

Homestead exemptions may not provide the full tax relief anticipated by homeowners and officials, especially in Cook County’s South Suburbs

In 2023, CMAP and the UIC Government Finance Research Center, on behalf of the Cook County Property Tax Reform Group and with support from the Cook County Office of the President, analyzed homestead exemptions to understand their impacts across the county. This work offers insights on how exemptions can affect taxpayers and taxing districts differently as well as options to mitigate some unwanted effects and enhance homeowners’ savings.

Overview of homestead exemptions in Cook County

Illinois offers eight types of exemptions that reduce the taxable value of a homeowner’s primary residence, called a homestead. Doing so lowers a home’s property tax bill by shifting part of the burden onto other taxpayers through higher tax rates. These tools can support a variety of public goals, but they can also have drawbacks as tax rates climb. State statutes articulate neither a public purpose nor an economic rationale for the current exemptions, making it difficult to evaluate their effectiveness.

In tax year 2021, exemptions removed nearly 8 percent (\$16.7 billion) from Cook County’s property tax base, also known as the equalized assessed value (EAV) of taxed properties. The general homestead exemption is the most common and makes up approximately 4.8 percent (\$10.2 billion), followed by the senior homestead exemption and senior freeze at a combined 2.7 percent. In both dollar value and proportion of EAV, exemptions are more prevalent in suburban Cook County than in Chicago.

Analyzing the tax effects of homestead exemptions

The project team developed a simulation model for tax year 2021 to analyze outcomes in 132 Cook County municipalities. This model compares current tax bills for each property to an alternative scenario where no exemptions are available to homeowners, while keeping local tax levies constant. This method allows the team to quantify the changes due to exemptions in different areas of Cook County.

Fig. 1: Change in composite tax rate due to homestead exemptions, tax year 2021, in percentage points

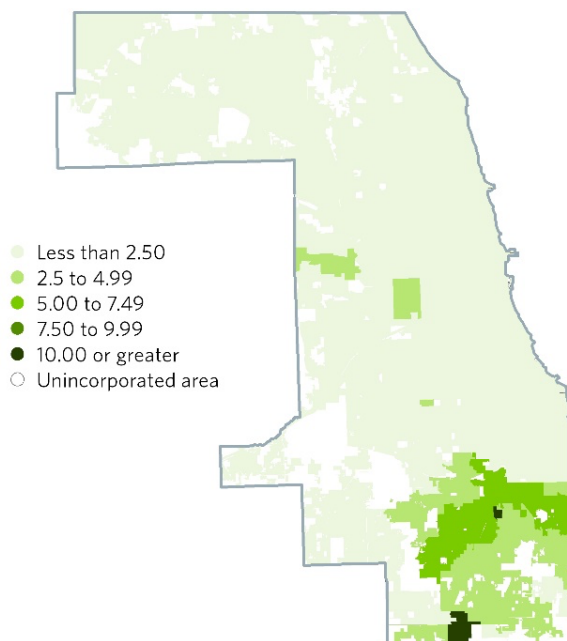
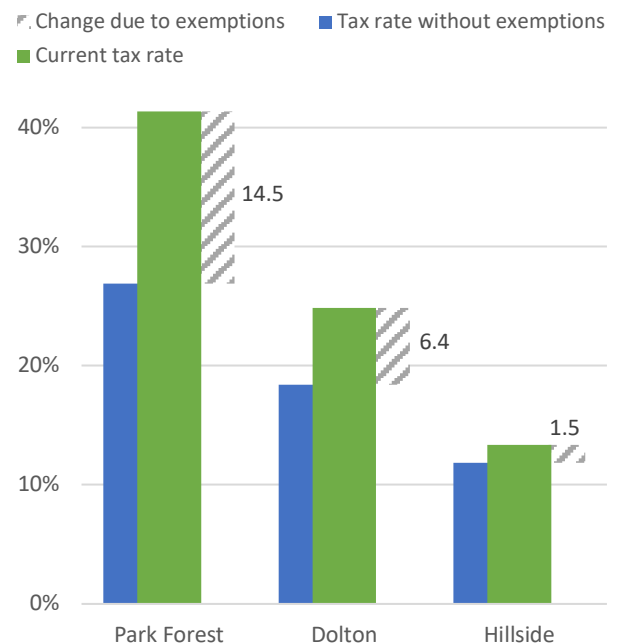


Fig. 2: Composite property tax rates with and without homestead exemptions, tax year 2021



All homeowners in Cook County see lower property tax bills when they take advantage of available exemptions. But local taxing districts still need to pay for services and infrastructure like schools, roads, and sewers by collecting property tax revenue. Because exemptions decrease the total EAV available to tax, rates have to rise to make up the difference. This is not really a property tax increase per se. It is instead a change in how tax bills are calculated and who pays.

While this basic result is the same everywhere, consequences vary widely within Cook County. The variation depends on the size and characteristics of each taxing district, including its property values, land use mix, and the share of homeowners who claim exemptions. Parts of Cook County — particularly in the South Suburbs — see much larger increases in their tax rates as a result of homestead exemptions (**Figure 1**). For example, the tax rate increase due to exemptions in Park Forest (**Figure 2**, 14.5 percentage points) is ten times higher than the median among Cook County municipalities (1.4 percentage points).

A higher tax rate due to exemptions applies to all property owners in the taxing district, even those claiming the exemptions. This can erode the savings for homeowners and raise costs for businesses, especially in areas with limited capacity in their tax base. For example, the resulting tax rate increase can erase as much as 90 percent of the potential savings from the general homestead exemption in Dolton but only 14 percent for a similarly priced home in Glencoe.

Put simply, taxpayers in some areas save much less than what proponents may anticipate and what is currently reported on their tax bills.

When exemptions lower the tax burden on owner-occupied homes, someone else needs to pick up the tab for local government budgets. The tax burden is shifted primarily to businesses that own commercial and industrial properties in the same taxing district and (less so) to multifamily housing where renting is common. This can undermine other objectives like local economic and community development, particularly in areas that already have greater need for private investment and jobs.

Shaping the future of Cook County's homestead exemptions

Despite the drawbacks, homestead exemptions can be designed to support public goals like lowering local tax bills, improving tax progressivity, sheltering people at risk, and promoting redevelopment. To ensure these tools are fit for purpose, Cook County could take three broad courses of action:

- **Enhancing to future legislative proposals:** Encouraging lawmakers to include public purpose statements, performance measures, and evaluation requirements to improve the use of exemptions over time.
- **Funding homestead exemptions differently:** Considering alternative funding mechanisms to limit unwanted effects and provide greater savings where local tax rates would otherwise climb sharply.
- **Targeting aid through program designs:** Reforming the design of homestead exemptions and pursuing alternatives to prioritize relief for disinvested communities and offset their impact on local jurisdictions.

Moving forward

To offset the unwanted effects of homestead exemptions, leaders would need to consider which unit of government bears the primary cost of providing them and/or limit some homeowners' access to tax savings. Ultimately, potential reforms should reflect lawmakers' objectives in providing these tax benefits and include provisions to support improvements over time.