

Is the Property Tax System Broken??

A widespread opinion heard these days is that “the property tax system is broken”. As property values continue to decline, the expectation is that assessments and tax bills should do the same. But it isn't happening and so the conclusion is that “something must be wrong - the system must be broken”. In fact, the property tax system is working very much the way it was intended. I can already hear your sigh of disbelief. *“You must be kidding! We are in the most seriously declining real estate market that many of us have ever seen. Assessments still haven't gone down for most people. When they finally do, the drop is much less than the actual market downturn. Even then, tax bills won't go down ...how can you say that it's working?”*

The property tax system in Illinois is doing exactly what it was designed to do, provide a stable revenue stream to local taxing authorities for the purpose of supporting local services. And the value of your property - looking at the average of the three years of sales *prior* to the assessment date - determines your share of the total tax. Is it perfect? Absolutely not! Could it be better? Of course! Is it the best way to support local government? Lots of opinions here, but no one has come up with a better way. People think the property tax system isn't working because it isn't doing what everyone wants it to do *right now* and because many people never really understood how it was intended to work in the first place. In a declining real estate market, we now see shortcomings that didn't bother us in the double digit appreciating market of a few years ago. Assessments that lag behind the market are now a disadvantage and many homeowners feel over assessed. We are told that taxes will not go down even if assessments go down, so we feel overtaxed as well. It doesn't seem right, so, “the system must be broken”.

Certainly the property tax system has flaws and I would be the first to say that it isn't perfect, but broken? Not really. Most people just don't like it. In fact, it is possibly the most hated tax of all the taxes we pay. Why? Because **the property tax is very, very visible.** *We actually get the bill.* And then we have to pay it in two large installments only 3 months apart. For most of us it's a major expense and we can't help but think of the other ways those tax dollars could be spent. Yet the property tax really has many significant advantages over sales taxes, income taxes and other forms of taxation. To begin with it's money paid locally that stays local. We can actually see what we are paying for and we can decide whether we are getting our monies worth. And, if we don't think that we are, we can talk directly to our local elected officials about it. We elect local residents to administer all aspects of the property tax system, from the assessor who values our property to the various boards that make the spending decisions. The board meetings of all taxing bodies are public meetings and open to community scrutiny. And in the end, if we are still unhappy, we can choose to become part of the solution ourselves by running for one of the offices that make the critical spending decisions that eventually become our tax bills.

Compared to every other tax we pay, the property tax is by far the most transparent. And the assessment process is by far the most transparent part of the property tax system. Every year property owners receive a “blue card” that tells them the new assessment, the change from the previous year, where to get additional information and how to challenge the assessment if it doesn't seem correct.

Compare that to the levy – that part of the process that actually creates the tax burden. Did you get an individual notice that told you how much the levy increased? Where to find out why and how to challenge it? That part of the system – the spending side – is much less visible, which is why taxpayers are left with the mistaken impression that taxes go up because assessments go up. They never actually see the levy increases from year to year – they only see assessments going up. But, in fact, increased spending by taxing bodies is what increases taxes. No spending, no tax. It is just that simple.

Everyone wants the assessed value of their property to be fair and accurate, but the number that should concern us the most is not the assessment, but the amount of money that our school districts, municipal governments and other local taxing bodies want to spend. If spending didn't increase, our taxes wouldn't either, no matter what assessments did. In most of my conversations with taxpayers the core problem isn't really the assessment but rather the amount of taxes they are paying. And, if we really want to lower or stabilize taxes, we must convince taxing bodies to lower or stabilize their spending. That is the only way to get real property tax relief. But then we must also be willing to accept the cuts in services that result from the cuts in spending. Our local services are not free; we pay for them with our property taxes. And balancing our demand for services with the costs of providing them is a challenge for all of us.

The “Taxes” portion of the web site which tells the real story. With only a few exceptions, the tax dollars collected by taxing bodies went up 5% - 6% between 2007 and 2008. **Taxes increase because of increased spending, and lower property assessments will have little impact on tax bills unless local taxing bodies cut spending.**