via Significant Features of the Property Tax

## Property Tax Reliance

Illinois ranks sixth highest among states for state and local reliance on the property tax. In 2016, property taxes accounted for 23.4 percent of state and local revenues compared to a national average of 16.1 percent. Illinois had the second-highest effective tax rate on median-value residential homesteads among the 50 states and was one of only four states in which the effective tax rate on the median-value home exceeded 2 percent of the home's value (table IL-1).

**Table IL-1**
**Selected Illinois Property Tax Statistics, 2016[1]**

| | Illinois | U.S. Average | Rank (of 51) *1 is highest* |
|---|---|---|---|
| Per capita property tax | $2,120 | $1,556 | *11* |
| Property tax percentage of personal income | 4.0% | 3.1% | *10* |
| Total property tax as percentage of state-local revenue | 23.4% | 16.1% | *6* |
| Median owner-occupied home value[2] | $179,700 | $211,865 | *25* |
| Median real estate taxes paid for owner-occupied home[2] | $4,157 | $2,323 | *6* |
| Effective tax rate, median owner-occupied home[3] | 2.3% | 1.1% | *2* |

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2013-2017.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

## Administration and Assessment

In Illinois, property taxes are levied by about 6,000 counties, townships, municipalities, independent school districts, and special districts. Assessments are conducted at township level except in counties with no township governments (table IL-2).

In Cook County, the state's largest county dominated by the City of Chicago, property is subject to classification, with thirteen different classes. Commercial and industrial properties are assessed at a higher percentage of market value. Cook County is divided into three assessment districts, and one of the districts is revalued each year.

Elsewhere in Illinois, all property is assessed uniformly. All real property, except tracts of land under conservation management, is assessed at 33.33 percent of market value. Property other than farmland is reassessed every four years, and farmland is reassessed annually.

Personal property is not taxed in Illinois.

## Limits on Property Taxation

Illinois has two types of tax limits: rate limits and levy limits. Property tax rate limits apply statewide and affect school districts, special districts, community college districts, townships, and all non-home rule counties and municipalities. As a home rule government, Cook County is not subject to tax rate limitations. The Property Tax Extension Limitation Law (PTELL) applies in 39 counties (including Cook County) and limits the increase in the tax levy to the lesser of 5 percent or the rate of inflation.

## Property Tax Relief and Incentives

Several residential property tax relief programs provide property tax credits, exemptions, or deferrals for homeowners, the elderly, veterans, and disabled residents. The General Homestead Exemption provides an exemption from the property tax up to $6,000 for homeowners outside of Cook County and up to $10,000 for homeowners in Cook County. Illinois has a circuit breaker called the Circuit Breaker Tax Grant for Senior Citizens and Disabled for which both homeowners and renters are eligible, however the state has not provided funding for the program since 2012. If funded, the maximum benefit is $700.

The state also has several property tax incentives for economic development including an enterprise zone program. Tax increment financing (TIF) is used extensively to fund local economic development.

**Table IL-2**
**Illinois Property Tax Features, 2017**

| Feature | Illinois | Count for 50 states plus DC |
|---|---|---|
| Statewide classification of real property | No | 25 |
| Assessment of property primarily by county | No | 31 |
| Limits on property tax rates or levies | Yes | 45 |
| Limits on the rate of growth of assessed value | Yes | 20 |
| Circuit breaker property tax relief program | Yes | 34 |

Sources: Significant Features of the Property Tax

## Key Property Tax History

There has been periodic pressure in Illinois from homeowners and businesses for property tax relief by shifting from local to state sources of revenue. Even though Illinois is already among the states with the lowest share of state funding of elementary and secondary education, there has been no shift.

Instead, the desire for relief from local property taxes has resulted in increased use of property tax limitation measures in recent decades. The Property Tax Extension Law (PTELL) was passed in 1991 and applied at first to just the five suburban counties surrounding Cook County, which had seen rapid increases in home prices (Anderson and McGuire 2007a). PTELL was later extended to Cook County and then as a local option for all Illinois counties. The evidence suggests PTELL had the desired effect of slowing growth in property tax collections in the affected jurisdictions (Dye, McGuire, and McMillen 2005).

The next big push to mitigate property tax burdens was Cook County's 7 percent assessment growth cap passed in 2004 (Dye, McMillen, and Merriman 2006). Though perceived as tax relief, the measure shifted property tax burdens away from homeowners with the highest growth in assessed values to commercial-industrial property owners and to homeowners with low growth in assessed values (Dye and McMillen 2007a, 2007b). In 2013, the legislature increased the General Homestead Exemption for Cook county in order to offset the expiration of the tax cap which was fully phased out after the 2013 assessment year (Illinois Revenue).

## Recent Developments

Plagued with chronic budget deficits and $133.5 billion in unfunded pension liability, the state has seen its credit rating erode to BBB-, one level above a junk rating. S&P Global ratings has warned "If Illinois is unwilling or unable to pass a revenue increase within the next two years, absent significant expenditure cuts, we would likely lower the rating" (Reuters 2019). Governor J.B. Pritzker, who took office in 2019, proposed amending the state's constitution to permit a graduated income tax in place of the state's flat-rate income tax rate. In his first budget address, the governor said he favored this revenue-generating measure over budget cuts or raising the flat income tax rate because additional state cuts would result in higher local property tax increases and raising the flat tax would do nothing to stem rising local property taxes (Office of the Governor 2019). In May 2019, the legislature voted to put a constitutional amendment before voters in November 2020 to authorize a graduated income tax (Pearson, Munks, and Petrella 2019).

Governor Bruce Rauner signed into law a historic school funding reform package in August 2017. The new "evidence-based" school funding formula increased state aid to property-poor school districts by about $350 million annually. The law funded private school tax credits for low- and moderate-income families, allowed Chicago Public Schools (CPS) to raise property taxes, and contributed to CPS pensions (Burnette 2017).

A 2010 Illinois Supreme Court decision in *Provena Covenant Medical Center v. Department of Revenue* (925 N.E.2d 1131 (Ill. 2010)) attracted national attention when the court ruled Provena Covenant Medical Center did not provide charity care at a level sufficient to justify a charitable tax exemption based on a five-part test the court established in 1968 in *Old Peoples Home v. Korzen*. The legislature responded by passing legislation designed to clarify the charity care requirements for nonprofit hospitals seeking tax exemption (35 ILCS 200/15-86). In 2017, the Supreme Court vacated a lower court ruling that found the new statute, section 15-86, unconstitutional (Collins et al. 2018). In 2018, the court ruled in *Oswald v. Hamer* (2018 IL 122203 (Ill. 2018)) that Section 15-68 does not on its face violate the constitution and that exemption claims made under this section must be evaluated according to constitutional requirements. The court left open the possibility that "while it is possible that specific future applications of section 15-86 may produce actual constitutional problems, it will be time enough to consider any such problems when they arise."

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