

## **What is a tax abatement?**

According to BusinessDictionary.com a tax abatement is defined as the reduction of, or exemption from, taxes granted by a government for a specified period, usually to encourage certain activities such as investment in capital equipment (which includes buildings). A tax incentive is a form of tax abatement.

Tax abatements are also used to provide instruction to the County Clerk's Office of Real Estate Tax Extension to reduce the amount of an otherwise required tax levy such as for paying municipal bonds as a way to manage and limit increases in property taxes.

In the present situation, tax abatements are being requested to encourage investment in construction of buildings to house retail stores.

## **Why are tax abatements used?**

Tax abatements are commonly used to encourage economic development to occur to stabilize or strengthen the local economy.

In the present situation, tax abatements are being requested for their normal purpose to encourage economic development which will enhance the local economy and tax base for a number of taxing bodies. The financial assistance has been requested because the proposed location has some unique characteristics (floodplain, underground pipeline, creek, stormwater storage, etc.) that significantly increase the costs to use the property for the proposed retail development. Without the assistance, the development costs would be too high for the project to be financially viable for the retailers to build.

## **If a taxing body approves a tax abatement for a business what happens?**

The property taxes that would normally be calculated for the business property are reduced for the period of years authorized by the taxing body for that business property alone. The abatement will ONLY affect the specific property of that business and ONLY for the taxing body approving the tax abatement.

## **Does a tax abatement approved by one taxing body affect what other taxing bodies receive from property taxes?**

No. A tax abatement approved by any individual taxing body does NOT affect the property taxes of any other taxing body.

## **Does a tax abatement cause a shift in tax burden to other property owners and taxpayers?**

No. Only the property that is awarded the tax abatement will be affected. The taxes that are given up by the taxing body through the abatement are NOT pushed over onto other properties. The taxing body completely gives up receiving the amount of taxes given up through the tax abatement. The amount of taxes given up (abated) are NOT paid or otherwise made up by other taxpayers' tax payments.

## **Will the tax abatement cause my property taxes to increase?**

The proposed property tax abatement, in itself, will NOT cause property taxes to increase.

The property taxes you pay (both in total, and individually to each taxing body) may increase or decrease regardless of whether a tax abatement has been approved or not. However, those changes in property taxes will not be the direct result of the existence or approval of a tax abatement.

There are many "moving parts" to the property tax system that can affect what your total tax bill will be from year to year. It is impossible to predict what actions each taxing body will take with regard to their property tax requests (tax levy) from year to year. However, any change in your property taxes from year to year will NOT have been the direct result of any approved tax abatement.

Property taxes collect a fixed amount of money that was levied by each taxing body reflected on your property tax bill in order to fund their respective governmental operations. This fixed amount is spread proportionately over all property within that government's boundaries based on the individual property values. In this manner, all properties pay a portion of that government's tax levy. The proportion (ratio) of the tax levy to the Equalized Assessed Value (EAV) determines the property tax rate each year.

Just because an individual's property value decreases does not mean taxing bodies are going to be getting less money or taxpayers are going to be paying less. The same is true if an individual property value increases, it does not necessarily mean that taxing bodies are going to receive more money or that the taxpayer is going to be paying more.

When a taxing body increases its levy, and its tax base has not changed or has shrunk, taxes will most likely go up.

When a taxing body increases its levy, and its tax base has increased, taxes *may* go up.

## **Could a taxing body increase its property tax levy to compensate for an abatement granted to a business?**

Taxing bodies generally determine the amount required from property taxes based on its operating budget expenses. Abatements can be considered as part of the enticements to encourage new business development within the taxing district's boundaries to ultimately increase its tax base. The impact that the business may have on a particular taxing body's operating expenses would factor into the tax abatement that they would consider approving. For example, if an abatement were granted to a proposed retail business, it would not be expected to produce any children, so would also not be expected to increase the operating costs of a school district. It is unlikely that a taxing body would find it necessary to increase its tax levy to compensate for a tax abatement. In fact, this would defeat the purpose of offering the incentive in the first place. Regardless, the governing board of each taxing district must make its own decisions in determining the amount of their annual tax levy request.

## **What prevents a taxing body from passing on the amount of the abated taxes on to other property owners, particularly residential property owners?**

The property tax system that produces the individual tax bills, by its own structure, prevents the amount of abated taxes from being redistributed to other taxpayers. As noted, the tax abatement will affect only the property for which it is approved.

This is a short summary of the property tax process:

- 1.) The taxing body approves the amount of money to be requested to be paid through property taxes. This is known as the tax levy. It is important to remember that the tax process begins with a request for a dollar amount to be received from property taxes. The total amount of taxes requested by a taxing body is established and used in determining the tax rate for the taxing body.
- 2.) The tax rate is determined by the ratio of the total amount of taxes requested (tax levy) by the taxing body divided by the total property value within the taxing body's boundaries. The tax rate must be determined prior to calculating the portion of the taxes to be paid by each individual property within the boundaries of that taxing body and producing the individual tax bills.
- 3.) For the property receiving the tax abatement, the normally calculated share of the taxing body's requested taxes is reduced for only that property at the same time the tax bill is prepared.
- 4.) Tax bills are mailed.
- 5.) Property owners pay their tax bills to the County Treasurer.

- 6.) The County Treasurer distributes the share of the taxes collected to the taxing bodies.
- 7.) When all the taxes are paid, the taxing bodies in total will receive their requested taxes (levy). If a taxing body has authorized an abatement, they will have received their requested taxes (levy) minus the amount of the taxes given up for that property with the abatement. It is impossible to re-allocate the tax abatement and redistribute it to other taxpayers.

Example:

Assume a taxing district requested \$1,000,000 in its tax levy. Also assume the amount of the calculated abatement for the individual property receiving the benefit of the tax abatement was \$75,000. When all the property tax bills are paid, the taxing body would actually receive \$925,000 in property taxes for that year (\$1,000,000 minus \$75,000).

The above process focuses on the key steps of the property tax process. There are many other minor processes that occur in the property tax process that have not been covered to avoid confusion and keep the explanation simple to understand.

### **Has the Village of Tinley Park ever worked with other taxing bodies to obtain tax abatements for Economic Development purposes?**

Yes. There is a long history of collaboration between the Village of Tinley Park and other taxing bodies to bring new businesses to the area for economic development purposes.

The Village has previously worked with local school districts, and Counties to offer property tax abatements to the following businesses:

- World Music Theatre (now Hollywood Casino Amphitheater)
- CarMax (Oak Park Avenue and Interstate 80)
- Insure One (development ultimately did not occur)
- Rhone-Polenc-Rorer (North Creek Business Park)
- Panduit headquarters (Interstate 80 & 80<sup>th</sup> Avenue)
- UGN, Inc.
- Schaaf Window Co, Inc.