Executive Summary

How Wealthy Investors are Making Millions Exploiting Illinois’ Property Tax Law

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Over the years, private investors have helped rewrite an arcane section of Illinois’ property tax code. Today, they are using that law to their advantage to rake in millions of dollars in profits — largely at the expense of Black and Latino, low-income residents.

That’s the conclusion of a new study by Cook County Treasurer Maria Pappas’ research unit, which she created to investigate inequities and inefficiencies in the property tax system.

The study found that hedge funds, private equity firms and other investors drained nearly $280 million over the last seven years from schools, parks, police departments and other government agencies, with most of that money being taken from Chicago and Cook County’s south suburbs.

When money is reimbursed to private investors, the bulk of it is withheld from property tax distributions, making it harder for local governments to deliver services, which eventually can lead to future tax increases. The south suburbs, where residents are already battered by some of the highest tax rates in the nation, disproportionately shoulder the financial burden.

Private investors, known as tax buyers, pay delinquent tax bills they acquire at public tax auctions — which are mandated by state law — hoping to make a profit that can go as high as 54% within three years. In exchange for paying the taxes, investors get a lien that gives them the power to take the property if the owner fails to pay off their debt, which includes not just taxes owed but interest penalties and fees.

But investors typically look to profit from interest charged on unpaid taxes and not from taking a property. They have an out: the state’s sale-in-error statute that they helped to write. That broadly written statute allows them to back out of a deal and get their money back, frequently with interest of 12% per year tacked on.

Many of the reasons sales in error are granted in Illinois are not accepted elsewhere. Other states, the study found, come with a “Buyer Beware” warning or allow refunds only in narrow, specific circumstances, including when a tax lien never should have been sold because the property was government owned or because the owner already had paid their taxes.

In Illinois, judges can grant refunds to investors for errors even when there’s no government mistake or the underlying reason for the sale in error would have caused no financial harm to the investor, an indication the law needs to be changed.

Here is a sampling of sales in error in Cook County:

- The Assessor said a suburban Chicago shopping mall had zero square feet, even though that is impossible.
- The Assessor described a home as not having air conditioning, when it did have air conditioning.
- A tax buyer miscalculated a property's tax bill by three cents.

Tax buyers have declared in court they like to do business in Illinois because of its generous sale-in-error law, which allows them to back out of a tax deal if they believe they might lose money.

The Treasurer's study found that Cook County agencies — including the Treasurer's Office, itself — need to take steps to reduce sales in error.

Taxes on sections of major Chicago highways have been sold at tax sales. And taxes on a church, a cemetery and a U.S. Postal Service building have been sold to tax buyers.

Sales in error have been declared in hundreds of instances where various county government agencies failed to notify all interested parties in the time period specified by Illinois law.

The study calls for the Illinois sale-in-error statute to be rewritten and makes recommendations to various county agencies to reduce costly mistakes.