ILLINOIS FARM BUREAU
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LINK
Local Information, News and Know-How

Special Edition—December 2015 Volume 6 Issue SE

SPECIAL EDITION

Welcome to this special edition of LINK. In this publication, we look at some "hot topic" property assessment and tax related issues affecting tax payers and taxing districts alike. It will provide information on the Governor's proposed property tax freeze and taxing districts' reaction to all the political grandstanding, insight into property tax exemption legislation, and continued discussion on the recent legislative change to the farmland assessment law. Staying on top of these issues is key to the success of our farmers. Follow along in Springfield as these tax issues transform and new issues arise.

Property tax freeze

Governor Rauner's proposal has local taxing districts reacting with a flurry.

Recent rumblings of a proposed property tax freeze have local taxing districts reacting. It's no secret that Governor Rauner's proposed Turnaround Agenda includes a freeze on property taxes. More accurately, it includes a freeze on levies for all taxing districts across the state for at least two years.

So, how are taxing district taking the news? If you're a taxpayer – not well! Senate Bill 318 has lead to a panic in Illinois' taxing districts and is causing them to raise tax rates, possibly without cause, as local units of government react to the political speculations.

If passed, the bill would freeze the amount of money local units of government can get from property taxes for two years without voters approving an increase through a referendum. For example, if a school district asked for $500,000 (known as their levy) the previous year, they could not raise that levy amount above $500,000 as long as the freeze was in place unless local voters approved an increase.

While this bill is being considered, all the political grandstanding in Springfield has taxing districts reacting

(See **Freeze** on page 4)

Dates:

January 6-8
IL Specialty Crops, Agritourism & Organic Conference

January 10-13
AFBF Annual Meeting

January 21-22
IL Assn. of Drainage Districts Conference

March 15
General Primary Election

April 6-7
Governmental Affairs Leadership Conference

Did you know…

From 1818-1932 property taxes were collected & used only by State government. The State last levied a property tax in 1932 replacing lost revenue with a state sales tax.

However, property taxes lived on. As we know today, local governments continue to levy a tax on property as their main source of revenue.

General homestead exemption

A proposed $14,000 exemption carries a heavy price for farmers.

Legislation proposing all types of exemptions from property assessments/taxes is nothing new in Springfield. But, this latest proposal is a doozy!

Senate Bill 1488 would allow Cook County to increase their General Homestead Exemption from $7,000 to a whopping $14,000 in the assessed value of residential property. However, this is not simply a concern impacting Cook County. In addition, the current proposal would allow all other counties in Illinois a six-month period to increase the General Homestead Exemption in their counties from $6,000 to the same $14,000 in assessed value.

A property tax exemption is a dollar reduction in the assessed value of property which results in a reduction in the amount of property taxes owed. In Illinois, we have several types of exemptions that individuals and/or property might qualify for. The most common exemptions include, Senior Citizens Homestead Exemption, Disabled Person's Homestead Exemption, and the General Homestead Exemption. Our focus, based on recently proposed legislation, is the General Homestead Exemption.

This is an annual exemption available for residential property that is occupied by its owner or owners as their principal home. The exemption removes a portion of the assessed value of the home and, in turn, lowers the tax bill on that property. For example, if a home is valued at $100,000 and qualifies for a $14,000 General Homestead Exemption, the taxes are payed on that home as if it was worth only $86,000.

> Exemptions on one class of property shift the property tax burden to those properties which do not benefit from the change.

So why is this a concern for a lot of tax payers - especially farmers? In short, exemptions on one class of property shift the property tax burden to those properties which do not benefit from the change. An increase in the General Homestead Exemption to $14,000 would likely create a significant shift in the tax burden from residential properties to farm land, commercial and industrial properties. That is because these three classes of property do not qualify for a General Homestead Exemption.

The shift in the tax burden is a result of a drop in the total Equalized Assessed Value (EAV) within the boundaries of a taxing district created by the large exemption on the residential property. That drop in EAV doesn't necessarily mean taxing districts get less money in taxes. More likely it means taxing districts must raise their tax rate to generate the dollars they need to operate. That means those properties not receiving the exemption will pay a higher percentage in the overall taxes. In most of these taxing districts around the state, and especially in rural areas, that percentage increase will be picked up by the farmers.

Up to this point, we've been talking about the impact on taxpayers in non-PTELL (tax-cap) counties. This bill could have harmful effects on taxing districts in counties that have passed PTELL, also known as tax caps.

Taxing districts limited by PTELL do not have the ability to raise their rate to account for a loss in EAV created by a large increase in property exemptions. While PTELL does not limit property assessment increases or individual tax bills, it does place a limit on the taxing districts. Under that limit, a taxing district can only levy an increase of 5% or the current year's consumer price index (CPI), whichever is lower. This means districts under these caps will lose revenue if they are at their maximum rates.

*(See **Homestead** on page 4)*

Understanding How Farmland is Assessed for Taxation

By Brenda Matherly

Many farmland owners will soon be receiving a *Change of Assessment* notice showing changes to their 2015 real estate tax assessments payable in 2016. Many farmers will find their cropland soils are going up at a rate that is either higher or lower than the anticipated 10% change from last year's values. The amount of change will depend on the soil type. Poorer soils will see a higher than 10% increase while better producing soils can expect an increase of less than 10% from the preceding years value. So, how and why did this happen?

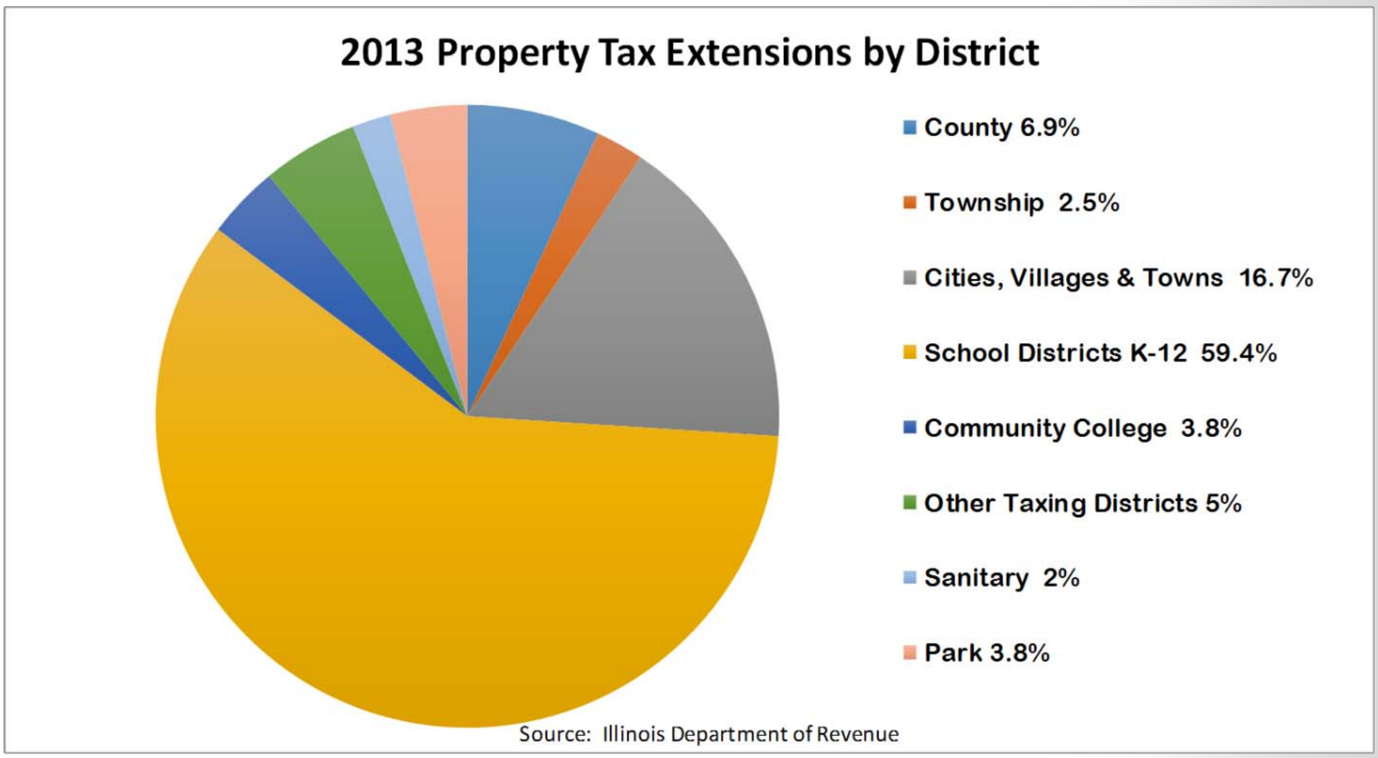
The simple explanation is that the Illinois Farmland Assessment law changed. This change is the result of a legislative amendment that passed in 2013. An amendment that was necessary to help protect the intent of the Farmland Assessment law that allows farmland to be assessed based on its productivity rather than on its market value.

The change applied to the 2015 values was the result of a 2013 amendment, now Public Act (PA) 98-0109, which limits value changes of all cropland Productivity Index (PI) soils to 10 percent of Illinois' median cropland soil PI, which is PI 111. Prior to PA 98-0109, each individual PI was limited to a change of no more than 10% from its own prior year's value.

In 1977, the Illinois Farmland Assessment Act was enacted to value farmland, for the purpose of taxation, based on its ability to produce income rather than on its market value. An assessed dollar value was assigned to each soil type based on that soil's Productivity Index (PI). The farmland assessment formula produced "Calculated" values that represent the cropland's ability to produce an income based on its soil quality and type.

In 1986, the law was amended to limit increases or decreases in assessed value for each soil type to no more than 10% per year. The application of the 10% limit produced "Certified Values." Since 1986, the assessed values of farmland have frequently been based on those "Certified Values." Taxing districts supported this change to limit large annual swings in their tax base and to provide

*(See **Farmland** on page 4)*



Local units of government in Illinois rely heavily on revenue collected from property taxes. This is a tax that is collected locally, based on the assessed value of real property. These taxes are imposed and administered by local units of government including, but not limited to: counties; townships; school districts; community colleges; and, park districts. The pie chart provides a statewide overview of how property tax dollars were shared by a few of the local taxing district.

Farmland

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more stability from year to year.

Between 1986 and 2014, the 10% limit continually increased the gap in value between the "Certified" values assigned to highest and lowest productive soils.

The Illinois Department of Revenue (IDOR) recognized that a substantial change was required to correct the assessed values of farmland. If nothing was done to fix the system, increased pressure from taxing districts and others could jeopardize the continued viability of the Farmland Assessment Law. A return to assessments based on 1/3 of market value would economically devastate most farm operations. That impact would be most drastic in urban areas where farmland values are influenced by development pressures.

In 2013, the IDOR introduced, and the Illinois General Assembly passed, Senate Bill 20. This new legislative change will eventually bring the "Certified" values, that are used to assess cropland, to the level of the "Calculated" values produced by the Farmland Assessment formula.

It is likely that, for the next several years, the assessed values for all soils will be adjusted by no more than 10% of PI 111's prior year certified value.

Farmland owners who have questions about this new assessment process can contact their county Farm Bureau office.

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Homestead

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In many cases, that loss of revenue means a loss in the quality of services offered. In those same situations, that loss of service could impact the quality of life for residents served by these districts.

As farmers living in rural areas, the impact could be a double whammy of increased taxation and loss of services. As always, make sure your legislator understands the impact on agriculture.

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Freeze

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with a "just-in-case" approach and raising taxes while they can. With property taxes being the primary source of revenue for taxing districts, this proposal is cause for alarm and has them "beefing up" their levy amounts to provide some financial cushion in their operating and personnel funds - just in case…

In the meantime, what does that mean for tax payers? You guessed it…higher property taxes. In this case, the wheels are already in motion. Taxing districts are not waiting to see if this bill passes. The risk of a tax freeze has local units of government re-evaluating the amount they will be requesting in property tax dollars for their 2016 levies. By asking for more money they hope to limit the damage by increasing their base rate before levies can be frozen.

And, whether or not the bill passes this year, the threat of a property tax freeze in the future will likely keep those levies higher.

For many counties, this reaction by the taxing districts comes as no surprise. Those counties that have passed the Property Tax Extension Limitation Law (PTELL), also known as tax caps are familiar with the concerns and actions of their local schools, fire departments, police forces, and other units of local government. Senate Bill 318 is modeled after PTELL imposing restrictions on a statewide basis as opposed to a local tax cap.

Like PTELL, a statewide freeze would place limiting factors on a taxing district's ability to ask for more money. PTELL's limiting factor is an increase of no more than 5% from last year's levy or an increase of no more than the current year's **consumer price index (**CPI), whichever is lower. Under the proposed statewide freeze, the total amount of property taxes collected by taxing districts would not be allowed to increase without voter approval. However, in both cases the limiting factors do not apply to new construction. Any new construction or improvements to existing structures would be added as an increase in the total EAV and assessed outside the restrictions of the limitations.

So, in the long run what might have started out as a property tax relief effort is turning into a property tax increase as taxing districts prepare for a "freeze" – just in case.

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How assessments & tax rates work together to determine your tax bill

Your assessments could increase and your tax bill decrease.

Last Year		This year	
Assessed value of your property	$150,000	Assessed value of your property	$155,000 *(3.3% increase)*
Assessed value of all property in district	$50,000,000	Assessed value of all property in district	$55,000,000 *(10% increase)*
Combined tax levy for all taxing bodies	$2,000,000	Combined tax levy for all taxing bodies	$2,000,000
Tax Rate ($2,000,000 / $55,000,000)	.0400	Tax Rate ($2,000,000 / $55,000,000)	.0363
Your property tax bill (.0400 x 150,000)	$6000	Your property tax bill (.0363 x $155,000)	$5626 *($374 decrease)*

Your assessments could decrease and your tax bill increase.

Last Year		This year	
Assessed value of your property	$150,000	Assessed value of your property	$145,000 *(3.4% decrease)*
Assessed value of all property in district	$50,000,000	Assessed value of all property	$45,000,000 *(11% decrease)*
Combined tax levy for all taxing bodies	$2,000,000	Combined tax levy for all taxing bodies	$2,000,000
Tax Rate ($2,000,000 / $55,000,000	.0400	Tax Rate ($2,000,000 / $45,000,000)	.0444
Your property tax bill (.0400 x $150,000)	$6000	Your property tax bill (.0444 x $145,000)	$6444 *($444 increase)*

Glossary of Tax-Related Terms

Assessed Value:	A dollar amount placed on real property based on fractional percentage of 33 1/3% of that property's market value, income earning potential or cost of construction. That value determines how the tax burden will be distributed among the taxpayers.
Property Tax:	A local tax imposed against real property by government taxing districts (e.g., school districts, municipalities, counties) based on the property's value. The property tax is the primary source of revenue supporting local units of governments.
Property Tax Extension:	The process in which the the county clerk applies the multiplier, calculates the tax rate needed to produce the amount of revenues each taxing district has requested, then distributes that amount among the properties in a taxing district according to their assessed values so that tax bills can be calculated.
Tax Caps:	Limits placed on the increase in property taxes in counties that have passed the Property Tax Extension Limitation Law (PTELL). These prevent overall property tax levies from rising in any one year more than five percent or the rate of inflation – whichever is less, with some exceptions.
Tax Levy:	The total amount of property taxes a taxing body, such as a school district, requests to operate for the upcoming year. The tax levy is the basis for determining the tax rate, within taxing district boundaries, for each of the taxing bodies.
Tax Rate:	The percentage used to determine how much a property owner will pay per one hundred dollars of their property's assessed value. The tax rate is calculated by dividing the tax levy requested by the taxing body by the total assessed value of all real property in the district. Therefore, the higher the assessed value the lower the tax rate. **Tax rate = Tax levy ÷ Tax base**
Equalized Assessed Value (EAV):	The result of applying the state equalization factor (also known as the multiplier) to the assessed value of a parcel of property. Tax bills are calculated by multiplying the EAV (after making any deductions for exemptions) by the tax rate.
Real Property:	The land itself and all things permanently attached such as buildings other structures and improvements.

LINK is published by the IFB® Governmental Affairs & Commodities staff
1701 Towanda Avenue Bloomington, IL 61701 309-557-3207 www.ilfb.org