

Executive summary: “Rational basis” method of Special Service Area taxing

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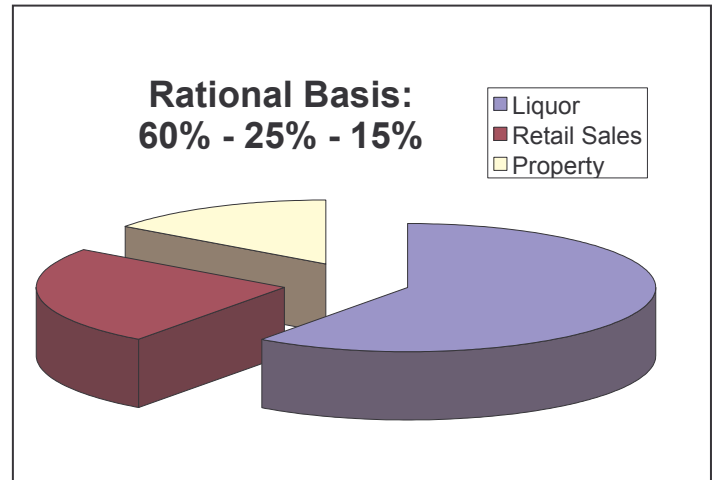
The Lincoln Avenue Special Service Area occupies a mixed-use residential, small business, charitable, and nightlife zone. The great diversity of classes of use suggests that some method other than an ad valorem property tax levy may be more equitable, since the primary intended beneficiary of this tax is business.

There is a provision within the law governing special service areas that allows for distribution of the tax burden on a more equitable scale. This is commonly known as the “rational basis” method of calculating such a tax and reads as follows:

“(35 ILCS 200/27-75) Sec. 27-75. ... In lieu of or in addition to an ad valorem property tax, a special tax may be levied and extended within the special service area on *any other basis that provides a rational relationship between the amount of the tax levied against each lot, block, tract and parcel of land in the special service area and the special service benefit rendered.* ...”

This provision allows for balancing the burden of the tax so that the commercial interests benefiting from the tax will also shoulder the greatest burden.

Currently, no objective and comprehensive study has been done regarding the burden, but some residents have argued that they are shouldering a burden that should have been borne primarily by the most profitable businesses, with a nominal contribution made



by residents, who make no profit from living on Lincoln Avenue and in fact already pay among the highest property taxes in the city. At the same time, a business on Lincoln Avenue pays no higher percentage on sales taxes on this street than anywhere else, though their economies are better for being in this area, particularly for the bars.

Given that the profit curve in this area goes from the largest liquor establishments at the top, followed by the largest restaurants, and then on down the chain to small stores and offices, a properly distributed tax would find a way to tax from sales. Liquor sales would be put foremost, then retail sales, and only then property taxes, and only at a nominal rate. An example would have liquor establishments pay 60% of the tax as a function of their liquor sales, retail stores pay 25% as a function of their retail sales, and property owners pay 15% of the tax based on ad valorem property taxes.

Tax Source	Portion	Sample Levy	Sample Range (Annual Tax Paid)
Liquor	60%	\$90,000	\$500 (small pub) to \$5,000 (largest bar)
Retail Sales	25%	\$37,500	\$250 (small shop) to \$2,500 (largest store)
Property	15%	\$22,500	\$25 (one bedroom) to \$75 (three bedroom)