

## The Status of Illinois Home Rule, Part II:

# Home Rule and Taxes

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Home rule has been used extensively by Illinois' 153 home rule communities to modify their tax policies, but there is no evidence to support opponents' contentions that home rule authority leads cities to increase their property tax levies. Indeed, a study of home rule's impact suggests that home rule leads to lower property taxes by allowing home rule cities and villages to diversify their tax base and rely more heavily on less onerous sources of tax revenue.

This is the finding of a study concluded in 2002 by Northern Illinois University of the way in which Illinois cities and villages use their home rule powers. Fifty-seven percent of the cities using home rule powers at the end of 2001, including 65 percent of the cities over 25,000 – which make the most extensive use of home rule powers, responded to the survey's questionnaire.

The survey showed that home rule is most frequently used to promote economic development and to levy taxes. The finding on economic development reaffirmed the findings of earlier surveys made of home rule use in 1983 and 1986, but the 2002 survey reported a very significant increase in the use of home rule taxing powers.

### Use of home rule taxing powers

Home rule gives cities and villages wide and flexible tax powers. It permits cities and villages to levy any tax needed for local purposes except for taxes on earnings, income, and occupations. While a home rule community cannot levy its own sales tax, it can increase the local portion of the state sales tax which is collected within its boundaries. Finally, home rule communities are not subject to statutory limitations on the amount of property taxes they can levy, nor are they subject to property tax caps.

Table 1 shows the kinds of uses being made of home rule taxing powers and the frequency with which each is used. As the table indicates, seven of the nine non-property taxes levied by home rule powers are taxes paid in part by non-residents of the community. Of the two remaining taxes, one, the tax on the use of natural gas, is paid only by businesses buying natural gas in bulk.

**Table 1: Use of Home Rule Tax Power**

Kind of Tax	Number Using This Power	Percent Using Power
Higher sales tax <sup>^</sup>	53	60.9
Hotel-motel tax <sup>^</sup>	52	59.7
Real estate transfer tax <sup>^</sup>	31	35.6
Sales tax on restaurant food & beverage <sup>^</sup>	22	25.3
Exceed tax caps (one or more years)	22	25.3
Levy taxes in excess of statutory limit*	18	21.7
Gasoline tax <sup>^</sup>	15	17.2
Amusement tax <sup>^</sup>	12	13.8
Wheel tax	7	8.0
Retail sale of new motor vehicles <sup>^</sup>	2	2.3
Use of natural gas	2	2.3
Other	4	4.6
Number reporting not using any home rule taxing powers	14	16.1

<sup>^</sup>Tax paid in part or in whole by non-residents of the city or village

\* Refers to the limits in effect before the city or village acquired home rule powers

In other words, home rule taxes are predominantly used to shift a portion of the local tax burdens from residents to non-residents. Municipalities responding to the survey also reported no significant local opposition to the use of these taxes.

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**Table 2: Home Rule Property Tax Burdens**  
**Percent of local revenues derived from property taxes:**

Category	Average of All Home Rule	Average of Home Rule Governments Taxing Property Over Statutory Limits
Cook County Over 25,000	18	23
Cook County Under 25,000	18	*
Collar Counties Over 25,000	13	11
Collar Counties Under 25,000	15	*
Outstate Over 25,000	15	16
Outstate Under 25,000	10	*

State-wide average for all communities is 26%

\* Too few cases reporting for valid statistical comparison

#### Property taxes in home rule communities

A major concern of home rule critics has been the potential abuse of property taxing powers. To assess this concern, the 2002 survey asked respondents for the percentage of total revenues derived from property taxes and compared the results with state-wide averages for all municipalities.

The findings are presented in Table 2. They indicate that, in fact, home rule communities rely less on the property tax as a source of local revenue than do non-home rule cities and villages.

In the abstract, since larger communities spend more per capita on municipal services than do smaller communities, it could reasonably be expected that home rule cities and villages, freed from property tax limits, would be more reliant on the property tax – i.e. derive a higher percentage

of their revenues from property taxes. That they do not suggests that, with their home rule powers to diversify their tax bases, home rule communities do a better job of spreading their tax burdens among a variety of taxes that are less onerous to local taxpayers and that are paid in part by non-residents.

#### Conclusion

Claims made by home rule's opponents over the years that home rule would lead to the abuse of local taxing authority appear not to have been borne out in actual practice. There is no empirical evidence, from either the 2002 survey or from other studies made over the years, that suggests that home rule communities – even home rule communities which have levied property tax increases in excess of tax cap limitations – have experienced higher rates of property tax increases than have non-home rule communities.

Instead, the evidence strongly suggests that, where home rule communities have used their broader taxing powers, they have done so to create a system of taxation more acceptable to local residents than a system based heavily on the use of property tax revenues. ■

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