7% Assessment Cap Renewed

On October 12, 2007, the so-called "7% assessment cap" was expanded and renewed by the Illinois legislature for three more years. The "7% assessment cap" is a State law designed to control property tax increases by increasing the size of the homeowner exemption. In order to apply in a given County, the County Board must adopt an ordinance to opt-in. So far, only Cook County has opted to do so.

The Governor previously vetoed this bill (HB 664) in an attempt to expand it even further. The legislature overrode the Governor's veto.

The Cap That Isn't A Cap

This law is popularly referred to as the *7% assessment cap.* However, for the vast majority of taxpayers, the law DOES NOT cap their assessment growth at 7% per year. Only a small group of taxpayers (those with the least valuable homes and the lowest assessment appreciation) will actually see their assessment growth capped at 7% per year.

How Does The Law Work?

The actual title of this law is *The Alternative General Homestead Exemption*.

Under Illinois law, all taxpayers are entitled to a homestead exemption of $5,000 per year. This is not a reduction in the tax bill, but a reduction in the taxable property value. Assuming a 7% local tax rate, a $5,000 homeowner exemption will reduce the tax bill by $350 per year ($5,000 x 7%).

The *Alternative General Homestead Exemption* (so-called *7% assessment cap*) allows for a larger homeowner's exemption. The County computes the actual exemption amount each year. Ideally, the exemption will be large enough so the taxable property value of the home will only grow by 7% from the prior year.

In a year when a home experiences a large re-assessment, the homeowner exemption will *ideally* grow to offset a portion of the assessment increase so the taxable property value (assessment minus homeowner exemption) does not increase by more than 7% from the year before.

But, there are limits or ceilings on the size of the exemption. During the first year the new law applies, the exemption cannot exceed $33,000. During the second year, it cannot exceed $27,000. During the third year, it cannot exceed $20,000. The law expires in four years and the exemption amount will then fall to $5,000.

The bottom line is this: the law does not cap assessment growth at 7% per year for most taxpayers because most taxpayers need an exemption larger than the ceiling limit. For most taxpayers, the exemption will offset the sting of a reassessment, allowing the tax increases to creep in more slowly, year-by-year.

A True Assessment Cap For Low-Income Taxpayers

The Legislature adopted additional and more generous relief for low-income taxpayers who are long time homeowners. This is called the *Long-Term Homeowner Exemption*.

Beginning with the 2007 tax year, long-term homeowners whose family income is under $75,000 per year are eligible to receive a 7% assessment cap without any ceiling on the size of the exemption amount. Families with incomes between $75,000 and $100,000 are eligible for a 10% assessment cap without any ceiling.

Because there is no ceiling on the exemption amounts, this is a true assessment cap.

To be eligible for this benefit, the taxpayer must own his/her home for at least 10 years, unless it was purchased with government assistance such as an FHA or VA loan. In that case, the law only requires 5 years of home ownership.

The taxpayer must apply for this benefit and demonstrate compliance with the income limits each year.

Welcome Stranger

The *7% assessment cap* and the *Long-Term Homeowner Exemption* each contain a welcome stranger provision. These laws were designed to protect property owners in gentrifying neighborhoods from being pushed out of their homes as property values skyrocket. Buyers will not receive the full benefit of the *7% assessment cap* that was enjoyed by the person who sold them the home.

When a home is sold, the exemption base is re-set to the year the closing occurred. This means the homeowner exemption received by the buyer for the year of closing will be reduced to $5,000 and the buyer will pay taxes on the full-assessed value of the home. Assessments growth *following closing* will be capped at 7% per year, subject to the ceilings.

So, buyers need to beware. They will likely experience a substantial tax hike when they buy a home.

<u>Should You Contest Your Assessment?</u>

Yes.

The so-called *7% Assessment Cap* does not prevent or stop property from being reassessed. It only phases in the assessment increases over time so the taxpayer does not see large tax spikes in a reassessment year. Rather, taxpayers will see *controlled* tax increases *each year.*

Furthermore, since there is a ceiling imposed on the size of the homeowner exemption, there is a ceiling on the tax savings. And, that ceiling amount declines each year and, eventually, the benefit phases out completely.

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October 15, 2007